



LOUISIANA COMMUNITY & TECHNICAL COLLEGE SYSTEM

August 25, 2017

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RE: Quality Assurance Review - Self-Assessment with External Validation

EXECUTIVE SUMMARY

The Louisiana Community and Technical College System (LCTCS) Internal Audit Department (IA) has completed an internal quality assurance review (QAR) of the internal audit activity in preparation for validation by an independent assessor. The principal objective of the QAR was to assess the internal audit activity's conformance to The Institute of Internal Auditors (IIA)'s *International Standards for the Professional Practice of Internal Auditing* (Standards) and Code of Ethics. The independent validation took place in July 2017.

Overall, we have concluded, and the independent validator has concurred, that the LCTCS IA activity generally conforms to the *Standards* and Code of Ethics. Specifically, the IA activity generally conforms to the Attribute Standards, the Performance Standards and the Code of Ethics.

"Generally conforms" is the top rating and means that internal audit activities are judged to be in conformance with the *Standards*. The report includes five observations noted during our internal quality assessment review. These observations are due to partial conformance with the certain Standards and related practice advisories. Partial conformance means that although deficiencies were identified, they did not preclude the internal audit activity from performing its responsibilities in an acceptable manner.

All of these observations, including our plans of action for addressing them, are fully discussed in the report.

The report of the independent external validators is included in this report.

CLOSING REMARKS

We appreciate the confidence and support that you have shown to us over the years. We hope that this quality assurance self-assessment will give you continued confidence in our commitment to providing a quality service that adds value to the organization and that we are deserving of your continued support.

Respectfully submitted,

A handwritten signature in cursive script that reads "Michael G. Redmond".

Michael G. Redmond, CPA, CIA, CISA, CGEIT
Director, Internal Audit

*Independent
External
Validators*

We were engaged to conduct an independent validation of the LCTCS internal audit activity's self-assessment. The primary objective of the validation was to verify the assertions made in the attached self-assessment report, concerning adequate fulfillment of the organization's basic expectations of the internal audit activity and its conformity to The Institute of Internal Auditors' (IIA's) *International Standards for the Professional Practice of Internal Auditing (Standards)* and the IIA Code of Ethics.

Other matters that might have been covered in a full external assessment, such as an in-depth analysis of successful practices, governance, consulting services, and use of advanced technology, were excluded from the scope of this independent validation by agreement with the audit director.

In acting as validator, we are fully independent of the organization and have the necessary knowledge and skills to undertake this engagement. The validation, conducted during the period July through August 2017, consisted primarily of a review and test of the procedures and results of the self-assessment. In addition, interviews were conducted with the members of the audit committee, System President, and other senior members of management.

We concur with the internal audit activity's conclusions in the self-assessment report attached. Implementation of the recommendations contained in the self-assessment report will improve the effectiveness and enhance the value of the internal audit activity and support conformity to the *Standards*.

Independent Validators:



Ryan Babin, CIA, CISA, CPA
Audit Director
Louisiana State Employees' Retirement System



Bruce Janet, CPA
Director of Internal and External Audit
University of Louisiana System

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BACKGROUND

The Louisiana Community and Technical College System (LCTCS) Internal Audit Department (IA) was established in 2002 as an independent, objective assurance and consulting activity designed to add value and improve operations of the organization and to report findings and recommendations to the LCTCS Audit Committee and members of executive management. The IIA's *International Standards for the Professional Practice of Internal Auditing* (the *Standards*) were adopted by the Board as the governing framework for the Internal Audit Department's operations.

All internal audit activities that adopt the *Standards* are required to obtain external quality assurance reviews (QAR) to assess compliance with the *Standards* and to appraise the quality of their operations. A periodic external quality assurance review, or peer review, performed at least once every five years, of the internal audit function is an essential part of a comprehensive quality assurance program. For smaller internal audit divisions, the *Standards* allow for a self-assessment with external verification in lieu of a full external assessment. The LCTCS internal audit division is considered a small internal audit division. As such, internal audit has performed a self-assessment. As part of this self-assessment we reviewed our processes and procedures to identify areas where we can make improvements and enhance our performance and service to the LCTCS and strengthen our compliance with the many standards promulgated by the IIA.

The quality assurance self-assessment field work was initiated in 2012 by the previous Director of Internal Audit (DIA) but was not completed for a variety of reasons, not the least of which was the resignation of the DIA and other staff. Since then, work has continued off-and-on as time allowed, but this resulted in long periods of inactivity and time consuming restart efforts. In fiscal year 2015-2016, the QAR was made a part of the annual plan, to be executed as any other project on the plan.

At the December 14, 2016 meeting of the LCTCS Audit Committee, the DIA discussed at length the issues preventing the completion of the QAR. We have now addressed many of those outstanding issues and this report is the result of that effort.

OBJECTIVES, SCOPE AND METHODOLOGY

The primary objective of the quality assurance self-assessment was to evaluate the LCTCS Internal Audit Department's compliance with the *Standards*. Additional objectives included identifying best practices, as well as areas where improvement may be needed. The process also included a review of five completed audits performed by the Internal Audit Department during the five year period prior to the self-assessment.

The work performed during the review included:

- Review and evaluation of questionnaire surveys completed by LCTCS board members, LCTCS senior management and IA management

- Review and evaluation of audit project working papers
- Review of the Internal Audit Department’s policies and procedures, annual risk assessments, annual audit plan and other relevant documents

OPINION AS TO CONFORMITY TO THE STANDARDS

The overall opinion is that the IA activity generally conforms to the *Standards* and Code of Ethics. Specifically, the IA activity generally conforms to the Attribute Standards, the Performance Standards and the Code of Ethics.

According to the IIA *Quality Assessment Manual*:

- “Generally Conforms” means the evaluator has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual Standard or element of the Code of Ethics in all material respects. For the sections and major categories, this means that there is general conformity to a majority of the individual *Standards* or elements of the Code of Ethics, and at least partial conformity to the others, within the section/category.
- “Partially Conforms” means the evaluator has concluded that the activity is making good-faith efforts to comply with the requirements of the individual Standard or element of the Code of Ethics, section, or major category, but falls short of achieving some major objectives.
- “Does Not Conform” means deficiencies in practice are judged to be so significant as to seriously impair or preclude the internal audit activity from performing adequately in all or in significant areas of its responsibilities.

As a result of our self-assessment, we have identified areas in which LCTCS IA excels through the implementation of leading practices. We also identified areas where we believe improvements can be made. These areas are divided into two groups. The first group is considered to be significant to the performance of the audit engagement. The second group is related more to documentation and standardization of our processes.

LEADING PRACTICES

During the self-assessment with external verification of IA, a number of practices that demonstrate outstanding commitment and professionalism were observed. These leading practices include the following:

1. **Focus on Partnership with Management.** IA has demonstrated its desire to partner with management in helping LCTCS achieve its objectives. IA encourages and solicits input from management throughout the risk assessment process used in developing the annual Audit Plan. Management is also asked to provide input at every entrance conference and to discuss any differences of opinion at each exit conference. The IA activity has now developed a Strategic Plan that is closely aligned with LCTCS' identified goals as promulgated in *Our Louisiana 2020*. The Audit Director is viewed as a valued member of the LCTCS management team.
2. **Reporting Relationship.** The reporting relationship of IA allows for the utmost independence. The Audit Director reports functionally to the Board of Supervisors through the Audit Committee and administratively to the President of LCTCS. This is the ideal reporting relationship as outlined by the *Standards*.
3. **Proactive communication.** IA is committed to increasing the awareness of internal audit and keeping everyone abreast of potential areas of concern. The DIA has conducted seminars on Ethics for Public Servants on several occasions. IA is working with LCTCS Media Relations to develop content for an IA website that would be beneficial to all. Weak controls identified in the course of IA projects are reported to all so that preemptive management adjustments can be made to forestall control failure or compromise.
4. **Staff Development.** IA staff are encouraged to obtain relevant professional certification within two years of hire. IA supports staff participation in professional organizations. The DIA is working with LCTCS senior management to implement a staff career matrix which allows for personal and professional growth within LCTCS, preserving hard earned institutional knowledge. Setting such high standards for employees ensures that audit staff possess the knowledge and skills required to perform their duties.
5. **Staff Competence.** IA consists of highly qualified staff members with diverse work experiences and collectively possesses five professional certifications and one advanced degree. This team of audit professionals regularly demonstrates its professional proficiency and competence.

OPPORTUNITIES FOR IMPROVEMENT

Performance Improvements

1. *Observation*

The LCTCS IA activity purports to operate according to *The International Standards for the Profession Practice of Internal Auditing* published by the IIA. Those standards require periodic (every 5 years) Quality Assessment Reviews. The LCTCS IA activity's last QAR review was in 2007. The next QAR review should have been completed in 2012. Successful completion of the QAR provides credibility to the work of IA and the value of its observations and recommendations.

Recommendation

LCTCS IA should complete its current QAR as soon as possible and implement its Quality Assurance Improvement Plan (QAIP) which requires regular, ongoing internal reviews and required periodic QARs.

Internal Audit Management's Response

LCTCS IA concurs with the finding. This document is itself evidence of LCTCS IA's commitment to quality and to complying with the IIA requirement for periodic QARs. LCTCS IA planned to submit the QAIP to the Audit Committee at its December meeting, but the meeting was postponed. The QAIP was submitted to the Audit Committee at the April 2016 meeting and LCTCS IA is committed to its implementation.

2. *Observation*

At present staffing levels and with currently available resources, IA does not and cannot provide sufficient coverage of the organization's governance, risk management and control processes. Neither does it adequately support completion of the approved audit plan.

Recommendation

The DIA should work with LCTCS management and Audit Committee leadership to develop a plan for providing the IA activity with sufficient staffing to support completion of the approved annual plan. Understanding that the LCTCS risk universe is dynamic, as are LCTCS IA's staffing and resources, Internal Audit should make sure that its efforts are focused on the highest risk and provide the highest added value.

Internal Audit Management's Response

IA concurs with this observation and recommendation. To that end, IA has developed a staff career matrix and a proposed department reorganization which IA believes will allow it better address the completion of the annual audit plan. The matrix and department reorganization was presented to and approved by the LCTCS Audit Committee at its June 8, 2016 meeting.

3. *Observation*

The IA Activity failed to take the opportunity to make meaningful recommendations for improvement to the college's governance, risk and control (GRC) processes. By definition, IA's mission is to add value to the work of our institutions. This is done by making meaningful recommendations to remediate identified GRC issues.

Recommendation

IA reports need to, whenever possible, draw a conclusion regarding the matter under review and must take the opportunity to make meaningful, value-adding recommendations with regard to the matter.

Internal Audit Management's Response

We concur. In all future reporting to management, IA must be willing to give its opinion on the issue under review and make meaningful recommendations to management.

4. *Observation*

IA independence and objectivity may appear to be impaired with regard to the Carl D. Perkins grant and the WorkReady U grant since IA performs sub-recipient fiscal monitoring of the grants, which are a required management responsibility.

Recommendation

If LCTCS IA is to continue performing grant fiscal monitoring of sub-recipients, these areas of the LCTCS audit universe should be excluded from the annual risk assessment and subsequent audit plan. The Board should be made aware of this unaddressed area of risk.

Internal Audit Management's Response

IA understands the issue here and agrees that the grant fiscal monitoring activities performed pursuant to MOUs could present an appearance of the impairment of independence and objectivity. We contend, however, that this is indeed only an impairment in appearance and not an impairment in fact. Standard 1130 requires disclosure of the impairment. IA disclosed this matter to the LCTCS Audit Committee at its meeting in April, 2016 and will do so annually, if still applicable. Standard 1130.A2 requires that a party outside the IA activity oversee any assurance work for the functions in question and IA agrees to this for any work contemplated in these offices.

Process Improvements

1. Observation

The IA activity has not customarily used a definite audit program to conduct investigative style projects. A properly developed audit plan assures that all necessary steps needed to achieve the projects objectives are performed.

Recommendation

Regardless of project type, an audit program should be prepared. Even an investigative project that requires a little more leeway as to following leads needs to have proper identification and documentation of minimum steps and procedures. These need to be approved by IA management before work begins.

Internal Audit Management's Response

We concur. This appears to be because the strength of past DIAs and staff has been investigative reporting where the main technique was to *pull at a thread and see where the cloth begins to unravel*. IA is committed to strengthening its audit processes through the use of audit programs tailored to the specific project and taking into account specifically identified risks, if any.

STATUS OF OBSERVATIONS FROM 2007 QUALITY ASSURANCE REVIEW

Fully Implemented Recommendations

Performance Recommendation #2 – Enhancements to In-house project management software

With the implementation of the TeamMate software in October 2016, the recommended enhanced capabilities have been realized, including better project scheduling, time management, workpaper consistency, etc.

Performance Recommendation #3 – Classification of projects to assure compliance with applicable standards

Internal Audit now classifies all projects as either Assurance, Compliance, Fraud or Consulting. The same basic procedures, standards and due professional care are applied to all projects. Additional procedures and standards are applied as needed based on project type.

Performance Recommendation #5 – Documentation of Entrance / Exit Meetings

All entrance and exit meetings are documented in the workpapers using a standardized meeting template noting time and location of the meeting, attendees and significant matters discussed.

Process Recommendation #1 – Update of Audit Committee and Audit Department Charters

The Audit Committee Charter has not been deemed in need of update. The Audit Department Charter, however, was reviewed and updated and submitted for approval to the LCTCS Audit Committee at its June 9, 2015 meeting where it was approved.

The Audit Department Charter will be reviewed and updated as needed, but at least once per QAR period.

Process Recommendation #2 – Enhancements to annual risk assessment

The annual risk assessment conducted by Internal Audit has been an ongoing work in progress, working each year to be more comprehensive than the previous one. The new TeamMate project management software includes a risk assessment module which assists the audit activity to identify auditable units and to associate identified risks with specific units. LCTCS IA intends to make use of the risk assessment module in the preparation of the 2017-2018 risk assessment and audit plan.

Process Recommendation #3 – Review and update of IA Policies and Procedures Manual

The IA Policies and Procedures Manual has been reviewed and updated, separating those items that require Audit Committee approval (e.g. job descriptions, advancement matrix, mission and vision statements, etc.) and those that do not (e.g. project forms, internal policies, etc.). The revised manual was submitted to the Audit Committee at its June 7, 2016 meeting where it was unanimously approved.

Process Recommendation #4 – Declaration of due professional care

A statement indicating that although all auditors will exercise due professional care in the performance of their duties, this does not imply infallibility or that fraud, if it exists, will necessarily be found is now included in all entrance meeting documentation.

Process Recommendation #5 – Declaration of a report's intended users

A statement indicating that although internal audit reports are public documents, they are not intended for the use of anyone other than those to whom they are addressed is now included in all final reports.

Process Recommendation #7 – Development of internal auditor soft skills

Internal audit management takes staff development very seriously and is constantly seeking ways to provide continuing professional development to staff auditors, whether needed for certification or not. All auditors attend the semi-annual meetings of the Louisiana Association of College and University Auditors (LACUA) for sessions covering both professional and personal development. All auditors attend the annual LCTCS Professional Development Conference where they are exposed to many aspects of the higher education environment in which they work. Two staff members recently attended a two day seminar of report writing sponsored by another state agency.

Outstanding Recommendations

Performance Recommendation #1 – Progress against annual audit plan

A significant focus of IA efforts on the fiscal monitoring of federal grants has, over the years, prevented IA from making what is deemed to be appropriate progress on the higher risk projects identified by the annual risk assessment. The Audit Committee of the LCTCS Board has clearly indicated to the IA that the fiscal monitoring of federal grants must be properly carried out because the risk of losing these funds due to the failure to perform such monitoring is a risk they are not willing to take.

IA has undertaken to better identify the risks associated with each project it performs, including the risks associated with the sub-awarding of federal grants. Beginning with

fiscal year 2017-2018, IA will work with LCTCS federal grant administrators to remove itself from the direct performance of fiscal monitoring to the review of grant administrators' fiscal monitoring efforts. See also Performance Improvement #2 and #4 in the current QAR recommendations.

Performance Recommendation #4 – Preliminary internal controls review

By conducting a preliminary review of internal controls, IA can better develop audit procedures which address those risks. TeamMate, the newly implemented project management software, facilitates the identification of specific risks and the audit procedures associated with them. It is IA's intention to make use of this facility in its ongoing efforts at quality improvement.

Performance Recommendation #6 – Documentation of follow-up responsibilities and activities

LCTCS Internal Audit is working to write recommendations that are actionable and less general. We now ask for corrective action plans and responsible parties. The use of TeamMate provides for tracking of issues and actions taken toward remediation. See also Performance Improvement #3 in the current QAR recommendations.

Process Recommendation #6 – Enhancements to Quality Assurance Improvement Program (QAIP)

Post-project staff performance reviews and auditee surveys would enable the improvement of internal audit processes. LCTCS IA is sufficiently small that auditor performance can be monitored on an ongoing basis. As well, college management has always felt free to comment on IA's on-campus and project related efforts. TeamMate, the newly implemented project management software, allows IA to survey auditees regarding project performance. While not a high priority at this time, it is our intention to make use of this capability over time.