

Louisiana Community & Technical College System
INTERNAL AUDIT DEPARTMENT

RE: Risk Assessment and Audit Plan for Fiscal Year 2018-2019

Date: June 13, 2018

Internal auditors are charged with aligning their work with the work of those they serve. By assessing the efforts to address the risks their constituents face to the attainment of identified goals, internal auditors give assurance as to the value of those efforts. The annual Risk Assessment is used to identify, quantify and prioritize those risks.

The Risk Assessment conducted by Internal Audit is focused on the preparation of its annual Audit Plan and does not constitute what is termed an *Enterprise Risk Assessment* or ERA, which is broader in scope and in the depth of analysis of collected data than is this Risk Assessment.

To gather the necessary data for the 2018-2019 Risk Assessment, Internal Audit performed the following tasks:

- Solicitation of input from our college chancellors and directors.
- Analysis of findings of outside auditors – Legislative auditors, Board of Regents auditors, US Department of Education auditors and others.
- Analysis of special projects over the last year.
- Discussions with senior LCTCS staff, LCTCS Board members, and LCTCS functional groups.

Based on these discussions and analyses, Internal Audit has compiled its audit universe, presented herein at the end of this document. Each item in the list is evaluated according to:

- The type of risk
- The probability of occurrence of a risk event
- The impact of an occurrence of a risk event
- The event's potential for fraud

The at-risk entities were further scored on:

- The degree to which their activities are determined by outside regulations
- The degree to which the unit's activities rely on functioning IT services
- The degree of organizational changes within the entity
- The entity's audit history

Identified risks were scored and weighted using the following table:

| Factor | Definition | Score | Weight |
|------------------------------------|---|---|--------|
| Risk Type | <ul style="list-style-type: none"> • R – Reputational • S – Strategic • F – Financial • C – Compliance • O - Operational | R – 5 S – 4 F – 3 C – 2 O – 1 | 15% |
| Risk Probability | How probable is the risk event to occur? | H – 3 M – 2 L – 1 | 15% |
| Risk Impact | If the event does occur, what impact will it have on the organization’s ability to accomplish its goals? | H – 3 M – 2 L – 1 | 15% |
| Fraud Risk | How susceptible is this risk event to fraud? | H – 3 M – 2 L – 1 | 15% |
| Regulatory Compliance | Degree to which the department or process must comply with external guidance or state and federal regulations | H – 3 M – 2 L – 1 | 15% |
| Reliance on Information Technology | Numerous factors are included such as: <ul style="list-style-type: none"> • Reliance on technology to conduct business • Web/social media presence • Credit card acceptance | H – 3 M – 2 L – 1 | 10% |
| Organizational Change | Risks caused by changes in: <ul style="list-style-type: none"> • Personnel • Organizational structure • The way operations are conducted (moving from manual to automated systems, changing automated systems) | H – 3 M – 2 L – 1 | 10% |
| Audit History | Several factors are considered including: <ul style="list-style-type: none"> • 5 – Never audited by LCTCS Internal Audit • 4 – Three to five years since last audit • 3 – Audited within the last three years with reportable findings • 2 – Audited within the last three years with moderate or exit only findings • 1 – Recently audited without significant findings | 5 4 3 2 1 | 5% |

| | | | |
|--------------|--|--|-------------|
| Total | | | 100% |
|--------------|--|--|-------------|

For our purposes, risk is of five types:

- *Reputational (R)*: Reputational risks affect the reputation of the college. Since the college's reputation has a direct impact upon student recruitment and retention, fundraising efforts, and the ability to attract well-qualified faculty and staff, it is important to be sure that no department is engaged in any activity which might reflect adversely on the college. Activity which gives the appearance of being inappropriate can be as damaging as activity which actually is inappropriate.
- *Strategic (S)*: Strategic risks affect the ability to achieve goals and objectives. At an individual, departmental, and institutional level, the college must consider the "big picture", and take steps to ensure that its mission, goals and objectives are being met. Some activities may be viewed as counter-productive to the college's strategic plan.
- *Financial (F)*: Financial risks may result in the loss of assets, monetary or physical. Are cash receiving, purchase requisitions and other college financial processes handled as intended? Are assets maintained and protected in an appropriate manner? Would the audit of an area aid in the creation of more reliable financial reports? Are accounting records kept timely and correctly?
- *Compliance (C)*: Compliance risks affect compliance with laws, regulations, or internal policies. Is the department in compliance with state and federal laws and regulations, with System policies and procedures, with grants and other contractual requirements, and applicable college policies?
- *Operational (O)*: Operational risks affect an ongoing management process. Are college resources being used in an effective and efficient manner?

Items of equal rank were sorted by Priority, as follows:

- Projects identified by External Stakeholders4
- Projects identified by Board Members3
- Projects identified by LCTCS Senior Staff.....2
- Projects identified by LCTCS Internal Audit1

For this year's risk assessment, Internal Audit has identified and scored only those risks that it reasonably feels can be addressed with the available resources. Eight areas of risk were identified and each is discussed in the following section.

Identified Risks

1. LCTCS Colleges' Website ADA Compliance

LCTCS has entered into a Resolution Agreement with U. S. Department of Education (DOE), Office of Civil Rights (OCR) regarding their investigation of a complaint related to the accessibility of the system and college websites.

Today, our colleges make information about their programs, activities, and services available to the public by posting it on their websites. As a result, many people can easily access this information seven days a week, 24 hours a day.

The Americans with Disabilities Act (ADA) and the Rehabilitation Act of 1973 generally require that state and local governments provide qualified individuals with disabilities equal access to their programs, services, or activities unless doing so would fundamentally alter the nature of their programs, services, or activities or would impose an undue burden.

To meet these requirements, colleges must ensure that websites have accessible features for people with disabilities.

Likelihood and Impact

All of our colleges and the System Office are making efforts to comply with the terms of the Resolution Agreement, but it is likely that some our colleges could fall short of the agreed upon modifications to their websites. Failure to comply with the DOE OCR resolution could result in:

- Fines
- OCR enforcement efforts
- Continued OCR monitoring
- Reputational effects

2. Banner Access – Segregation of Duties

The cornerstone of proper controls over the accounting system is appropriate segregation of duties. Over the past two years, the Louisiana Legislative Auditor (LLA) has issued findings on our colleges related to inappropriate banner access, due lack of segregation of duties, eight times, including writing up certain colleges for repeat occurrences of the issue.

Likelihood and Impact

There are many circumstances that contribute to weak segregation of duties, including:

- Staff turnover
- Talent pool
- Budget issues

Many of these contributing factors cannot be avoided. Thus it is likely that this will remain an issue for many of our colleges.

The impact of weak segregation of duties can be significant. Many accounting errors and/or frauds can be traced back to improper segregation of duties or segregation of duties being bypassed or overridden.

3. Our Louisiana 2020 - Goal 5 – Quadruple Partnerships with Business and Industry to 1,000 Annually

In October 2014, the LCTCS Board of Supervisors (Board) adopted a series of six goals, crafted to enable the LCTCS to meet, by 2020, its dual mission of:

- Preparing Louisiana’s population to meet the high-skill, high-demand, high-paying job requirements of the 21st century
- Preparing Louisiana’s students with a solid foundation for transfer to a four-year college.

The six adopted goals are:

Goal 1: Double the Number of Graduates to 40,000 Annually

Goal 2: Double the Earnings of the Annual Graduating Class to \$1.5 Billion

Goal 3: Quadruple Student Transfers to Four-Year Universities to 10,000 Annually

Goal 4: Double the Number of Students Served to 325,000 Annually

Goal 5: Quadruple Partnerships with Business and Industry to 1,000 Annually

Goal 6: Double Foundation Assets to \$50 Million

The numbers reported in support of these goals are used in presentations to external stakeholders, in chancellor and college evaluations and in senior management decision making. It is important that these reported numbers be accurate.

The reported numbers for Goals 1, 4 and 5 are reported by the college and should be supported by data generated and maintained by the college. The risk inherent in these reported numbers involves the over- or under-reporting of numbers.

As part of its audit plan for fiscal year 2017-2018, Internal Audit reviewed the numbers presented from the academic year 2015-2016 for Goals 1 and 4. We found that the information presented by the colleges related to Goals 1 and 4 was accurate, within established tolerances.

The data for Goal 5 was not considered suitable for audit in that first year of reporting. Some colleges expressed a need for additional guidance from the System Office. Having received guidance from the LCTCS System Office, they believe the information gathered for academic year 2017-2018 to be more accurate than what was submitted for 2015-2016.

Likelihood and Impact

Our colleges work hard with their industry partners and it is unlikely that the reported numbers would be intentionally under- or over-stated; however the changing guidance related to reporting increases the risk of misreporting.

The impact of misreporting would be primarily internal and reputational.

4. Contracts review

Much of our time in fiscal 2017-2018 was taken up by a project made necessary by a poorly written and executed contract with an external partner. The cost to our system was almost \$500,000 dollars.

Likelihood and Impact

It is moderately likely that there are additional contracts between our colleges and external partners that do not have the necessary provisions to adequately protect the college's interests. A repeat incident, such as the one from fiscal 2017-2018, could have significant financial consequences.

5. IT Controls Review

Information Technology (IT) is integral to the delivery and support of higher education services. Because it is such a specialized field, it often takes a specialized implementation of controls to reduce identified risks to acceptable levels. During fiscal year 2017-2018, LCTCS IA performed a review of IT governance and its related controls.

Using input from various systemwide sources, we have identified the following risks:

- Banner / Cognos accessibility (uptime versus downtime)

- Inadequate testing of Banner/Cognos modifications and upgrades prior to implementation
- Data cleansing of retired equipment such as laptops, desktop computers, tablets, phones, thumbdrives, printers and copy machines

Likelihood and Impact

The risk of a long-term, complete failure in Banner access is slight, but would have significant impact. More likely is the failure of a particular module, either short-term or longer, often due to a recently implemented change or upgrade. Some of those who responded to IA's request for input into this year's Risk Assessment indicated that they have no written procedures to perform their tasks manually in the event of a Banner access failure.

We live in a mobile world. Many of us carry sensitive student or financial data away from the office on a regular basis, on our phones, laptops and thumbdrives. We use them in unsecure environments like coffeeshops, airports and hotels. And we lose them or replace them without giving a thought to the accessible data that may still be on them. These failures could subject our colleges to the significant penalties of failure to comply with HIPAA, FERPA, PCII, etc.

6. Financial Aid – Return to Title IV

The LLA frequently reported inadequate controls or procedures over student financial aid, resulting in:

- overpayment of refunds,
- underpayment of refunds,
- late return of funds to the federal government
- non-compliance with federal cash management requirements.

Likelihood and Impact

Since many financial aid processes have been reassigned to the LCTCS System Office Financial Aid Support Group, the likelihood of continued LLA findings at the colleges' has been reduced. But have those risks simply been transferred to the System Office?

Failure to comply with Department of Education guidelines regarding financial aid could jeopardize a college's ability to offer financial aid, which could have a significant impact on students' ability to enroll and succeed at our colleges.

7. Faculty Utilization

Life and business are replete with decisions:

- Make or Buy?
- Lease or Own?
- Eat in or Dine out?

Our colleges regularly have to choose between hiring an additional instructor or assigning overload to an existing employee. Subsequent to IA's analytical review of system-wide non-faculty OT/compensatory time, a similar review is in order for the faculty employees throughout the system.

Likelihood and Impact

It is likely that the hire/overload decision is made anecdotally, rather than on an appropriate data analysis. The wrong decision could have significant impact on our colleges.

8. Purchase / Travel Cards

In prior years, the Louisiana Office of State Travel (Department) mandated the review of all purchase and travel card transactions annually. The Department has now modified their mandate to require only that the review of purchase and travel card transactions be included in the internal audit risk assessment each year, which we have done.

Likelihood and Impact

There are many risks inherent in the use of purchase and travel cards, such as:

- Unauthorized purchases or travel
- Improper purchases or travel
- Inadequate documentation of purchases or travel
- Untimely reconciliations of purchase and travel records

IA believes that while these inherent risks do exist, the impact of such risks at our colleges would be small.

The scored LCTCS Internal Audit Annual Risk Assessment and proposed fiscal 2018-2019 Audit Plan follows:

Risk Assessment and Audit Plan for Fiscal 2018-2019

**Louisiana Community and Technical College System
Internal Audit**

Risk Assessment Matrix and Proposed Audit Plan- FY2018-2019

| Proj. | Potential Audit Area | Risk Identified By | Priority | Risk Type | Risk Probability | Risk Impact | Fraud Risk | Regulatory Compliance | Reliance on IT | Organizational Change | Audit History | Weighted Total |
|-------|---|------------------------|----------|-----------|------------------|-------------|------------|-----------------------|----------------|-----------------------|---------------|----------------|
| 1 | ADA website compliance | LCTCS Senior Staff | 2 | 5 | 2 | 2 | 1 | 3 | 3 | 1 | 5 | 2.60 |
| 2 | Financial Aid controls | Non-LCTCS Stakeholders | 4 | 3 | 2 | 2 | 1 | 3 | 3 | 3 | 5 | 2.50 |
| 3 | IT Controls Review | LCTCS IA | 1 | 3 | 3 | 2 | 1 | 3 | 3 | 1 | 5 | 2.45 |
| 4 | Faculty Utilization | LCTCS Senior Staff | 2 | 4 | 2 | 2 | 1 | 2 | 1 | 2 | 5 | 2.20 |
| 5 | Banner Access and Segregation of Duties | Non-LCTCS Stakeholders | 4 | 1 | 3 | 2 | 3 | 1 | 1 | 3 | 3 | 2.05 |
| 6 | Contracts review | LCTCS IA | 1 | 3 | 2 | 2 | 2 | 1 | 1 | 1 | 3 | 1.85 |
| 7 | OL2020 Goal 5 | LCTCS Board Inquiries | 3 | 4 | 2 | 1 | 1 | 1 | 1 | 1 | 5 | 1.80 |
| 8 | Purchase/Travel Cards | Non-LCTCS Stakeholders | 4 | 2 | 1 | 1 | 2 | 2 | 2 | 1 | 3 | 1.65 |
| 9 | Follow-up on prior projects | LCTCS IA | 1 | | | | | | | | | |

Risk Identified By (Priority)

- 1 LCTCS IA
- 2 LCTCS Senior Staff
- 3 LCTCS Board Inquiries
- 4 Non-LCTCS Stakeholders

- Risk Probability, Risk Impact, Fraud Risk, Regulatory Compliance, Reliance on IT, Organizational Change**
- High 3
 - Medium 2
 - Low 1

- Audit History**
- Never Audited 5
 - 3-5 years 4
 - 3 yrs with findings 3
 - 3 yrs with exit only 2
 - Recently audited 1

- Weights**
- Risk Type 15%
 - Risk Probability 15%
 - Risk Impact 15%
 - Fraud Risk 15%
 - Regulatory Compliance 15%
 - Reliance on IT 10%
 - Organizational Change 10%
 - Audit History 5%
 - 100%