Louisiana Community & Technical College System
INTERNAL AUDIT DEPARTMENT

Date: August 14, 2019

To: Mr. Joe Potts, Chair – LCTCS Audit Committee
          Members of the LCTCS Audit Committee of the LCTCS Board of Supervisors
          Dr. Monty Sullivan, LCTCS President

RE: Risk Assessment for Fiscal Year 2019-2020

Internal auditors are charged with aligning their work with the work of those they serve. The achievement of any goal is fraught with risk, and 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 2019-2020 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 and LCTCS Board members

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	• 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: • 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: • 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: • 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 Stakeholders 4
- Projects identified by Board Members 3
- Projects identified by LCTCS Senior Staff......................2
- Projects identified by LCTCS Internal Audit 1

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. Six areas of risk were identified and each is discussed in the following section.

Identified Risks

1. Property Management

Background

In a previous project, Internal Audit reported on its analysis of unlocated property at our colleges, as reported to the Louisiana Property Assistance Agency (LPAA). It that report we indicated that many of the items reported as unlocated were old, fully depreciated items, many of them no longer even in service. At that time we did not review the actual policies for disposing of property.

Likelihood and Impact

Given the dispersed nature of many of our colleges' campuses, it is highly likely that the policies regarding the receiving, relocating and disposal of reportable property are insufficient to maintain adequate control necessary for protecting assets from fraud, waste and abuse.

2. Live Work

Background

During the course of a recent Internal Audit investigation into an instance of misappropriation at one of our colleges, we became aware that policies and procedures related to Live Work in one of the college's programs were not being adhered to.

Likelihood and Impact

It is likely that policies and procedures related to Live Work are not being adhered to at our colleges leaving the colleges susceptible to the risk of injury, liability, fraud, waste and abuse.

3. Compliance Baseline

Background

The recent initiative by the colleges to comply with the agreement between the LCTCS and the Department of Education Office of Civil Rights highlights the ramifications of non-compliance with various policies, regulations and statutes. In previous years, failure to comply with OCR compliance reviews at our colleges receiving Perkins funds had serious implications.

Likelihood and Impact

The world of compliance is broad and the impact of non-compliance can be severe. While it is likely that there are no major non-compliance issues, as experience shows, non-compliance can be costly.

4. OER Savings

Background

LCTCS has embarked on an initiative to reduce the cost of attendance by reducing the cost of textbooks. The use of Other Education Resources (OER), including electronic or online versions of required textbooks, have contributed to the achievement of this initiative.

Likelihood and Impact

The reporting of unsubstantiated savings would give management a false sense of accomplishment and could lead to inappropriate dedications of time, effort and funds.

5. Facilities Maintenance Expenses

Background

Internal Audit received information about the mishandling of cleaning supplies at one of our colleges.

Likelihood and Impact

Inadequate controls over the acquisition and use of maintenance supplies leaves the college susceptible to fraud, waste and abuse.

6. Purchase / Travel Cards

Background

The Louisiana Office of State Travel (Department) requires that the review of purchase and travel card transactions be included in the internal audit risk assessment each year.

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 for fiscal 2019-2020 follows:

Louisiana Community and Technical College System
Internal Audit

Risk Assessment Matrix and Proposed Audit Plan- FY 2019-2020

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	Property Management	LCTCS IA	1	3	3	3	1	2	3	2	5	2.55
2	Live Work	LCTCS IA	1	3	3	3	2	2	1	1	5	2.40
3	Compliance Baseline	LCTCS IA	1	2	2	2	1	3	1	2	5	2.05
4	Review of OER Savings	LCTCS Senior Staff	2	4	1	2	1	1	3	1	5	2.00
5	Facilities Maintnenance Analysis	LCTCS IA	1	3	2	2	2	1	1	1	5	1.95
6	Purchase/Travel Cards	Non-LCTCS Stakeholders	4	2	1	1	1	1	1	1	1	1.15

Risk Identified By (Priority)
1 LCTCS IA
2 LCTCS Senior Staff
3 LCTCS Board Inquiries
4 Non-LCTCS Stakeholders

Risk Type
1 Operational
2 Compliance
3 Financial
4 Strategic
5 Reputational

Risk Probability, Risk Impact, Fraud Risk, Regulatory Compliance, Reliance on IT, Organizational
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%

Louisiana Community & Technical College System
INTERNAL AUDIT DEPARTMENT

Date: August 14, 2019

To: Mr. Joe Potts, Chair – LCTCS Audit Committee
            Members of the LCTCS Audit Committee of the LCTCS Board of Supervisors
            Dr. Monty Sullivan, LCTCS President

RE: Audit Plan for Fiscal Year 2019-2020

The Internal Audit annual Risk Assessment for fiscal year 2019-2020 has identified six risks that it reasonably feels can be addressed with available resources. Six projects to address the identified areas of risk along with two projects currently in progress from the previous year's plan are presented herein as Internal Audit's Annual Audit Plan for fiscal year 2019-2020.

1. Property Management

Background

In a previous project, Internal Audit conducted an analysis of unlocated property at our colleges, as reported to the Louisiana Property Assistance Agency (LPAA). It that report we indicated that many of the items reported as unlocated were old, fully depreciated items, many of them no longer even in service. At that time, we did not review the actual policies for disposing of property.

Likelihood and Impact

Given the dispersed nature of many of our colleges' campuses, it is highly likely that the policies regarding the receiving, relocating and disposal of reportable are insufficient to maintain adequate control necessary for protecting assets from fraud, waste and abuse.

Objectives

- Determine the policies, procedures and controls for the receipt, recording and dispersal of property at the college.
- Determine the policies, procedures and controls for the transfer, warehousing and/or disposal of property at the college

2. Live Work

Background

During the course of a recent Internal Audit investigation into an instance of misappropriation at one of our colleges, we became aware that policies and procedures related to Live Work in one of the college's programs were not being adhered to.

Likelihood and Impact

It is likely that policies and procedures related to Live Work are not being adhered to at our colleges leaving the colleges susceptible to the risk of injury, liability, fraud, waste and abuse.

Objectives

- Determine the policies, procedures and controls for the receipt, usage and return of items for use in the Live Work aspect of various programs at the college.
- Determine the adequacy of controls to shield the college from liability in the application of Live Work programs

3. Compliance Baseline

Background

The recent initiative by the colleges to comply with the agreement between the LCTCS and the Department of Education Office of Civil Rights highlights the ramifications of non-compliance with various policies, regulations and statutes. In previous years, failure to comply with OCR compliance reviews at our colleges receiving Perkins funds had serious implications.

Likelihood and Impact

The world of compliance is broad and the impact of non-compliance can be severe. While it is likely that there are no major non-compliance issues, as experience shows, non-compliance can be costly.

Objectives

- Identify the compliance universe and determine ownership at the college and/or system level.
- Identify compliance requirements, status of compliance and ramifications of non-compliance.

4. OER Savings

Background

LCTCS has embarked on an initiative to reduce the cost of attendance by reducing the cost of textbooks. The use of Other Education Resources (OER), including electronic or online versions of required textbooks, have contributed to the achievement of this initiative.

Likelihood and Impact

The reporting of unsubstantiated savings would give management a false sense of accomplishment and could lead to inappropriate dedications of time, effort and funds.

Objectives

- Determine, with reasonable assurance, the integrity of the data being reported to LCTCS by our colleges.
- Determine, with reasonable assurance, any savings being realized by our students through the use of OER materials.

Facilities Maintenance Analysis

Background

Internal Audit received information about the mishandling of cleaning supplies at one of our colleges.

Likelihood and Impact

Inadequate controls over the acquisition and use of maintenance supplies leaves the college susceptible to fraud, waste and abuse.

Objectives

- Determine reasonable expected usage of maintenance materials at our colleges given facility size, number of students and other applicable factors.
- Provide comparative analysis of materials usage between colleges

5. Purchase / Travel Cards

Background

The Louisiana Office of State Travel (Department) requires that the review of purchase and travel card transactions be included in the internal audit risk assessment each year.

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.

Objectives

- To assure compliance with the policies and regulations governing the purchase card, travel card and CBA programs
- To determine whether purchase card, travel card and CBA transactions appear reasonable and appropriate for the period within the scope of the audit

The above projects, along with the two projects currently in progress from last year's plan and the regular project for follow-up on prior audit finds, are presented herein as the proposed Annual Audit Plan for fiscal 2019-2020.

Louisiana Community and Technical College System
Internal Audit

Risk Assessment Matrix and Proposed Audit Plan- FY 2019-2020

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	2	3	3	1	3	3	1	5	2.45
2	Faculty Utilization	LCTCS IA	1	3	2	2	1	1	1	1	5	1.80
3	Property Management	LCTCS IA	1	3	3	3	1	2	3	2	5	2.55
4	Live Work	LCTCS IA	1	3	3	3	2	2	1	1	5	2.40
5	Compliance Baseline	LCTCS IA	1	2	2	2	1	3	1	2	5	2.05
6	Review of OER Savings	LCTCS Senior Staff	2	4	1	2	1	1	3	1	5	2.00
7	Facilities Maintnenance Analysis	LCTCS IA	1	3	2	2	2	1	1	1	5	1.95
8	Purchase/Travel Cards	Non-LCTCS Stakeholders	4	2	1	1	1	1	1	1	1	1.15
9	Follow-up on prior projects	LCTCS IA	1									

Risk Identified By (Priority)		Risk Probability, Risk Impact, Fraud Risk, Regulatory Compliance, Reliance on IT, Organizational		Audit History			Weights	
1	LCTCS IA	High	3	Never Audited	5		Risk Type	15%
2	LCTCS Senior Staff	Medium	2	3-5 years	4		Risk Probability	15%
3	LCTCS Board Inquiries	Low	1	3 yrs with findings	3		Risk Impact	15%
4	Non-LCTCS Stakeholders			3 yrs with exit only	2		Fraud Risk	15%
				Recently audited	1		Regulatory Compliance	15%
Risk Type							Reliance on IT	10%
1	Operational						Organizational Change	10%
2	Compliance						Audit History	5%
3	Financial							100%
4	Strategic							
5	Reputational							

LOUISIANA COMMUNITY & TECHNICAL COLLEGE SYSTEM

To: Mr. Joe Potts
             Audit Committee Chair

From: Michael Redmond
             Director of Internal Audit

APPROVED

LCTCS BOARD OF SUPERVISORS Audit

8/14/19

Date: August 14, 2019

Subject: Approval of Internal Audit Plan for Fiscal Year 2019-2020

FOR COMMITTEE ACTION

Recommendation: Staff recommends that the Audit Committee of the LCTCS Board of Supervisors approve the proposed Annual Audit Plan for fiscal year 2019-2020 as presented by the Internal Audit Director to be effective upon approval through June 30, 2020.

Background: Throughout the year Internal Audit conducts its activities according to an annual audit plan presented to and approved by the Audit Committee of the Board. Some projects take longer than anticipated and others are completed quickly. As needed, the Internal Audit Director reports to the Committee its progress on the plan and makes recommendations for changes, deferments and additions to the plan.

History of Prior Actions: Each year the Internal Audit Director submits his proposed work plan for the fiscal year for review and approval by the Audit Committee. In prior years, this plan was submitted at the last committee meeting of the fiscal year, in June. Since the meeting schedule has been modified beginning this fiscal year, the plan is now submitted at the first committee meeting of the fiscal year. At regularly scheduled meetings of the committee during the fiscal year, the Internal Audit Director keeps the committee appraised of its progress.

Benefits to the System: The annual audit plan serves as the roadmap for internal audit activities during the fiscal year. This audit plan for fiscal year 2019-2020 allows the Internal Audit Department to make the best use of its resources to conduct value added projects.

_____   _____
Approved for Recommendation to the Committee   Date
Joe Potts, Audit Committee Chair