



# Texas Southern University



## Risk Assessment & Evaluation Presentation

Presented by the  
Office of Internal Audit & Fraud, an office within the  
Department of Internal Audit, Fraud and Institutional Compliance  
**October 2016**

# *Agenda*

## ➤ **Background**

- University Mission/Vision
- OIAF Mission
  - Authority and Support

## ➤ **Risks Defined**

- Risk Factors
- Success Factors

## ➤ **Risk Assessment and Evaluation Methodology**

- COSO Framework
- Terminology
- Risk Assessments at TSU

## ➤ **Risk Management Assessment (RMA) Output**

- Internal Control Maturity Levels
- Residual Risk Matrix

# *Texas Southern University*

## *Our Mission*

Texas Southern University is a comprehensive metropolitan university. Building on its legacy as a historically black college/university (HBCU), the university provides academic and research programs that address critical urban issues and prepare an ethnically diverse student population to become a force for positive change in a global society.

In order to achieve this mission, Texas Southern University provides:

- ✓ Quality instruction in a culture of innovative teaching and learning
- ✓ Basic and applied research and scholarship that is responsive to community issues
- ✓ Opportunities for public service that benefit the community and the world.

# *Texas Southern University*

## *Vision*

Texas Southern University will become one of the nation's pre-eminent comprehensive metropolitan universities. We will be recognized by the excellence of our programs, the quality of our instruction, our innovative research, and our desire to be a contributing partner to our community, state, nation, and world.

# *Texas Southern University*

## *Office of Internal Audit & Fraud*

The mission of the Office of Internal Audit and Fraud is to provide the Audit Committee, Board of Regents, President and management with reasonable assurance that the systems of internal control throughout the University are adequate and operating effectively. Internal Audit provides its stakeholders with an independent and objective appraisal of key business processes and functions, and furnishes them with analyses, recommendations, and information concerning the processes reviewed.

Additionally, our mission includes the assessment, evaluation and recommendation of processes, programs and activities that optimized to prevent or eliminate fraud, waste or abuse.

# *The Risk Assessment and Evaluation Process*

## *What's Required?*

The Texas Internal Auditing Act (Texas Government Code § 2102) requires that the internal audit functions of state agencies employ risk assessment techniques to identify auditable entities (units) in the composition of the annual internal audit plan.

Texas Governors Order RP36 requires that these same entities promote processes, activities and controls whose purpose is to prevent and/or eliminate fraud, waste or abuse within the system of internal controls.

Events such as organizational changes, restructurings, demands for increased accountability by funding sources and new legislation have heightened the awareness of the various risks facing the university community.

# *Risk Assessment and Evaluation*

## *What is Our Process?*

- Is a process through which management identifies significant threats (risks) that would prevent their organization/unit from meeting stated goals and objectives
- Assigns specific responsibility and accountability for developing controls to mitigate risks
- Implements those controls
- Monitors the controls to verify they are working as intended
- Its about establishing the oversight, control and discipline to drive continuous improvement of an entity's risk management capabilities in a changing operating environment.

# *The Risk Assessment and Evaluation Process*

## *Our Tools*

### ➤ RISK ASSESSMENT

#### ➤ **Risk Assessment Survey (General Business)**

- Organizational Structure, Financials, Fundamentals
- University Culture
- Policies and Procedures
- Information and Communication
- Evaluation and Feedback

#### ➤ **Fraud Risk Assessment Survey**

- Ethics
- Fraud Awareness
- Segregation of Duties
- Process Review



# *The Risk Assessment and Evaluation Process*

## *Our Tools continued*

- RISK EVALUATION
- **Risk Assessment Worksheet**
  - Risks
  - Control Examples
  - Detailed Control Activities (Actual)
  - Probability (H, M, L)
  - Impact (H, M, L)

# *Risk Assessments at TSU*

## **Colleges and Schools (and related academic units)**

- Thurgood Marshall School of Law
- Thomas F. Freeman Honors College
- College of Science and Technology
- Graduate School
- School of Communication
- College of Pharmacy and Health Sciences
- Jesse H. Jones School of Business
- College of Education
- Barbara Jordan/Mickey Leland School of Public Affairs
- College of Liberal Arts and Behavioral Sciences
- Libraries and Museums
  - Additional/Related Academic Units
- Student Enhancement Services
- NW Campus and Academic Instruction
- Office of Continuing Education
- Center for Online Education & Instructional Technology
- Teaching Learning Excellence Center

# *Risk Assessments at TSU (continued)*

## **Academic Affairs**

- Admissions
- (PO) Provost Business Services
- (GS) Director of Libraries
- Institutional Assessment, Plan, & Effectiveness
- International Student Affairs
- Registrar
- University Testing
- Student Academic Enhancement
  - Upward Bound
  - TRIO

## **Office of Research**

- Research Funding and Pre-award Services

- Research Enhancement and Compliance Services
- Research Financial Services (Grants & Contracts)

## **Board Administration**

- Internal Audit & Fraud
  - Institutional Compliance
- Board Relations

## **Buildings & Ground Maintenance**

- Customer Service

## **School of Communication**

- KTSU

# *Risk Assessments at TSU (continued)*

## **Enrollment Management**

- Enrollment Management & Planning
- Financial Aid
- Financial Aid Systems
- Recruitment

## **Facilities Operations**

- Facilities – Business & Administration
- Facilities – Energy
- Facilities – Facilities Planning
- Facilities – Maintenance Construction and Crafts
- Facilities – Safety
- Facilities – Maintenance & Equipment
- Facilities – Operations

## **Finance and Administration**

- (PS) Accounts Payable
- Risk Management

- Student Accounting (Accounts Receivable/Student Billing)
- (PS) Purchasing
- Budgets
- Student Accounting (Bursars Office)
- Treasury/Cash Management
- Finance Systems Operations
- Financial Reporting
- General Accounting
- Human Resources (HR)
  - Employee Relations & Compliance
  - Employee Benefits
  - Payroll
- (PS) Procurement Services
- Reprographics
- (PS) Travel
- Manager Warehouse Operations

# *Risk Assessments at TSU (continued)*

## **Information Technology**

- Infrastructure and Operations
- Information Security
- Banner Application and Support
- Communications/Help Desk

## **Police Department**

- Department of Public Safety
- University Parking and Security Services

## **President's Office**

- Office of General Counsel
- Governmental Affairs
- Athletics – Administration
  - NCAA Compliance
- Title III

## **Student Services**

- Business Administration Services
- Counseling Center
- Health Center
- Judicial Affairs
- Music Activities/Band
- Career Planning & Placement
- Recreation Center
- Student Activities & Campus Events
- Student Center Operations
- Veteran Affairs
- Academic Services

# ***Risk Assessments at TSU (continued)***

## **University Advancement**

- Alumni Affairs
- Marketing
- Communications
- Special Events
- Development

## **Campus Services and Operations**

- Bookstore
- Food Services
- Greystone/UAV Apartments
- Residential Life and Housing

## **Research and Outreach Centers**

- A total of 11 of the University's active research and outreach centers will be included in the risk assessment process.

# *Risk Assessment and Evaluation*

## *What are Risks?*

The complex and rapid changes in today's world place unprecedented pressures on the University. Events occur that have the potential to adversely affect the University's ability to achieve its goals. The possibility that an adverse event will occur is called "risk". Risks can be financial, operational, technological, environmental, regulatory, competitive, strategic, legal, reputational, and/or political in nature. They can affect the entire University, specific programs and/or individual departments.

# *Enterprise Risk Management*



- *Strategic Risk – high-level goals aligned with the mission (i.e. Quest)*
- *Operational Risk – ongoing management processes*
- *Financial Risk – protection of assets*
- *Compliance Risk – adherence to laws and regulations*



# *Risk Factors*

The Risk Factors considered during the risk assessment include:

## Compliance

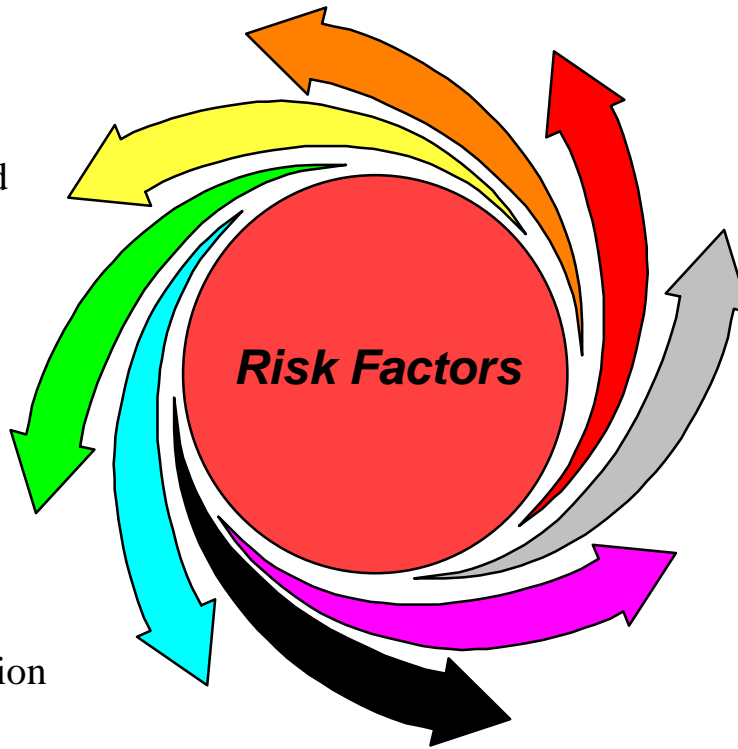
- Compliance with laws and regulations, safety and environmental issues, conflicts of interest, sponsoring agencies, employment.

## Financial

- Budgets, financing, cash flow, sources and uses of funds reporting, preservation of assets.

## Legal

- Outside demands and restrictions, such as grants, data retention, data preservation



## Technology

- Academic and administrative information systems and infrastructure.

## Operational

- Considers the needs of the delivery of core operations, such as space/facilities, utilities, personnel, student services, information systems.

## Reputational

- Considers political and outside perception of the university ('goodwill')

## Strategic

- Considers what needs to be done to maintain and enhance units and university's competitiveness through strategic initiatives.

# What is COSO?

## The Committee of Sponsoring Organizations of the Treadway Commission

### SPONSORING ORGANIZATIONS



COSO was originally formed in 1985 to sponsor the National Commission on Fraudulent Financial Reporting, an independent private sector initiative which studied the causal factors that can lead to fraudulent financial reporting and developed recommendations for public companies and their independent auditors, for the SEC and other regulators, and for educational institutions.

The (new) COSO 2013 Framework was designed to help organizations design and implement internal control in light of many changes in business and operating environments since the issuance of the original Framework; it broadens the application of internal control in addressing operations and reporting objectives, and clarifies the requirements for determining what constitutes effective internal control.

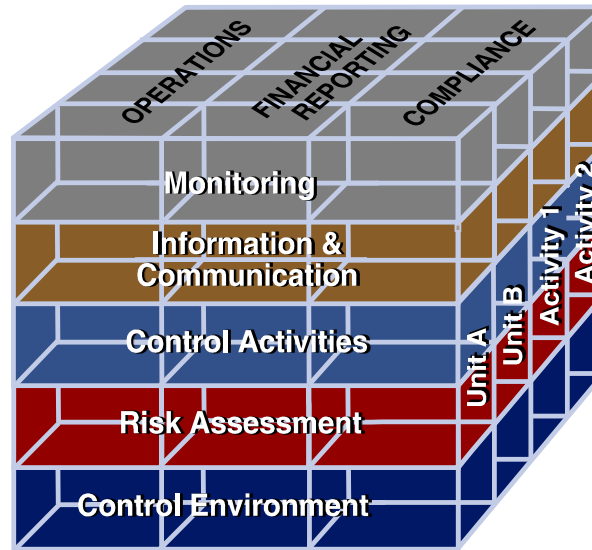
# COSO Framework (original)

## Risk Assessment

- Risk assessment is the identification and analysis of relevant risks to achieving the entity's objectives and forming the basis for determining control activities.

## Information and Communication

- Pertinent information identified, captured and communicated in a timely manner.
- Access to internal and externally generated information.
- Flow of information that allows for successful control actions from instructions on responsibilities to summary of findings for management action.



## Control Environment

- Sets tone of organization influencing control consciousness of its people.
- Factors include integrity, ethical values, competence, authority and responsibility.
- Foundation for all other components of control.

## Control Activities

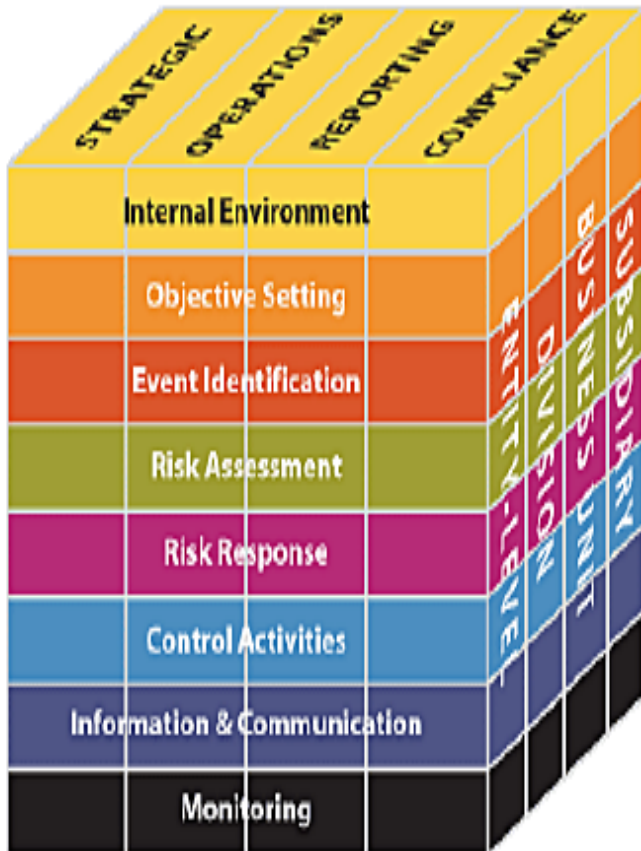
- Policies/procedures that ensure management directives are carried out.
- Range of activities including approvals, authorizations, verifications, recommendations, performance reviews, asset security and segregation of duties.

## Monitoring

- Assessment of a control system's performance over time.
- Combination of ongoing and separate evaluation.
- Management and supervisory activities.
- Internal audit activities

# *COSO Areas Used to Identify the Risk and Control Framework*

## *(The New COSO)*



The Strategy Inputs are evaluated through a risk and control framework that guides the planning and delivery of Internal Audit Services.

- Services should assess four areas of potential risks that impact achievement of the University's mission and goals
- There are eight elements to evaluate within and across the areas, which describe the capacity to manage opportunities and challenges
- Scale Services to the organizational level , e.g., not all areas or elements are applicable from the transaction-level through the Campus, process, or University levels
- Define delivery of Services in a context relevant for the University

# *Risk Terminology*

**Risk** – Any event or action that adversely affects the University’s ability to achieve its objectives (financial, operational, strategic, technology, compliance, reputational).

**Risk Evaluation** – An analysis by which risks are ranked (high, medium, low) and prioritized considering: 1) the probability of occurrence (what is the likelihood that the risk will happen), and 2) the impact (the consequences or outcome should the risk occur).

**Risk Management Assessment (RMA)** – The process used to identify, quantify, evaluate and treat risks to the business/academic unit. (This process includes the documentation of risks, control gaps, mitigating control activities (or compensating strategies), and monitoring of processes. Output from the RMA is in the form of the ICM, Residual Risk Analysis and Risk/Controls Matrix.

# *Risk Terminology continued*

**Detailed Control Activities** – Mitigating, controlled actions (generally documented within policies and procedures) which are used to manage, limit and monitor risks.

**Risk Mitigation Plan**– is developed as a result of the Risk Management Assessment (RMA); it defines how the risks identified are to be addressed through detailed control activities (or mitigating/compensating controls), implementation time to completion, and responsible party.

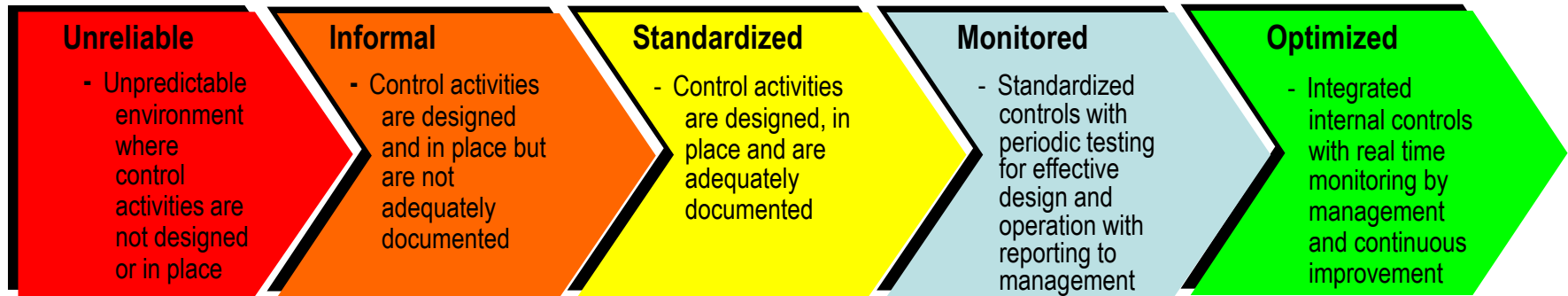
# *Probability and Impact Component*

## ➤ Ratings

Likelihood		
Rating	Category	Definition
1	Very Low	Risk is extremely unlikely to occur
2	Low	Risk is unlikely to occur
3	Medium	There is a possible chance that the risk will occur
4	High	It is highly likely that the risk will occur
5	Very High	It is almost a certainty that the risk will occur

Impact		
Rating	Category	Definition
1	Insignificant	Negligible impact on project
2	Tolerable	Will only affect the project in a minor way
3	Undesirable	Will cause significant damage to the project
4	Major	Very serious impact on project
5	Fatal	Catastrophic to the projects survival

# Internal Controls Maturity Levels



## Level 1 – Unreliable

- Unpredictable environment where control activities are not designed or in place

## Level 2 – Informal

- Disclosure Activities and Controls are designed and in place but are not adequately documented
- Controls mostly dependent on people
- No formal training or communication of control activities

## Level 3 – Standardized

- Control activities are designed and in place
- Control activities have been documented and communicated to employees
- Deviations from control activities will likely not be detected

## Level 4 – Monitored

- Standardized controls with periodic testing for effective design and operation with reporting to management
- Automation and tools may be used in a limited way to support control activities

## Level 5 – Optimized

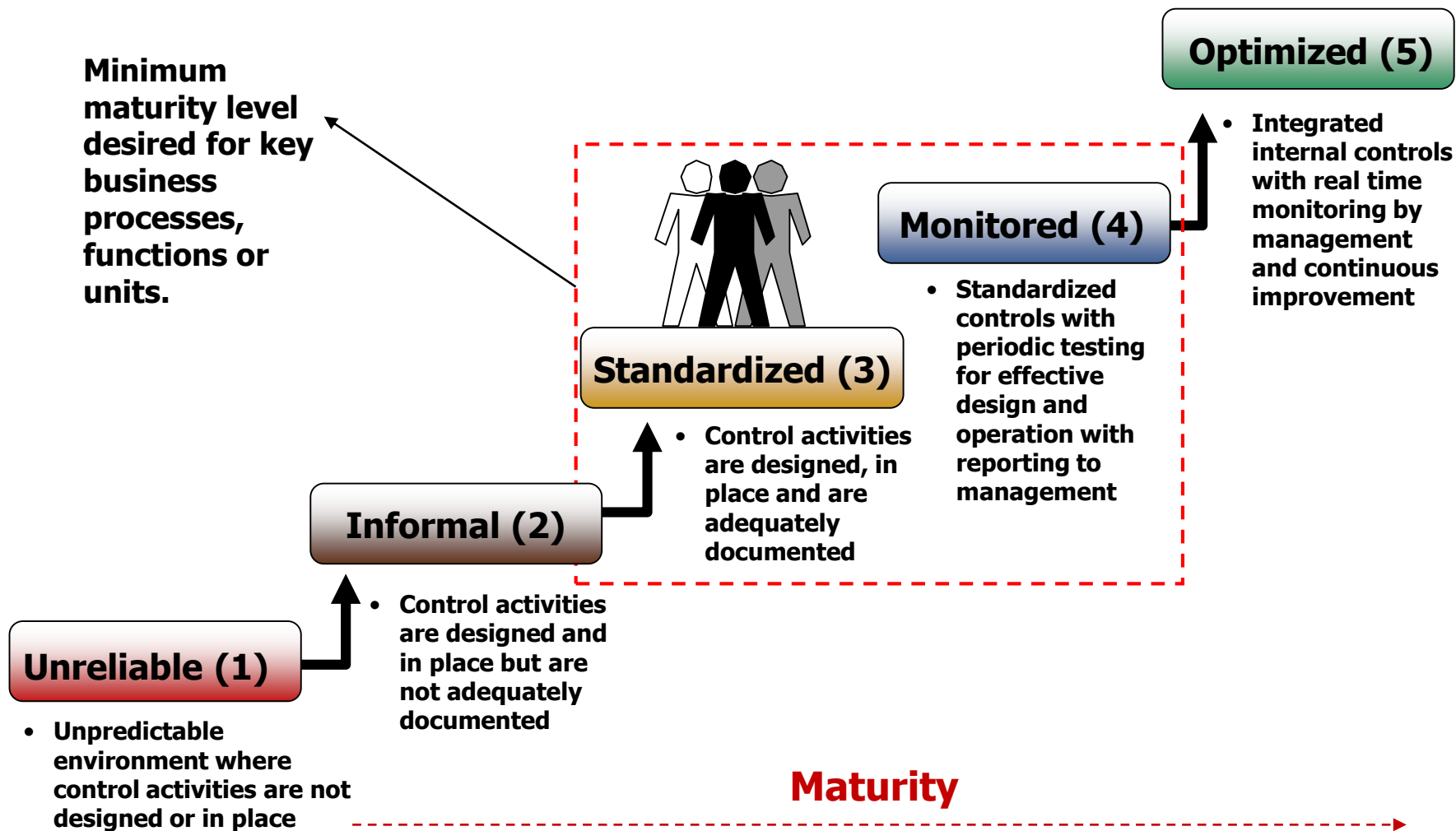
- An integrated internal control framework with real time monitoring by management with continuous improvement (Enterprise Wide Risk Management)
- Automation and tools are used to support controls activities and allow the organization to make rapid changes to the control activities if needed

**Management 's Internal  
Control Assertion**

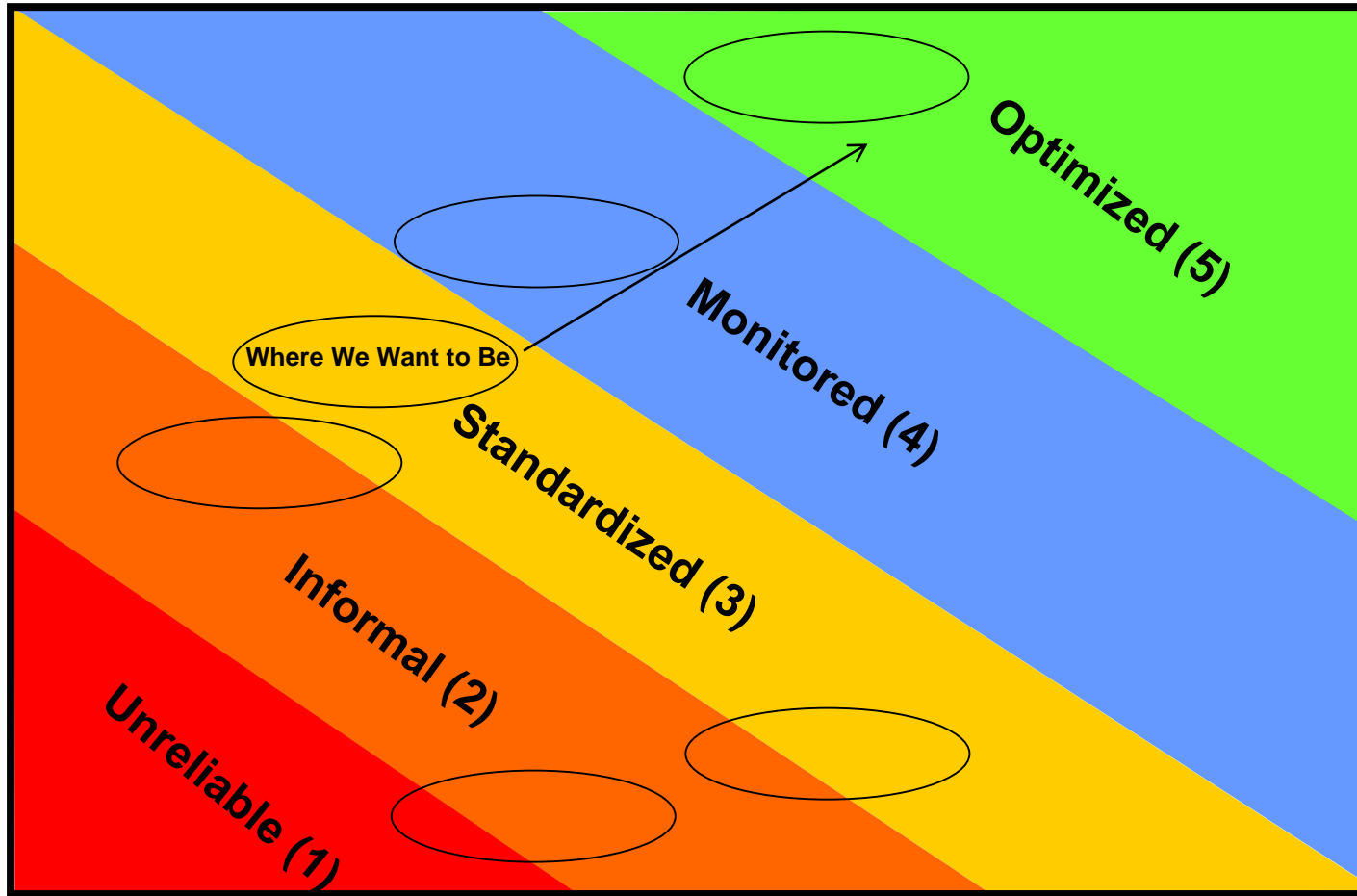
Where We Need To Be



# Internal Controls Maturity Levels

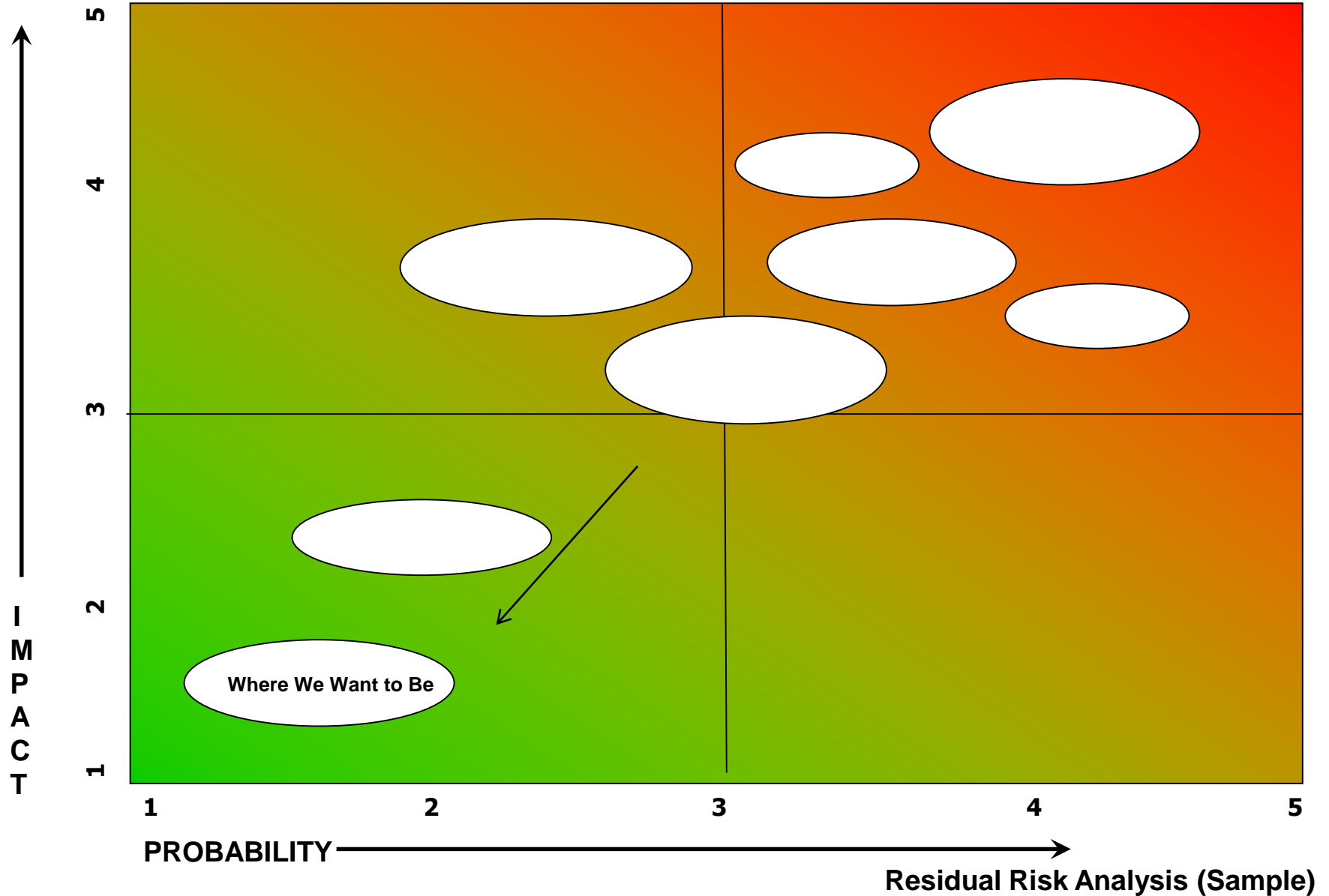


# *Internal Control Effectiveness*



**Internal Controls Maturity Levels (Sample)**

# *Residual Risk Matrix*



# *What to Expect Next*

- Process Owners (function/department heads) completion of general business risk assessment surveys and fraud risk assessment surveys
  - Will request departmental documentation, SOPs, etc. and may provide common risks by area for preliminary review
- OIAF team lead will host facilitated session(s) to understand and support the documentation of risks, controls, as well as:
  - The probability of the risk occurring and the possible impact should the risk occur
- Risk universe will be compiled from the results of the facilitated sessions, and key risks/controls identified (for high (p)/high (i)) scenarios
- The FY2017 Internal Audit Plan is reviewed/verified by the University President and approved by the Board of Regents

# *What We Need From You*

- For Process Owners who have completed a RAW before, we will submit them to you for updating. Please do so on or before October 31, 2016.
- For Process Owners who have not completed a RAW before, the OIAF team lead be contacting you to host facilitated session(s) to document an accurate RAW.

# *Questions*

## QUESTIONS & ANSWERS

# ***THANK YOU***

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