



MTS SYSTEMS CORPORATION



Creating a Financially Sound MTS

be certain.

The purpose of this training is to increase your knowledge and understanding of risks and controls at MTS.

While learning the content is the easy part, we need everyone's ongoing support to maintain strong financial governance at MTS!

- » Define the terms “Risk” and “Controls” over business processes
- » Clarify responsibilities for establishing and executing controls at MTS
- » Describe why understanding financial risks are relevant to your role
- » Outline the process for using controls to manage risk at MTS

What are risks and controls?

What are risks and controls?



- » Broadly speaking, a **Risk** is the possibility of loss inherent in an organization's operations that may reduce its ability to perform
 - Specific to this training, we are focusing on the *financial risk* MTS faces through being in business.

- » A **Control** is a process or procedure put into place to help manage risk
 - Internal Controls are designed to provide reasonable assurance over the achievement of a business process or objective.
 - Effective controls do important things: protect MTS against fraud and loss, ensure business information is accurate and complete, financial statements are reliable, and operations comply with laws and regulations.

- » Important principles of Risk and Controls:
 - Risk affects all areas of the business in different ways.
 - When controls are not in place or consistently performed, the negative impact of risk is large, and often has significant consequences for MTS.
 - When controls are performed, MTS operates more efficiently and effectively.

What are risks and controls?

» Example of risks and controls:

Car engines need routine maintenance. Often drivers are unaware of when this maintenance is needed, or what needs to be done.

Risk

John Doe incurs expenses while performing certain work duties. John has reviewed company policies and completed Time & Expense training, but inadvertently uses his PCard for expenses not related to his job responsibilities.

Risk



Control

Susan Smith is John's supervisor. To ensure John is using MTS resources in accordance with policy, Susan reviews and approves each expense report that John submits. If John's spending does not comply with company policies, Susan can identify the issue prior to expense approval and reimbursement.

Control

- » At the organizational level, **Controls** help manage the reliability of financial reporting, provide timely feedback on the achievement of operational or strategic goals, and support compliance with laws and regulations.

- » At the transaction level, **Controls** refer to the actions taken to ensure the business area achieves specific objectives.
 - For example, how to ensure the organization's payments to third parties are for valid services rendered.

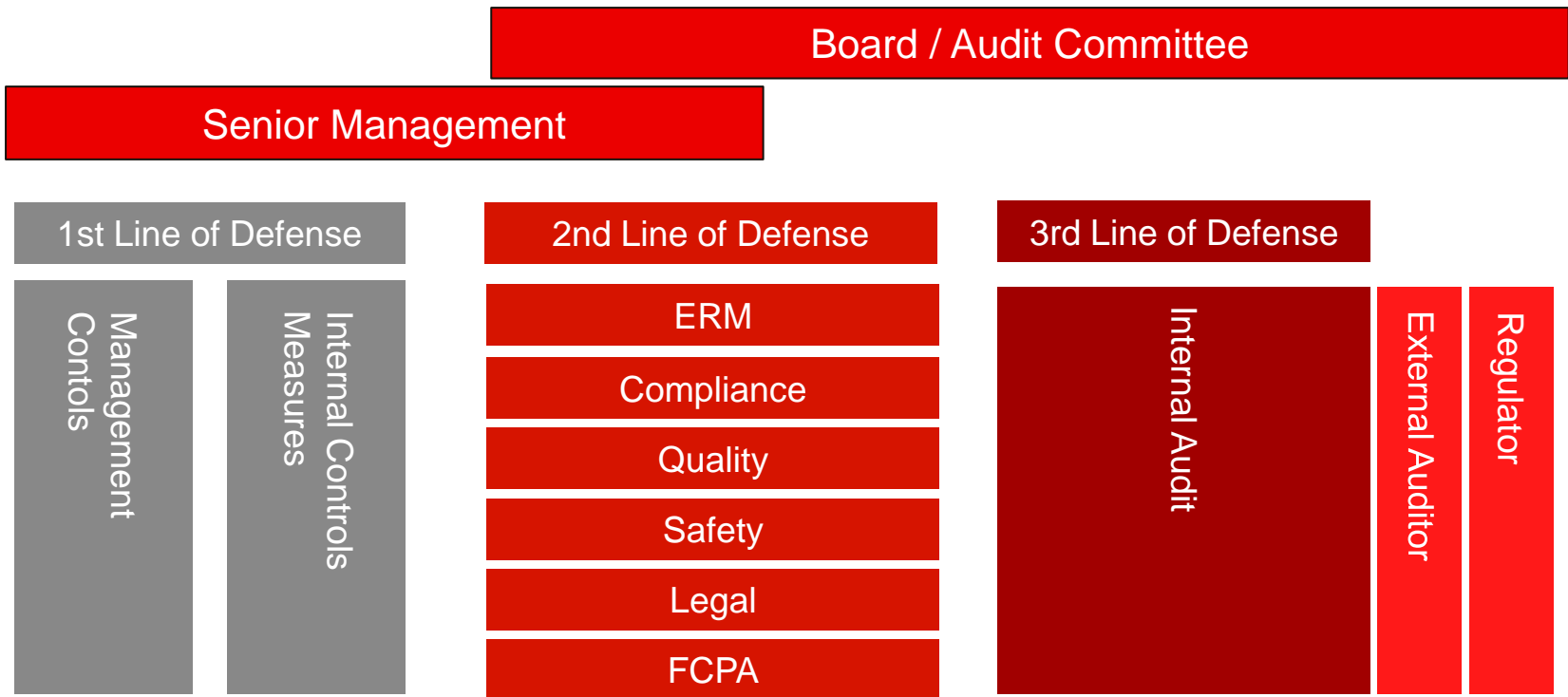
- » The purpose of **Controls** and **Control procedures**, is to reduce risk, leading to more predictable outcomes.

***Who is responsible for
managing controls at MTS?***

Three Lines of Defense Principle – How MTS Manages Controls



Clarity of Roles and Responsibilities Structured into “Three Lines of Defense”



Three Lines of Defense Principle – How MTS Manages Controls



- » The “2nd Line of Defense” is a good resource to direct questions regarding Risk and Control Procedures at MTS. Use the contact list below to identify individuals at MTS who can answer questions and provide support.

2nd Line of Defense	
Enterprise Risk Management	Phyllis Nordstrom
Compliance	Phyllis Nordstrom
Quality	Melissa Boom Colburn
Safety	James Kinney
Legal	Catherine Powell
FCPA	Phyllis Nordstrom

What is Sarbanes-Oxley "SOX"?

What is “SOX”?



- » The Sarbanes-Oxley Act of 2002 (SOX) is legislation passed by the U.S. Congress to protect shareholders and the general public from accounting errors and fraudulent practices in organizations.
- » The U.S. Securities and Exchange Commission (SEC) administers the act, which sets rules and deadlines for compliance.
- » One key aspect of SOX is that management and external auditors must report on the adequacy of a public company's internal controls over financial reporting. This includes documenting and testing controls over business transactions and financial reporting.
- » Compliance with SOX is mandatory and MTS's external auditors are responsible for assessing our compliance.

What are SOX control owner responsibilities?



- » Finance has performed a comprehensive review of financial risks applicable to MTS. For risks identified, internal controls and corresponding control owners have been determined.
- » Control owners are responsible for timely executing control procedures to support accurate and complete financial transactions.
- » MTS has a centralized SOX SharePoint site that identifies key SOX controls. Those employees identified as control owners will have access to the site and can view controls they are responsible for executing.
- » The SOX SharePoint site is located on the MTS intranet at <http://sp.mts.com/sites/sox>

Why is understanding financial risk relevant to my role?

How are Risks and Controls relevant to my role?



- » Risk affects all areas of the business. We need your help to make sure Controls are working to help MTS avoid unnecessary risk.
- » Success is a team effort. As an organization, we all play a part in making sure that Controls are in place and consistently performed.
- » By being aware of and performing Controls that MTS has in place, you can help make sure that MTS is operating in an efficient and ethical manner.

What can I do to help?

How can I help follow controls and minimize risk?



- » **If you see something, say something**
 - Understand the common risks in your area. If you are unsure of what risks apply to your role, ask your manager.
 - Know who to speak with if you see a problem. Management or Internal Assurance are good initial points of contact.

- » **Remember our core values**
 - At MTS, our core values center around leading with integrity. These values directly support the understanding and management of risk.

- » **Know the goal**
 - The goal is not to eliminate risk. The goal is to minimize the negative impact of risk by establishing strong controls.

- » **Be curious**
 - Ask questions to ensure your understanding of processes MTS has in place, and how they impact your role and your department.

Now you know the importance of controls to support strong financial governance at MTS.

When it comes to managing risk at MTS, we all play a key role.

Thank you for taking the time to learn this important information.