Agenda Item VIII.C, Board Action on Audit Committee recommendation concerning Department of Education's Updated Risk Assessment and Internal Audit Plan (July 1, 2016—June 30, 2019)

General Business Meeting

August 16, 2016

At its August 2, 2016 meeting, the Audit Committee recommended that the Board of Education ("Board") approve the Department of Education's Updated Risk Assessment and Internal Audit Plan (July 1, 2016—June 30, 2019), which is attached as **Exhibit A**. The Audit Committee's recommendation was presented to the Board at its August 2, 2016 General Business Meeting held later that same day. The Board deferred action on the Audit Committee's recommendation in order to take a closer look at the proposed plan.

Board Member Kenneth Uemura met with Denise Yoshida, Director of the Internal Audit Office regarding the proposed plan. He will provide an oral report regarding this meeting.

Exhibit A

Department of Education's Updated Risk Assessment and
Internal Audit Plan (July 1, 2016—June 30, 2019)

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GOVERNOR

KATHRYN S. MATAYOSHI
SUPERINTENDENT

STATE OF HAWAI'I
DEPARTMENT OF EDUCATION
P.O. BOX 2360
HONOLULU, HAWAI'I 96804

OFFICE OF THE SUPERINTENDENT

August 2, 2016

TO: The Honorable Lance A. Mizumoto
Chairperson, Audit Committee

FROM: Kathryn S. Matayoshi
Superintendent

SUBJECT: **Committee Action on the Department of Education's Updated Risk Assessment and Internal Audit Plan (July 1, 2016 – June 30, 2019)**

1. RECOMMENDATION

Committee Action on the Department of Education's Updated Risk Assessment and Internal Audit Plan (July 1, 2016 – June 30, 2019).

2. RECOMMENDATION EFFECTIVE DATE

Upon approval.

3. RECOMMENDED COMPLIANCE DATE (if different from the effective date)

Not applicable.

4. DISCUSSION

Committee Action on the Department of Education's Updated Risk Assessment and Internal Audit Plan (July 1, 2016 – June 30, 2019).

KSM:DY:jy
Attachment

c: Internal Audit Office

State of Hawaii

Department of Education

Updated Risk Assessment and Internal Audit Plan
July 1, 2016 – June 30, 2019

Subject to approval by the Board of Education at the August 2, 2016 Audit Committee Meeting

This report is prepared solely for the internal use of the Board of Education and management of the State of Hawaii, Department of Education.

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EXECUTIVE SUMMARY

Executive Summary – Introduction

This report presents the results of the Internal Audit Office's ("IA") efforts to perform an update of the Risk Assessment and Audit Plan (the "Re-Assessment") for the State of Hawaii, Department of Education. The proposed Internal Audit Plan ("Audit Plan") covers the three fiscal years between July 1, 2016 and June 30, 2019. The previous updated risk assessment and internal audit plan was performed in June 2015. The re-development and execution of this Audit Plan is important in meeting the mission of the Internal Audit Office – "*to provide independent and objective assurance and consulting services designed to add value and improve the Department of Education's ("DOE") operations.*"

Professional standards developed by the Institute of Internal Auditors ("IIA") require that the Audit Plan be developed based on an assessment of risk. The Re-Assessment is a subjective process used to identify and evaluate various risks, internal and external, that could impact the achievement of the DOE's goals and strategies. As the Audit Plan continuously evolves due to new circumstances or events which occur throughout the year, a re-assessment of the Audit Plan must be performed.

Internal Auditing is a valuable resource to an organization's executive management, governing bodies (audit committees), and other stakeholders in helping them achieve their business and operational goals and objectives, as well as strengthening internal controls and governance. All risk assessments identify a group of high risks, as risk is constantly evolving; however, knowing the areas to audit and where to commit resources is key to the success of IA.

The Audit Plan was developed based on the results of the Re-Assessment, which included general high level interviews with members of management and the Board of Education ("BOE"), our knowledge of the DOE's business risks, an evaluation of the results from projects completed during the past year, the current education system and regulatory environment, and an evaluation of the current internal control environment at the time of our analysis. IA assessed risk factors during the risk evaluation phase of the Re-Assessment and Audit Plan development process. A brief discussion of the Re-Assessment and Audit Plan development process is provided in the Introduction & Overview section of this report.

Executive Summary – Proposed Activity Hours

As a result of the Re-Assessment, 42 auditable areas for the DOE were deemed *high* risk. While these "high" risk areas would justify a significant Internal Audit effort, current resources available to address these risks are limited. Therefore, IA is proposing *5 assurance projects in fiscal year ("FY") 2017,* 6 *assurance projects in FY 2018,* and *6 assurance projects in FY 2019,* which are also presented in detail on the following pages. The table below summarizes the hours of the proposed Audit Plan for both the previous year (FY 2016) and the next three years (FY 2017- FY 2019). As risks to the DOE change over time and as additional resources become available, management and the Audit Committee are encouraged to re-evaluate the Audit Plan periodically.

Proposed Internal Audit Activity Hours[1]

	FY 2016 Proposed[2]	FY 2016 Actual	FY 2017 Proposed[3]	FY 2018 Proposed[4]	FY 2019 Proposed[4]
Assurance	5,030	5,370	5,700	6,150	6,150
IA Consulting & Monitoring	2,000	1,740	1,700	1,700	1,700
Investigations & Other	3,800	3,200	3,650	3,650	3,650
Outside Consulting (SME)	400	150 [5]	400	400	400
Total	**11,230**	**10,460 [6]**	**11,450**	**11,900**	**11,900**

[1] Activity hours do not include holiday, vacation, sick, and training hours.
[2] Hours based on a 12 month period and 6.5 staff members.
[3] Hours based on a 12 month period and 6.75 staff members.
[4] Hours based on a 12 month period and 7 staff members.
[5] Outside consulting hours were low due to the rescheduling of IT projects requiring outside subject matter experts (SME).
[6] Total activity hours were low due to the shortage of staff (1 FTE) in FY 2016.

Executive Summary – Proposed Assurance Projects

ASSURANCE PROJECTS - FY 2017			
Project	**Timing**	**Description**	**Office**
1	2017-Q1	Student Assessment Administration Review - Phase II	OSIP
2	2017-Q2	Casual Hire Follow Up Review (Nov 2012 Report)	DISTRICT
3	2017-Q3	Investigation Process Review	OHR
4	2017-Q3	School Food Services Follow Up Review (Jan 2013 Report)	OSFSS / DISTRICT
5	2017-Q4	Business Continuity and Disaster Recovery Plan Testing	OITS

ASSURANCE PROJECTS - FY 2018			
Project	**Timing**	**Description**	**Office**
6	2018-Q1	Governance & Ethics Review	OS/OHR
7	2018-Q2	Data Access Controls Follow-Up Review (Nov 2014 Report)	OITS
8	2018-Q3	Program Design & Management Review of Ex Learning	ODS / OCISS / DISTRICT
9	2018-Q3	Capital Construction Oversight & Mgmt Implementation Follow-Up (External Report)	OSFSS
10	2018-Q4	Student Information System - Post Implementation Review	OITS
11	2018-Q4	Equipment and Fleet Maintenance Follow-Up Review (July 2014 Report)	OSFSS

ASSURANCE PROJECTS - FY 2019			
Project	**Timing**	**Description**	**Office**
12	2019-Q1	Student Transportation Services Follow-Up (External Report)	OSFSS
13	2019-Q2	Fixed Assets Management Follow-Up Review (Apr 2015 Report)	OFS
14	2019-Q3	Labor Relations Review	OHR
15	2019-Q3	Operational Review of Hawaiian Education Program	OS
16	2019-Q4	Change & Patch Management Review	OITS
17	2019-Q4	Workers' Compensation Follow-Up Review (Apr 2015 Report)	OHR

Executive Summary – Proposed Assurance Projects (Continued)

ASSURANCE PROJECT WATCHLIST (FUTURE PROJECTS & FOLLOW-UPS)			
Project	**Timing**	**Description**	**Office**
18	N/A	IT Security Risk Assessment Follow-Up (External Report)	OITS
19	N/A	Use Of Facilities Review	OSFSS / DISTRICT
20	N/A	Repair & Maintenance Review (New Project)	OSFSS
21	N/A	Grant & Award Management Review (New Project)	OSIP / DISTRICT
22	N/A	Free and Reduced Lunch Eligibility Review (New Project)	OSFSS / DISTRICT
23	PENDING	Leave Accounting Follow-Up (Jan 2014 Report)	OFS
24	PENDING	Payroll Review (Apr 2014 Report)	OFS
25	N/A	Procurement & Contracting Process Follow-Up (Oct 2015 Report)	OFS
26	N/A	Operational Review of the SPED Program (Jan 2016 Report)	OCISS

FOLLOW-UP REVIEWS (NOT PLOTTED)			
Project	**Timing**	**Description**	**Office**
N/A	2017-Q1	Student Assessment Admin Follow-Up Reivew - Phase I (Mar 2015 Report)	OSIP
	(Combined with the following project: Student Assessment Administration Review - Phase II)		
N/A	2018-Q4	Data Integrity Follow-Up Review - Student Enrollment (Apr 2013 Report)	OITS
	(Combined with the following project: Student Information System - Post Implementation Review)		

Executive Summary – Changes to the Audit Plan

As a result of the re-evaluation process:

- Three (3) new projects were added
- One (1) project was removed

New Projects

Project	Timing	Auditable Area	Description
Repair and Maintenance Review	Added to Watchlist	OSFSS Repair & Maintenance Operations	Evaluate the Department's records of regular preventive maintenance and repairs to DOE school buildings and facilities.
Grant & Award Management Review	Added to Watchlist	OS Monitoring, Acountability & Compliance	Review management policies and processes as they relate to the reporting, spending, program implementation and monitoring of grants & awards received by the DOE.
Free and Reduced Lunch Eligibility Review	Added to Watchlist	OSFSS USDA Compliance	Review the controls in place to ensure that the free and reduced lunch data is accurate, complete, and consistent.

Removed Projects

Project	Timing	Auditable Area	Reason For Removal
Educator Effectiveness System - Post-Implementation Review	Was Scheduled for FY 2019	OHR Professional Development Section	The Professional Development Section was dissolved per reorganization. The related Educator Effectiveness System Section was rated as a Medium Risk area.

Executive Summary – Changes to Auditable Areas

As a result of the re-evaluation process, the following changes detailed below were noted to the prior year's auditable areas.

Auditable Areas	Office	Changes
New Auditable Areas		
Highly Qualified Teacher Section	OHR	New area per the reorganization of the Office of Human Resources
Educator Effectiveness System Section	OHR	New area per the reorganization of the Office of Human Resources
Teacher Induction Center	OHR	New area per the reorganization of the Office of Human Resources
Office/Name Changes to Auditable Areas		
Compliance and Monitoring	OS	Renamed to "Monitoring, Accountability & Compliance"
Workers' Compensation	OHR	Renamed to "Workers' Compensation & Employee Benefits Section"
Employee Training & Development	OHR	Renamed to "Training & Development Section"
Changes to Risk Rating		
Vehicle Inventory	OSFSS	Increased from "Low" to "Medium" Risk
Performance Management Section	OHR	Decreased from "Medium" to "Low" Risk
Payroll	OFS	Increased from "Medium" to "High" Risk
Auditable Area to be Removed		
Program Administration & Technical Assistance	OS	Identified as a subprocess under Monitoring, Accountability and Compliance
Employee Benefits	OHR	Combined with the OHR Workers' Compensation Section
Professional Development Section	OHR	Removed per the reorganization of the Office of Human Resources

RISK ASSESSMENT RE-EVALUATION PROCESS

Risk Assessment Re-Evaluation Process

The purpose of this report is to present the results of IA's efforts to perform an update of the Risk Assessment to assist with the development of an updated Audit Plan for the DOE. The Re-Assessment re-evaluates the identification and analysis (typically in terms of impact and likelihood) of relevant risks to the achievement of DOE's goals, strategies, and objectives, forming the basis for determining how those risks should be managed.

This Re-Assessment and resulting Audit Plan has been developed to ensure that the DOE has sufficient and continuous internal audit coverage of those areas judged as having a relatively higher risk profile or that otherwise require internal audit attention for management or regulatory reasons. For purposes of this Re-Assessment, the term "internal audit" will refer collectively to traditional internal audits of financial and operational areas along with compliance and information technology-related reviews.

As previously mentioned, the Re-Assessment and Audit Plan was developed based on interviews with management; members of the BOE; review of the current industry environment; an evaluation of completed projects during the past year; knowledge of the DOE's business risks; and a high-level evaluation of the current internal control environment at the time of our review. IA ranked risks based on several risk factors identified during the Risk Evaluation, which included an evaluation of the various auditable areas and their impact on the DOE's goals and objectives. A summary of changes to the auditable areas from the previously approved Risk Assessment is presented on page 23.

A Re-Assessment is performed annually to ensure continual monitoring of changing risk factors, financial and operational changes, or management turnover.

Risk Assessment Re-evaluation Process – Overview

Our re-evaluation process begins with the results of prior year's updated Risk Assessment. Risks are re-evaluated given changes to the DOE's external and internal environments as well as the results of audits conducted in the FY 2015 & 2016 Audit Plan. The following is a summary of our re-evaluation process:

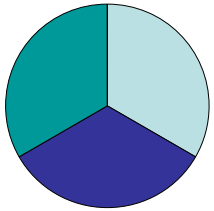
AUDIT UNIVERSE

RISK IDENTIFICATION

RISK EVALUATION & RISK MAPPING

	Inherent Risk Factors					Risk Management		
	Strategic	Staffing/People	Business Process	Technology	Fraud	Inherent Risk Score	Management & Controls	Residual Risk Score	Final Risk Rating
Marketing/New Product Development	L	M	M	H	H	110	N	110	Medium
Planning & Budgeting	H	H	H	H	H	150	E	80	Low
Risk Management	M	M	M	M	M	100	E	30	Low
Purchasing	H	H	H	H	H	150	P	115	Medium
MANAGEMENT									

AUDIT PLAN DEVELOPMENT



Understand changes to the DOE's Audit Universe

- Identified new and/or changes to the DOE's auditable areas
- Validated that the population is current and well defined, appropriate, current and complete

Update Key Risks, Concerns & Issues

- Analyzed changes in education industry & current internal & external environments
- Identified new and emerging risks relevant to DOE
- Worked with Senior Management, and Board of Education, to update understanding of the DOE's key risks

Prioritize Key Risks, Concerns & Issues Identified

- Re-assessed inherent and residual risk factors to develop composite risk score
- Re-ranked each auditable area by risk score
- Select high-risk/high-importance auditable areas

Create Responsive Internal Audit Plan

- Re-focused the Audit Plan on the key control processes
- Developed a balanced Internal Audit project plan comprised of financial, operational and compliance audits, and where applicable special projects
- Ensured audit coverage of significant risk areas

By developing an understanding of the key risks and issues at the DOE, IA developed a focused plan, which will coordinate management, internal audit & external Subject Matter Expert (SME) resources to ensure maximum risk coverage.

Risk Assessment Re-Evaluation Process – Audit Universe

For the update to the Audit Universe, IA identified new and/or changes to the key ***auditable areas***. In addition, IA validated that the population of ***auditable areas*** were well defined, appropriate, current, and complete. This validation was accomplished based primarily on interviews with key management personnel. The Audit Universe for the **DOE State Office** is detailed below and the **Complex Areas/Schools *auditable areas*** are detailed on the following page.

Department of Education Audit Universe

Office of the Superintendent
- Civil Rights Investigations & Compliance
- Communications Services
- Community Engagement
- Internal Audits & Fiscal Reviews
- Hawaiian Education Programs
- Program Administration & Technical Assistance
- Monitoring, Accountability & Compliance

Office of the Deputy Superintendent
- School Transformation
- Complex Areas/Schools
- Office of Curriculum Instruction & Student Support

Office of School Facilities & Support Services
- Project Control
- Auxiliary Services
- Reprographics Section
- Facilities Development - Business Services Section
- Facilities Development - Planning
- Facilities Development - Project Management
- Facilities Development - Construction Management
- Facilities Maintenance - Repair & Maintenance Operations
- Facilities Maintenance - Vehicle Inventory
- Facilities Maintenance - Purchasing Services
- Facilities Maintenance - Repair & Maintenance Engineering
- School Food Services - Fiscal Management
- School Food Services - Technical Support
- School Food Services - USDA Compliance
- Safety, Security & Emergency Preparedness Program
- Student Transportation Services
- Environmental Services Unit

Office of Human Resources
- Recruitment & Employment Section
- Classification & Compensation Section
- Employee Records & Transactions Section
- Certificated and Classified Pros
- Workers' Compensation & Employee Benefits Section
- Employee Benefits
- Management Support Services Section
- Training & Development Section
- Professional Development Section
- Performance Management Section
- Highly Qualified Teacher Section
- Educator Effectiveness System Section
- Teacher Induction Center
- Professional Development & Educational Research Institute
- Labor Relations Section
- Negotiations Section
- Investigations Section

Office of Strategy, Innovation, and Performance
- Policy, Innovation, Planning and Evaluation Branch
- Assessment and Accountability Branch
- Data Governance and Analysis Branch

Note: The Audit Universe is based on the anticipation of changes to offices due to the Department's reorganization.

Office of Fiscal Services
- Reporting, Analysis & Reconciliation
- Cash Management
- Fixed Assets & Inventory
- Payroll
- Leave Accounting
- Vendor Payments
- Procurement & Contracting
- Budget Preparation
- Budget Execution, Management & Monitoring
- Office of Hawaii Child Nutrition Programs

Office of Curriculum Instruction & Student Support
- P-20 (Pre-School through 20 (grades))
- Extended Learning and Educational Technology
- Professional Development
- Curriculum and Instruction
- Student Support
- Athletics & Extracurricular

Office of Information Technology Services
- Software Development Life Cycle (SDLC)
- Project Governance
- Project Strategy & Planning
- Problem Management (Centralized Service Desk)
- Data Retention/Backup
- Identity & Access Management
- Threat & Vulnerability Management
- Security Configuration Management
- Disaster Recovery
- Infrastructure Maintenance
- Infrastructure Construction
- Enterprise Resource Planning Systems
- Systems Development
- Applications/Database Management
- Data Validation
- Federal Survey - Impact Aid
- Change & Patch Management (Applications, Databases, & Infrastructure)
- Privacy & Data Protection

Complex Areas/Schools

See next slide.

New or changes from the previously approved Risk Assessment (see page 23):

- New Auditable Area / Change to Auditable Area / Auditable Area to be Removed

Risk Assessment Re-Evaluation Process – Audit Universe

The **Complex Areas/Schools** auditable areas are detailed below:

Department of Education Audit Universe

Office of the Superintendent
- Civil Rights Investigations & Compliance
- Communications Services
- Community Engagement
- Internal Audits & Fiscal Reviews
- Hawaiian Education Programs
- Program Administration & Technical Assistance
- Monitoring, Accountability & Compliance

Office of the Deputy Superintendent
- School Transformation
- Complex Areas/Schools
- Office of Curriculum Instruction & Student Support

Office of School Facilities & Support Services
- Project Control
- Auxiliary Services
- Reprographics Section
- Facilities Development - Business Services Section
- Facilities Development - Planning
- Facilities Development - Project Management
- Facilities Development - Construction Management
- Facilities Maintenance - Repair & Maintenance Operations
- Facilities Maintenance - Vehicle Inventory
- Facilities Maintenance - Purchasing Services
- Facilities Maintenance - Repair & Maintenance Engineering
- School Food Services - Fiscal Management
- School Food Services - Technical Support
- School Food Services - USDA Compliance
- Safety, Security & Emergency Preparedness Program
- Student Transportation Services
- Environmental Services Unit

Office of Human Resources
- Recruitment & Employment Section
- Classification & Compensation Section
- Employee Records & Transactions Section
- Certificated and Classified Pros
- Workers' Compensation & Employee Benefits Section
- Employee Benefits
- Management Support Services Section
- Training & Development Section
- Professional Development Section
- Performance Management Section
- Highly Qualified Teacher Section
- Educator Effectiveness System Section
- Teacher Induction Center
- Professional Development & Educational Research Institute
- Labor Relations Section
- Negotiations Section
- Investigations Section

Office of Strategy, Innovation, and Performance
- Policy, Innovation, Planning and Evaluation Branch
- Assessment and Accountability Branch
- Data Governance and Analysis Branch

Office of Fiscal Services
- Reporting, Analysis & Reconciliation
- Cash Management
- Fixed Assets & Inventory
- Payroll
- Leave Accounting
- Vendor Payments
- Procurement & Contracting
- Budget Preparation
- Budget Execution, Management & Monitoring
- Office of Hawaii Child Nutrition Programs

Office of Curriculum Instruction & Student Support
- P-20 (Pre-School through 20 (grades))
- Extended Learning and Educational Technology
- Professional Development
- Curriculum and Instruction
- Student Support
- Athletics & Extracurricular

Office of Information Technology Services
- Software Development Life Cycle (SDLC)
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- Identity & Access Management
- Threat & Vulnerability Management
- Security Configuration Management
- Disaster Recovery
- Infrastructure Maintenance
- Infrastructure Construction
- Enterprise Resource Planning Systems
- Systems Development
- Applications/Database Management
- Data Validation
- Federal Survey - Impact Aid
- Change & Patch Management (Applications, Databases, & Infrastructure)
- Privacy & Data Protection

Complex Areas/Schools

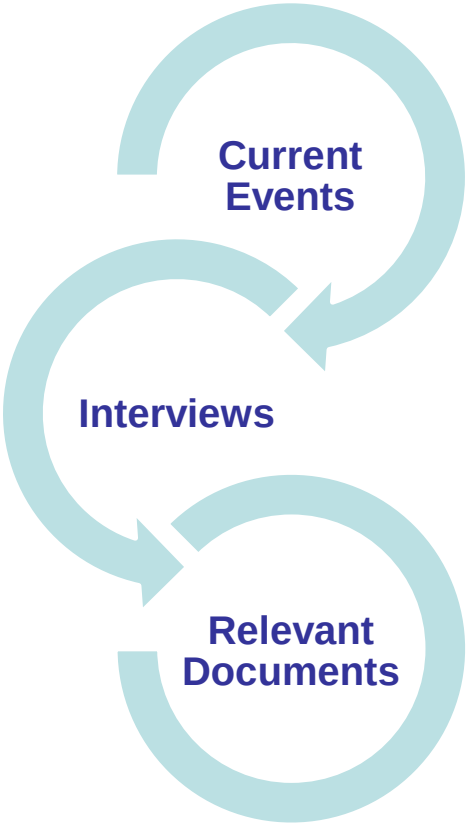
See next slide.

Complex Areas/Schools
Casual Hire & Casual Substitute
Leave Accounting
Safety, Security & Emergency Preparedness Program
School Inspections
School Level External Communications
Procurement & Fiscal
Budget Academic & Financial Planning & Compliance ACFIN
Inventory
Student Instruction
Special Education, ELL & 504
Homeless Concerns
Cafeteria
Registrar
Groundskeeping, Custodial Services
IT Coordination
School Health Aide
After School Programs
Athletics
Training & Development

Risk Assessment Re-Evaluation Process – Risk Identification

After finalizing the Audit Universe, IA confirmed and identified relevant risks to the DOE during the Risk Identification phase and performed the following steps:

- Obtained an understanding of current events impacting the DOE.
- Interviewed members of senior management and the Board of Education.
- Reviewed relevant reports and documents.



Understanding of Current Events – Based upon discussions and review of relevant documents, the following are a few of the major current events:

- Strategic Plan
- New Student Information System
- New Assistant Superintendents
- Change in Board of Education
- Planned Reorganizations

Conducted Interviews – IA interviewed 22 members of senior management and 3 members from the Board of Education.

Reviewed Relevant Documents – IA reviewed a variety of significant reports and documents that were prepared by management or issued by regulators or consultants including, but not limited to: External Financial Audits, State & Federal Audits, Strategic Plans, Reorganization Documents, Project Plans, External Studies and Management Letters.

Risk Assessment Re-Evaluation Process – Risk Identification

A component of the Risk Identification phase was an identification of relevant risks utilizing an Enterprise-wide Risk Model representing the universe of possible risks. The following is the listing of risks classified into three major areas of *environment risks*, *process risks* and *information for decision-making risks*. Certain risks within the Risk Model were not applicable, and others were modified to better fit the DOE as deemed necessary. A description of all relevant risks are defined in more detail in **Appendix A** and **B**.

ENVIRONMENT RISK

- Competitor
- Customer Wants
- Technological Innovation
- Sensitivity
- Shareholder Expectations
- Capital Availability
- Sovereign/Political
- Legal
- Regulatory
- Industry
- Financial Markets
- Catastrophic Loss

PROCESS RISK

FINANCIAL

Price
Interest Rate
Currency
Equity
Commodity
Financial Instrument

Liquidity
Cash Flow
Opportunity Cost
Concentration

Credit
Default
Concentration
Settlement
Collateral

EMPOWERMENT

Leadership
Authority/Limit
Outsourcing
Performance Incentives
Change Readiness
Communications

INFORMATION TECHNOLOGY

Integrity
Access
Availability
Infrastructure
Security

GOVERNANCE

Organizational Culture
Ethical Behavior
Board Effectiveness
Succession Planning

REPUTATION

Image and Branding
Privacy
Stakeholder Relations

INTEGRITY

Management Fraud
Employee Fraud
Third Party Fraud
Illegal Acts
Unauthorized Use

OPERATIONS

Customer Satisfaction
Human Resources
Knowledge Capital
Product Development
Efficiency
Capacity
Scalability
Performance Gap
Cycle Time
Sourcing
Channel Effectiveness
Partnering
Compliance
Business Interruption
Product/Service Failure
Environmental
Health and Safety
Trademark/Brand Erosion

INFORMATION FOR DECISION-MAKING RISK

STRATEGIC

Environmental Scan
Business Model
Business Portfolio
Investment Valuation/Evaluation
Organization Structure
Measurement (Strategy)
Resource Allocation
Planning
Life Cycle

PUBLIC REPORTING

Financial Reporting Evaluation
Internal Control Evaluation
Executive Certification
Taxation
Pension Fund
Regulatory Reporting

OPERATIONAL

Budget and Planning
Product/Service Pricing
Contract Commitment
Measurement (Operations)
Alignment
Accounting Information

Risk Assessment Re-Evaluation Process – Risk Identification

Another component of the Risk Identification process (illustrated below) involved assessing relevant risks for *significance* and *likelihood* of an occurrence to negatively impact the *critical organizational areas* of the DOE. The highly significant and likely risks (Quadrant I) were identified and are listed on page 14.

Relevant Risks Identified

Risk 1
Risk 2
Risk 3
Risk 4
Risk 5
Risk 6
Risk 7
Risk 8
Risk 9
Risk 10
Risk 11
Risk 12
Risk 13
Risk 14
Risk 15

Evaluation Criteria

Significance

Likelihood

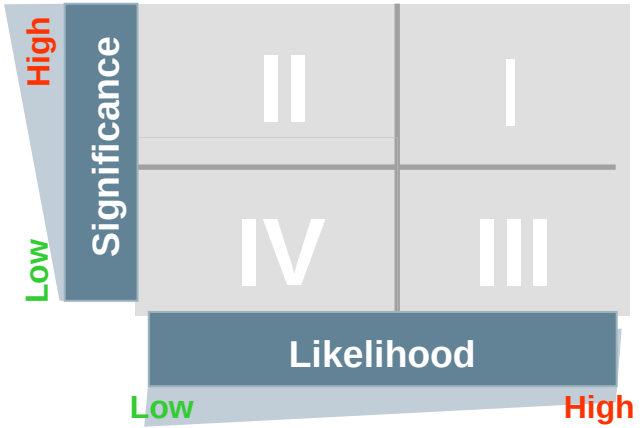
Critical Organizational Areas

Achievement of Vision, Strategy and Objectives

Reliability of Financial & Regulatory Reporting

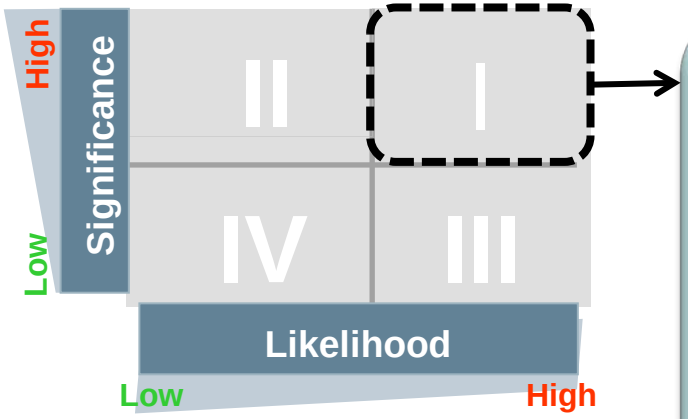
Process Efficiency and Effectiveness

Compliance



Risk Assessment Re-Evaluation Process – Risk Identification

As previously noted, IA identified and ranked risks relevant to the DOE. The following represents the high risks (Quadrant I) identified for the DOE. Quadrant I risks are defined in detail in **Appendix A**. All other relevant risks in the three remaining Quadrants (II, III, and IV) are defined in **Appendix B**.



Quadrant I Risks

- Accounting Information Risk
- Authority/Limit Risk
- Budget & Planning Risk
- Capital Availability Risk
- Change Readiness Risk
- Communications Risk
- Compliance Risk
- Cycle Time Risk
- Efficiency Risk
- Human Resources Risk
- Infrastructure Risk
- Integrity Risk
- Knowledge Capital Risk
- Leadership Risk
- Opportunity Cost Risk
- Organizational Culture Risk
- Performance Gap Risk
- Privacy Risk
- Resource Allocation Risk
- Scalability Risk
- Security Risk
- Succession Planning Risk
- Technological Innovation Risk

Risk Assessment Re-Evaluation Process – Risk Evaluation

After calculating and updating the risk score for each auditable area, IA ranked them into high (red), medium (yellow) or low (green) risk areas. The Audit Universe for the DOE State Office has been color coded below to reflect the ranking of risks.

Department of Education Audit Universe

Office of the Superintendent
- Monitoring, Accountability & Compliance
- Hawaiian Education Programs
- Civil Rights Investigations & Compliance
- Internal Audits & Fiscal Reviews
- Communications Services
- Community Engagement
- Program Administration & Technical Assistance*

Office of the Deputy Superintendent
- School Transformation
- Complex Areas/Schools**
- Office of Curriculum Instruction & Student Support**

Office of School Facilities & Support Services
- Facilities Development - Construction Management
- Facilities Development - Planning
- Facilities Development - Project Management
- Facilities Maintenance - Repair & Maintenance Operations
- School Food Services - USDA Compliance
- Student Transportation Services
- Safety, Security & Emergency Preparedness Program
- Project Control
- Facilities Maintenance - Purchasing Services
- Environmental Services Unit
- Facilities Maintenance - Vehicle Inventory
- School Food Services - Fiscal Management
- School Food Services - Technical Support
- Facilities Development - Business Services Section
- Facilities Maintenance - Repair & Maintenance Engineering
- Auxiliary Services
- Reprographics Section

Office of Human Resources
- Recruitment & Employment Section
- Investigations Section
- Labor Relations Section
- Workers' Compensation & Employee Benefits Section
- Negotiations Section
- Educator Effectiveness System Section
- Classification & Compensation Section
- Training & Development Section
- Records & Transactions Section
- Professional Development & Educational Research Institute
- Certificated and Classified Pros
- Highly Qualified Teacher Section
- Performance Management Section
- Teacher Induction Center
- Management Support Services Section
- Professional Development Section*
- Employee Benefits*

Office of Strategy, Innovation, and Performance
- Assessment and Accountability Branch
- Policy, Innovation, Planning and Evaluation Branch
- Data Governance and Analysis Branch

Note: The Risk Evaluation is based on the anticipation of changes to offices due to the Department's reorganization.

Office of Fiscal Services
- Procurement & Contracting
- Vendor Payments
- Leave Accounting
- Fixed Assets & Inventory
- Payroll
- Budget Execution, Management & Monitoring
- Reporting, Analysis & Reconciliation
- Office of Hawaii Child Nutrition Programs
- Budget Preparation
- Cash Management

Office of Curriculum Instruction & Student Support
- Curriculum and Instruction
- Extended Learning and Educational Technology
- Student Support
- P-20 (Pre-School through 20 (grades))
- Athletics & Extracurricular
- Professional Development

Office of Information Technology Services
- Enterprise Resource Planning Systems
- Identity & Access Management
- Software Development Life Cycle (SDLC)
- Privacy & Data Protection
- Project Strategy & Planning
- Disaster Recovery
- Infrastructure Maintenance
- Infrastructure Construction
- Systems Development
- Data Validation
- Data Retention/Backup
- Threat & Vulnerability Management
- Security Configuration Management
- Project Governance
- Federal Survey - Impact Aid
- Change & Patch Management (Applications, Databases, & Infrastructure)
- Problem Management (Centralized Service Desk)
- Applications/Database Management

Complex Areas/Schools

See page 19.

* Auditable area to be removed from the Audit Universe
** Refer to respective charts

Risk Assessment Re-Evaluation Process – Risk Evaluation

The following tables represent the risk ratings by office for the **DOE** – 42 auditable areas are considered *high* risk; 35 areas at the **DOE State Office** and 7 at the **Complex Areas/Schools**. We have also indicated risk ratings that have changed since the previous Risk Assessment, ↑ indicating increase in risk rating and ↓ indicating a decrease in risk rating.

Office	Auditable Areas	2015 Final Risk Rating	2016 Final Risk Rating	
OS	Monitoring, Accountability, and Compliance (Previously was Compliance and Monitoring)	High	High	
OS	Hawaiian Education Programs	High	High	
ODS	School Transformation	High	High	
OSFSS	Facilities Development - Construction Management	High	High	
OSFSS	Facilities Development - Planning	High	High	
OSFSS	Facilities Development - Project Management	High	High	
OSFSS	Facilities Maintenance - Repair & Maintenance Operations	High	High	
OSFSS	School Food Services - USDA Compliance	High	High	
OSFSS	Student Transportation Services	High	High	
OHR	Recruitment & Employment Section	High	High	
OHR	Investigations Section	High	High	
OHR	Labor Relations Section	High	High	
OHR	Workers' Compensation & Employee Benefits Section (Previously was Workers' Compensation)	High	High	
OHR	Professional Development Section (To be Removed)	High	N/A	
OSIP	Assessment and Accountability Branch	High	High	
OFS	Procurement & Contracting	High	High	
OFS	Vendor Payments	High	High	
OFS	Leave Accounting	High	High	
OFS	Fixed Assets & Inventory	High	High	
OFS	Payroll	Medium	High	↑
OCISS	Curriculum and Instruction	High	High	
OCISS	Extended Learning and Educational Technology	High	High	
OCISS	Student Support	High	High	
OITS	Enterprise Resource Planning Systems	High	High	
OITS	Identity & Access Management	High	High	
OITS	Software Development Life Cycle (SDLC)	High	High	
OITS	Privacy & Data Protection	High	High	
OITS	Project Strategy & Planning	High	High	
OITS	Disaster Recovery	High	High	
OITS	Infrastructure Maintenance	High	High	
OITS	Infrastructure Construction	High	High	
OITS	Systems Development	High	High	
OITS	Data Validation	High	High	
OITS	Data Retention/Backup	High	High	
OITS	Threat & Vulnerability Management	High	High	
OITS	Security Configuration Management	High	High	

Risk Assessment Re-Evaluation Process – Risk Evaluation

The following table represents the remaining risk ratings for the **DOE State Office**. 24 auditable areas are considered *medium* risk.

Office	Auditable Areas	2015 Final Risk Rating	2016 Final Risk Rating
OS	Civil Rights Investigations & Compliance	Medium	Medium
OS	Program Administration & Technical Assistance (To be Removed)	Medium	N/A
OSFSS	Safety, Security & Emergency Preparedness Program	Medium	Medium
OSFSS	Project Control	Medium	Medium
OSFSS	Facilities Maintenance - Purchasing Services	Medium	Medium
OSFSS	Environmental Services Unit	Medium	Medium
OSFSS	Facilities Maintenance - Vehicle Inventory	Low	Medium ↑
OSFSS	School Food Services - Fiscal Management	Medium	Medium
OHR	Negotiations Section	Medium	Medium
OHR	Educator Effectiveness System Section (New)	N/A	Medium
OHR	Classification & Compensation Section	Medium	Medium
OHR	Training & Development Section	Medium	Medium
OSIP	Policy, Innovation, Planning and Evaluation Branch	Medium	Medium
OSIP	Data Governance and Analysis Branch	Medium	Medium
OFS	Budget Execution, Management & Monitoring	Medium	Medium
OFS	Reporting, Analysis & Reconciliation	Medium	Medium
OFS	Office of Hawaii Child Nutrition Programs	Medium	Medium
OFS	Budget Preparation	Medium	Medium
OCISS	P-20 (Pre-School through 20 (grades))	Medium	Medium
OCISS	Athletics & Extracurricular	Medium	Medium
OCISS	Professional Development	Medium	Medium
OITS	Project Governance	Medium	Medium
OITS	Federal Survey - Impact Aid	Medium	Medium
OITS	Change & Patch Management (Applications, Databases, & Infrastructure)	Medium	Medium
OITS	Problem Management (Centralized Service Desk)	Medium	Medium

Risk Assessment Re-Evaluation Process – Risk Evaluation

The following table represents the remaining risk ratings for the **DOE State Office**. 17 auditable areas are considered *low* risk.

Office	Auditable Areas	2015 Final Risk Rating	2016 Final Risk Rating
OS	Internal Audits & Fiscal Reviews	Low	Low
OS	Communications Services	Low	Low
OS	Community Engagement (Previously was Community Children's Council Office)	Low	Low
OSFSS	School Food Services - Technical Support	Low	Low
OSFSS	Facilities Development - Business Services Section	Low	Low
OSFSS	Facilities Maintenance - Repair & Maintenance Engineering	Low	Low
OSFSS	Auxiliary Services	Low	Low
OSFSS	Reprographics Section	Low	Low
OHR	Records & Transactions Section	Low	Low
OHR	Professional Development & Educational Research Institute	Low	Low
OHR	Certificated and Classified Pros	Low	Low
OHR	Highly Qualified Teacher Section (New)	N/A	Low
OHR	Performance Management Section	Medium	Low ↓
OHR	Teacher Induction Center (New)	N/A	Low
OHR	Management Support Services Section	Low	Low
OHR	Employee Benefits (To be Removed)	Low	N/A
OFS	Cash Management	Low	Low
OITS	Applications/Database Management	Low	Low

Risk Assessment Re-Evaluation Process – Risk Evaluation

The scoring and risk ranking methodology used for **DOE State Office** was also applied to **Complex Areas/Schools** to determine a final risk score and rating for each auditable area.

The following table represents the final risk rankings for the auditable areas at the **Complex Areas/Schools**.

Auditable Areas	2015 Final Risk Rating	2016 Final Risk Rating
Special Education, ELL & 504	High	High
Student Instruction	High	High
Casual Hire & Casual Substitute	High	High
Procurement & Fiscal	High	High
IT Coordination	High	High
Leave Accounting	High	High
Cafeteria	High	High
Inventory	Medium	Medium
Safety, Security & Emergency Preparedness Program	Medium	Medium
School Health Aide	Medium	Medium
Athletics	Medium	Medium
Homeless Concerns	Medium	Medium
Training & Development	Medium	Medium
School Inspections	Medium	Medium
Budget Academic & Financial Planning & Compliance ACFIN	Medium	Medium
Registrar	Low	Low
Groundskeeping, Custodial Services	Low	Low
After School Programs	Low	Low
School Level External Communications	Low	Low

Risk Assessment Re-Evaluation Process – Audit Plan Development

The updated Audit Plan is focused primarily on evaluating and testing key control processes mitigating the "High" Risk Ranked Auditable Areas and highly significant and likely risks impacting the DOE. The Audit Plan includes the following types of projects:

- **Assurance Projects:** *Established processes* are in place and will be evaluated for design and operating effectiveness. In executing the projects, IA's methodology will require the performance of a project level risk assessment, during which time significant and other additional relevant risks are evaluated and more detailed controls are identified to be considered for inclusion in the project scope.

- **Consulting & Monitoring Projects:** The nature and scope of such projects are agreed upon with the section/branch and are intended to add value and improve operations *from a risk perspective*. Examples include consultation, recommendation(s), facilitation and training. This also includes Data Mining & Baseline Monitoring Projects. Consulting and monitoring projects shall not, in any circumstance, impair IA's independence.

Risk Assessment Re-Evaluation Process – Audit Plan Development

IA has completed **16 scheduled assurance projects** since 2012, and there is one **assurance project** currently in progress. Through the annual risk assessment process, IA has identified another **26 assurance projects** that focus on addressing the high risks and specific concerns raised within the DOE. **17 assurance projects** are scheduled for completion over the next three years, and the remaining **9 assurance projects** are documented on a project watchlist so that they can be scheduled in the future. In addition, IA has identified **5 assurance, consulting & monitoring projects** that should be performed annually. The descriptions for the identified **assurance projects** and the identified **assurance, consulting & monitoring projects** are included in this Internal Audit Plan.

Procurement & Contracting Process Review (FY 2012)
Casual Hire Personnel Recruitment, Hiring & Payroll Processes Review (FY 2012)
School Food Services Review (FY 2013)
Data Integrity Review – Student Enrollment (FY 2013)
eHR Post-Implementation Review (FY 2013)
Information Technology Privacy Review (FY 2014)
Leave Accounting Follow-Up Review (FY 2014)
Payroll Review (FY 2014)
Equipment and Fleet Maintenance Review (FY 2014)
Data Access Controls Review (FY 2015)
Student Assessment Administration Review – Phase I (FY 2015)
Workers' Compensation Review (FY 2015)
Fixed Assets Management Review (FY 2015)
Procurement & Contracting Process Follow-Up Review (FY 2016)
Operational Review of the Special Education Section (FY 2016)
Hiring Practices Review (FY 2016)
Vendor / Contract Management Review (In Progress)

Student Assessment Administration Review Phase II**
Casual Hire Personnel Recruitment, Hiring & Payroll Processes Follow-Up Review**
Investigation Process Review**
School Food Services Follow-Up Review**
Business Continuity & Disaster Recovery Plan Testing**
Governance & Ethics Review**
Data Access Controls Follow-Up Review**
Capital Construction Oversight and Management Implementation Follow-Up**
Program Design & Management Review of Extended Learning**
Student Information System Post-Implementation Review**
Equipment and Fleet Maintenance Follow-Up Review**
Student Transportation Services Implementation Follow-Up on External Consulting Reports**
Fixed Assets Management Follow-Up Review**
Labor Relations Review**
Operational Review of the Hawaiian Education Program**

Change and Patch Management Review**
Workers' Compensation Follow-Up Review**
IT Security Risk Assessment - Follow-Up Review
Use of Facilities Review
Repair and Maintenance Review
Grant & Award Management Review
Free and Reduced Lunch Eligibility Review
Payroll Follow-Up Review / Payroll System – Post Implementation Review
Leave Accounting Follow-Up Review #2 / Time & Attendance System - Post-Implementation Review
Procurement & Contracting Process Follow-Up Review #2
Operational Review of the Special Education Section Follow-Up
Baseline Assurance Projects (Annual)
Data Mining & Baseline Monitoring Projects (Annual)
Internal Control & Operational Efficiency Consulting Projects (Annual)
Fiscal Reviews (Annual)
Fraud & Ethics Hotline (Annual)

Note: Parenthesis () note FYE of assurance projects completed.

** Scheduled for completion over the next three years (FY 2016 – FY 2019).

PROPOSED UPDATED INTERNAL AUDIT PLAN

Internal Audit Plan

The following represents the detailed Internal Audit Plan for the first fiscal year.

Internal Audit Plan Period: July 1, 2016 through June 30, 2017 – FY 2017

Project	Auditable Area(s)	Risk(s)	Timing	Est. Hrs.
ASSURANCE				
Student Assessment Administration Review - Phase II For a sample of schools, review the internal controls, related processes, and standard practices over the administration of student assessments, including the maintenance and distribution of student assessment material and the collection and reporting of student assessment results to the Assessment and Accountability Branch. This review will also include an assessment of the controls over student assessment data at each selected school to ensure results are adequately secured and controlled. ***PRIMARY FOCUS: Operational***	**OSIP** *Assessment and Accountability Branch*	Integrity Risk Security Risk Access Risk Compliance Risk Privacy Risk	**Q1 FY 2017**	**600**
Casual Hire Personnel Recruitment, Hiring & Payroll Processes Follow-Up Review Follow-up to Internal Audit's Casual Hire Personnel Recruitment, Hiring & Payroll Processes Review to assess the implementation of Management's Plans as described in the Final Report (2012). ***PRIMARY FOCUS: Operational***	**OHR** *Recruitment & Employment* **Schools** *Casual Hire & Casual Substitute*	Organizational Culture Risk Human Resources Risk Performance Gap Risk Knowledge Capital Risk Alignment Risk	**Q2 FY 2017**	**350**
Investigation Process Review Review, evaluate, and test the design and operating effectiveness of the business process and internal controls over investigations performed by the DOE. This review will also include an assessment of the controls over the management of investigation information to ensure confidentiality of the information is maintained. This review will exclude an assessment of the controls and processes associated with the decision making process. ***PRIMARY FOCUS: Operational***	**OHR** *Investigations* ***OS*** *Civil Rights Investigations & Compliance*	Efficiency Risk Authority/Limit Risk Communications Risk Alignment Risk Cycle Time Risk	**Q3 FY 2017**	**650**

Internal Audit Plan

Internal Audit Plan: FY 2017 (continued)

Project	Auditable Area(s)	Risk(s)	Timing	Est. Hrs.
ASSURANCE				
School Food Services Follow-Up Review				
Follow-up to Internal Audit's School Food Services Review to assess the implementation of Management's Plans as described in the Final Report (2013). ***PRIMARY FOCUS: Operational/Financial***	**OSFSS** *School Food Services - USDA Compliance* **Schools** *Cafeteria*	Authority/Limit Risk Efficiency Risk Performance Gap Risk	**Q3 FY 2017**	**400**
Business Continuity and Disaster Recovery Plan Testing				
Review and evaluate the design and operating effectiveness of DOE's Business Continuity and Disaster Recovery Plan. Verify that the procedures and resources designated for recovery and restoration are adequate. Provide personnel the opportunity to identify refinements that would improve the plan's effectiveness. ***PRIMARY FOCUS: Operational/Information Technology***	**OITS** *Disaster Recovery* *Enterprise Resource Planning Systems* *Data Retention /Backup*	Integrity Risk Technological Innovation Risk Security Risk Infrastructure Risk	**Q4 FY 2017**	**400**
Baseline Assurance Projects				
Conduct Local School Fund Audits (Non-appropriated) and School Monitoring Reviews (Appropriated) to ensure collected funds are deposited properly, expenditures are approved and appropriate, transactions are supported by proper documentation and DOE policies and procedures are followed. Conduct P-Card Reviews to ensure that expenditures are approved and appropriate, transactions are supported by proper documentation and DOE policies and procedures are followed.	**Various**	Compliance Risk Opportunity Cost Risk	**Throughout**	**3,700**
		TOTAL PROPOSED *ASSURANCE* HOURS: FY 2017		**6,100**

Internal Audit Plan

Internal Audit Plan: FY 2017 (continued)

Project	Auditable Area(s)	Risk(s)	Timing	Est. Hrs.
IA CONSULTING, MONITORING, INVESTIGATIONS & OTHER				
Monitoring Based on Management Action Plans				
Follow-up on management action plans to the observations noted in the completed reviews.	Various	Alignment Risk Efficiency Risk	Throughout	200
Data Mining & Baseline Monitoring Projects				
Perform continuous auditing/monitoring projects utilizing data mining software to identify internal control weaknesses in business function areas. Continue Special Projects - Cancelled Check Reviews, Annual Checklist Monitoring, and other.	Various	Accounting Information Risk Compliance Risk Opportunity Cost Risk Resource Allocation Risk	Throughout	1,200
Internal Control & Operational Efficiency Consultation				
Provide consulting services to the Department for internal control planning and operational improvement initiatives.	Various	Alignment Risk Efficiency Risk	Various	300
			TOTAL PROPOSED *IA CONSULTING & MONITORING* HOURS: FY 2017	**1,700**

Internal Audit Plan

Internal Audit Plan: FY 2017 (continued)

Project	Auditable Area(s)	Risk(s)	Timing	Est. Hrs.
IA CONSULTING, MONITORING, INVESTIGATIONS & OTHER				
Fiscal Reviews				
Conduct fiscal reviews of allegations concerning DOE fund or asset misappropriation, and other areas where requested.	**Various**	Various Risks	**Throughout**	**700**
Fraud & Ethics Hotline - Confidential Reporting Mechanism				
Administer a confidential reporting mechanism to report suspected fraudulent activities and violations of federal and state laws, rules, regulations, and departmental policies, procedures, regulations, rules, and guidance, as well as violations of the DOE's Ethics and Code of Conduct.	**OS**	Organizational Culture Risk Leadership Risk	**Throughout**	**550**
Function Administration FY 2017				
Reporting and Communication			**Throughout**	**400**
External, State, Attorney General, Legislative & Consultant Audit/Review/Investigation Coordination			**Throughout**	**600**
Other Administration including budget preparation, meetings and other			**Throughout**	**600**
Risk Assessment Re-evaluation & Audit Plan for FY 2018 (Update)			**Q4 FY 2017**	**400**

TOTAL PROPOSED *INVESTIGATIONS & OTHER* HOURS: FY 2017 **3,250**

TOTAL *OUTSIDE CONSULTING (SME)* HOURS: FY 2017 **400**

TOTAL PROPOSED HOURS: FY 2017 **11,450**

Internal Audit Plan

The following represents the detailed Internal Audit Plan for the second fiscal year.

Internal Audit Plan Period: July 1, 2017 through June 30, 2018 – FY 2018

Project	Auditable Area(s)	Risk(s)	Timing	Est. Hrs.
ASSURANCE				
Governance & Ethics Review Review and evaluate the design and operating effectiveness of the DOE's ethics-related programs, activities, and processes to ensure effective governance and accountability throughout the DOE. Review the DOE's succession planning processes for building future leaders and provide recommendations based on leading practices. Required review under the Institute of Internal Auditors International Professional Practices Framework. ***PRIMARY FOCUS: Operational/Compliance***	**OS** **OHR**	Organizational Culture Risk Leadership Risk Board Effectiveness Risk Succession Planning Risk	**Q1 FY 2018**	**480**
Data Access Controls Follow-Up Review Follow-up to Internal Audit's Data Access Controls Review to assess the implementation of Management's Plans as described in the Final Report (2014). ***PRIMARY FOCUS: Information Technology***	**OITS** *Identity & Access Management*	Access Risk Security Risk Integrity Risk	**Q2 FY 2018**	**350**
Program Design and Management Review of Extended Learning Evaluate the design, oversight, training and monitoring of educational programs throughout the Extended Learning and Educational Technology, P-20 and Student Support Branch. Determine if Branches procedures and standards of practice are effectively shared among all of the program managers. ***PRIMARY FOCUS: Operational***	**OCISS** *Extended Learning, P-20, Student Support* **OS** *School Transformation* **Schools** *Student Instruction*	Efficiency Risk Leadership Risk Performance Gap Risk Alignment Risk Resource Allocation Risk	**Q3 FY 2018**	**560**

Internal Audit Plan

Internal Audit Plan: FY 2018 (continued)

Project	Auditable Area(s)	Risk(s)	Timing	Est. Hrs.
ASSURANCE				
Capital Construction Oversight and Management Implementation Follow-Up Review the following areas to determine whether the recommendations provided by outside consultants are implemented properly: (1) the design and operating effectiveness of procedures and internal controls are executed properly, (2) implementation of related business processes over the capital construction process are adequate, and (3) assess the application of primary controls for a selection of completed construction projects to include the following: • General Construction Project Controls • Project Planning and Analysis • Project Review and Approval • Bid, Selection and Contract Development Approvals • Construction Phase Controls • Project Acceptance and Closeout ***PRIMARY FOCUS: Operational/Financial***	**OSFSS** *Planning* *Project Management* *Construction Management*	Performance Gap Risk Budget & Planning Risk Efficiency Risk Scalability Risk Knowledge Capital Risk Alignment Risk Capital Availability Risk Opportunity Cost Risk	**Q3 FY 2018**	**560**
Student Information System - Post-Implementation Review Evaluate the Student Information System application, interface, and associated infrastructure testing strategies and procedures, as well as, management plans relating to implementation sequencing activities to help ensure the continued integrity of the data utilized by the application and that those resources required by the application are readily available. ***PRIMARY FOCUS: Information Technology***	**OITS** *Systems Development, Software Development Life Cycle (SDLC), Project Strategy & Planning*	Integrity Risk Access Risk	**Q4 FY 2018**	**400**

Internal Audit Plan

Internal Audit Plan: FY 2018 (continued)

Project	Auditable Area(s)	Risk(s)	Timing	Est. Hrs.
ASSURANCE				
Equipment and Fleet Maintenance Follow-Up Review Follow-up to Internal Audit's Equipment and Fleet Maintenance Review to assess the implementation of Management's Plans as described in the Final Report (2014). ***PRIMARY FOCUS: Operational/Financial***	**OSFSS** *Repair & Maintenance Operations*	Budget & Planning Risk Efficiency Risk Performance Gap Risk Alignment Risk	**Q4 FY 2018**	**350**
Baseline Assurance Projects Conduct Local School Fund Audits (Non-appropriated) and School Monitoring Reviews (Appropriated) to ensure collected funds are deposited properly, expenditures are approved and appropriate, transactions are supported by proper documentation and DOE policies and procedures are followed. Conduct P-Card Reviews to ensure that expenditures are approved and appropriate, transactions are supported by proper documentation and DOE policies and procedures are followed.	**Various**	Compliance Risk Opportunity Cost Risk	**Throughout**	**3,850**
			TOTAL PROPOSED *ASSURANCE* HOURS: FY 2018	**6,550**

Internal Audit Plan

Internal Audit Plan: FY 2018 (continued)

Project	Auditable Area(s)	Risk(s)	Timing	Est. Hrs.
IA CONSULTING, MONITORING, INVESTIGATIONS & OTHER				
Monitoring Based on Management Action Plans				
Follow-up on management action plans to the observations noted in the completed reviews.	Various	Alignment Risk Efficiency Risk	Throughout	200
Data Mining & Baseline Monitoring Projects				
Perform continuous monitoring projects utilizing data mining software to identify internal control weaknesses in business function areas. Continue Special Projects - Cancelled Check Reviews, Annual Checklist Monitoring, and other.	Various	Accounting Information Risk Compliance Risk Opportunity Cost Risk Resource Allocation Risk	Throughout	1,200
Internal Control & Operational Efficiency Consultation				
Provide consulting services to the Department for internal control planning and operational improvement initiatives.	Various	Alignment Risk Efficiency Risk	Various	300
TOTAL PROPOSED *IA CONSULTING & MONITORING* HOURS: FY 2018				1,700

Internal Audit Plan

Internal Audit Plan: FY 2018 (continued)

Project	Auditable Area(s)	Risk(s)	Timing	Est. Hrs.
IA CONSULTING, MONITORING, INVESTIGATIONS & OTHER				
Fiscal Reviews				
Conduct fiscal reviews of allegations concerning DOE fund or asset misappropriation, and other areas where requested.	Various	Various Risks	Throughout	700
Fraud & Ethics Hotline - Confidential Reporting Mechanism				
Administer a confidential reporting mechanism to report suspected fraudulent activities and violations of federal and state laws, rules, regulations, and departmental policies, procedures, regulations, rules, and guidance, as well as violations of the DOE's Ethics and Code of Conduct.	OS	Organizational Culture Risk Leadership Risk	Throughout	550
Function Administration FY 2018				
Reporting and Communication			Throughout	400
External, State, Attorney General, Legislative & Consultant Audit/Review/Investigation Coordination			Throughout	600
Other Administration including budget preparation, meetings and other			Throughout	600
Risk Assessment Re-evaluation & Audit Plan for FY 2019 (Update)			Q4 FY 2018	400
TOTAL PROPOSED *INVESTIGATIONS & OTHER* HOURS: FY 2018				3,250
TOTAL *OUTSIDE CONSULTING (SME)* HOURS: FY 2018				400
TOTAL PROPOSED HOURS: FY 2018				11,900

Internal Audit Plan

The following represents the detailed Internal Audit Plan for the third fiscal year.

Internal Audit Plan Period: July 1, 2018 through June 30, 2019 – FY 2019

Project	Auditable Area(s)	Risk(s)	Timing	Est. Hrs.
ASSURANCE				
Student Transportation Services Implementation Follow-Up External Consulting Reports Assess the following areas to determine whether the recommendations provided by outside consultants are implemented properly including: (1) the design and operating effectiveness of procedures and controls are executed properly, (2) internal control procedures are adequate for monitoring contract compliance in all areas of operations and administration, and (3) assess the effectiveness and determine the results of performance measures and goals established for contractors providing student transportation services. ***PRIMARY FOCUS: Operational/Compliance***	**OSFSS** *Student Transportation Services*	Budget & Planning Efficiency Risk Compliance Risk Alignment Risk	**Q1 FY 2019**	**560**
Fixed Assets Management Follow-Up Review Follow-up to Internal Audit's Fixed Assets Management Review to assess the implementation of Management's Plans as described in the Final Report (2015). ***PRIMARY FOCUS: Financial***	**OFS** *Fixed Assets & Inventory* **Schools** *Inventory*	Authority/Limit Risk Efficiency Risk Performance Gap Risk	**Q2 FY 2019**	**480**
Labor Relations Review Review the Department's compliance with applicable laws and regulations for labor relations. Evaluate the strengths and weaknesses of personnel policies and procedures. Test the design and operating effectiveness of the Department's internal controls over the labor relation's process and provide efficiency and effectiveness recommendations. ***PRIMARY FOCUS: Operational/Compliance***	**OHR** *Labor Relations*	Compliance Risk Efficiency Risk Human Resources Risk Integrity Risk	**Q3 FY 2019**	**480**

Internal Audit Plan

Internal Audit Plan: FY 2019 (continued)

Project	Auditable Area(s)	Risk(s)	Timing	Est. Hrs.
ASSURANCE				
Operational Review of the Hawaiian Education Program				
Evaluate the design, oversight, training and monitoring of Hawaiian Education programs. Determine if (1) the role and purpose of the Hawaiian Education Program are expressed clearly and effectively, (2) adequate guidance with goals and objectives of the program are established with measurable outcomes, and (3) operations are effective, efficient and in compliance with the law. Determine whether the recommendations provided by the State Auditor's 2008 report were implemented properly. ***PRIMARY FOCUS: Operational/Compliance***	**OS** *Hawaiian Education Programs*	Efficiency Risk Compliance Risk Communications Risk Alignment Risk	**Q3 FY 2019**	**560**
Change and Patch Management Review				
Review, evaluate and test the operating effectiveness of the process to verify that changes to the production environment are subject to a formal change management program ensuring that: responsibilities are defined and communicated; business continuity risks and effects are considered; only appropriate changes are initiated and approved; changes are properly tested and validated before migration to the production environment; changes to the production environment are implemented as intended; and controls exist to manage emergency changes to the production environment. ***PRIMARY FOCUS: Information Technology***	**OITS** *Change & Patch Management*	Integrity Risk Access Risk Infrastructure Risk Security Risk Change Readiness Risk	**Q4 FY 2019**	**400**

Internal Audit Plan

Internal Audit Plan: FY 2019 (continued)

Project	Auditable Area(s)	Risk(s)	Timing	Est. Hrs.
ASSURANCE				
Workers' Compensation Follow-Up Review				
Follow-up to Internal Audit's Workers' Compensation Review to assess the implementation of Management's Plans as described in the Final Report (2015).	**OHR** *Workers' Compensation*	Compliance Risk Efficiency Risk Human Resources Risk Integrity Risk	**Q4 FY 2019**	**320**
PRIMARY FOCUS: Operational/Compliance				
Baseline Assurance Projects				
Conduct Local School Fund Audits (Non-appropriated) and School Monitoring Reviews (Appropriated) to ensure collected funds are deposited properly, expenditures are approved and appropriate, transactions are supported by proper documentation and DOE policies and procedures are followed. Conduct P-Card Reviews to ensure that expenditures are approved and appropriate, transactions are supported by proper documentation and DOE policies and procedures are followed.	**Various**	Compliance Risk Opportunity Cost Risk	**Throughout**	**3,750**
		TOTAL PROPOSED *ASSURANCE* HOURS: FY 2019		**6,550**

Internal Audit Plan

Internal Audit Plan: FY 2019 (continued)

Project	Auditable Area(s)	Risk(s)	Timing	Est. Hrs.
IA CONSULTING, MONITORING, INVESTIGATIONS & OTHER				
Monitoring Based on Management Action Plans				
Follow-up on management action plans to the observations noted in the completed reviews.	Various	Alignment Risk Efficiency Risk	Throughout	200
Data Mining & Baseline Monitoring Projects				
Perform continuous monitoring projects utilizing data mining software to identify internal control weaknesses in business function areas. Continue Special Projects - Cancelled Check Reviews, Annual Checklist Monitoring, and other.	Various	Accounting Information Risk Compliance Risk Opportunity Cost Risk Resource Allocation Risk	Throughout	1,200
Internal Control & Operational Efficiency Consultation				
Provide consulting services to the Department for internal control planning and operational improvement initiatives.	Various	Alignment Risk Efficiency Risk	Various	300
TOTAL PROPOSED *IA CONSULTING & MONITORING* HOURS: FY 2019				1,700

Internal Audit Plan

Internal Audit Plan: FY 2019 (continued)

Project	Auditable Area(s)	Risk(s)	Timing	Est. Hrs.
IA CONSULTING, MONITORING, INVESTIGATIONS & OTHER				
Fiscal Reviews				
Conduct fiscal reviews of allegations concerning DOE fund or asset misappropriation, and other areas where requested.	**Various**	Various Risks	**Throughout**	**700**
Fraud & Ethics Hotline - Confidential Reporting Mechanism				
Administer a confidential reporting mechanism to report suspected fraudulent activities and violations of federal and state laws, rules, regulations, and departmental policies, procedures, regulations, rules, and guidance, as well as violations of the DOE's Ethics and Code of Conduct.	**OS**	Organizational Culture Risk Leadership Risk	**Throughout**	**550**
Function Administration FY 2019				
Reporting and Communication			**Throughout**	**400**
External, State, Attorney General, Legislative & Consultant Audit/Review/Investigation Coordination			**Throughout**	**600**
Other Administration including budget preparation, meetings and other			**Throughout**	**600**
Risk Assessment Re-evaluation & Audit Plan for FY 2020 (Update)			**Q4 FY 2019**	**400**
TOTAL PROPOSED *INVESTIGATIONS & OTHER* HOURS: FY 2019				**3,250**
TOTAL *OUTSIDE CONSULTING (SME)* HOURS: FY 2019				**400**
TOTAL PROPOSED HOURS: FY 2019				**11,900**

Internal Audit Plan

The following represents the detailed Assurance Project Watchlist for future scheduling.

Internal Audit Plan: Assurance Project Watchlist

Project	Auditable Area(s)	Risk(s)	Timing
ASSURANCE			
IT Security Risk Assessment - Follow-Up Review Based on management's mitigation and action plans, perform follow-up testing to confirm that observations identified in the IT Security Risk Assessment have been remediated. Conduct social engineering tests to determine the effectiveness of the DOE's training and awareness programs. ***PRIMARY FOCUS: Information Technology***	**OITS** *Threat & Vulnerability, Security Configuration Management*	Security Risk Privacy Risk	**Watchlist**
Use of Facilities Review Review, evaluate and test the design and operating effectiveness of the "use of facilities" processes within the Department. Determine if the "use of facilities" is financially feasible, manageable in terms of risk, and is fair and equitable. Provide recommendations based on leading practices to improve the efficiency and effectiveness of the processes. ***PRIMARY FOCUS: Operational/Financial***	**OSFSS** *Repair & Maintenance Operations*	Compliance Risk Efficiency Risk Authority/Limit Risk Planning Risk	**Watchlist**
Repair and Maintenance Review (New Project) Evaluate the Department's records of regular preventive maintenance and repairs to DOE school buildings and facilities. Review the adequacy of the current policies and processes as they relate to the overall planning and managing of repairs and maintenance to school facilities and detremine if services have been completed in the most cost-effective and efficient manner. Where aplicable, this review will follow-up on the results of previous report findings and studies. ***PRIMARY FOCUS: Operational/Financial***	**OSFSS** *Repair & Maintenance Operations*	Budget and Planning Risk Efficiency Risk Performance Gap Risk Health & Safety Risk Cycle Time Risk	**Watchlist**

Internal Audit Plan

Internal Audit Plan: Assurance Project Watchlist (continued)

Project	Auditable Area(s)	Risk(s)	Timing
ASSURANCE			
Grant & Award Management Review (New Project) Review the adequacy of current grant/award management policies and processes as they relate to the spending, reporting, program implementation and monitoring of grants/awards received by the DOE. This review will also include an assessment of controls over how requirements of the funding source are met and that federal and state dollars are spent in accordance with applicable laws and regulations. ***PRIMARY FOCUS: Operational/Compliance***	**OS** *Monitoring, Acountability & Compliance*	Performance Gap Risk Compliance Risk Resource Allocation Risk Regulatory Reporting Risk Opportunity Cost Risk	**Watchlist**
Free and Reduced Lunch Eligibility Review (New Project) Review the controls in place to ensure that the free and reduced lunch data is accurate, complete, and consistent. Test and validate the data quality for a sample of yearly reports and that DOE processes are in line with requirements set forth by USDOE. ***PRIMARY FOCUS: Operational/Compliance***	**OSFSS** *USDA Compliance*	Integrity Risk Access Risk Performance Gap Risk Compliance Risk	**Watchlist**
Payroll Follow-Up / Payroll System - Post-Implementation Review Follow-up to Internal Audit's Payroll Review to assess the implementation of Management's Plans as described in the Final Report (2014). Evaluate the effectiveness of the new payroll system to ensure that payroll is accurate and timely. ***PRIMARY FOCUS: Operational/Financial***	**OFS** *Payroll*	Compliance Risk Efficiency Risk Cycle Time Risk Change Readiness Risk	**Pending System Update**

Internal Audit Plan

Internal Audit Plan: Assurance Project Watchlist (continued)

Project	Auditable Area(s)	Risk(s)	Timing
ASSURANCE			
Leave Accounting Follow-Up Review #2 / Time & Attendance System - Post-Implementation Review Follow-up to Internal Audit's Leave Accounting Follow-Up Review to assess the implementation of Management's Plans as described in the Final Report (2014). Evaluate the effectiveness of the new time and attendance system to ensure that recorded leave is accurate, timely, supported, and approved. ***PRIMARY FOCUS: Operational/Compliance***	**OFS** *Leave Accounting* **Schools** *Leave Accounting*	Compliance Risk Cycle Time Risk Efficiency Risk Change Readiness Risk	**Pending System Update**
Procurement & Contracting Process Follow-Up Review #2 Follow-up to Internal Audit's Procurement & Contracting Processes Follow-Up Review to assess the implementation of Management's Plans as described in the Final Report (2015). ***PRIMARY FOCUS: Compliance/Financial***	**OFS** *Procurement & Contracting* **Schools** *Procurement and Fiscal*	Compliance Risk Efficiency Risk Performance Gap Risk Change Readiness Risk	**Watchlist**
Operational Review of the Special Education Section Follow-Up Follow-up to Internal Audit's Operational Review of the Special Education Section to assess the implementation of Management's Plans as described in the Final Report (2016). ***PRIMARY FOCUS: Operational***	**OCISS** *Curriculum and Instruction, Student Support* **Schools** *Special Education, ELL & 504*	Efficiency Risk Leadership Risk Authority/Limit Risk Knowledge Capital Risk Alignment Risk	**Watchlist**

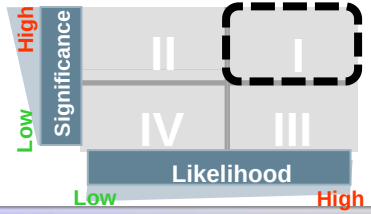
APPENDICES

APPENDICES

Appendix A – Relevant Risk Definitions: Quadrant I

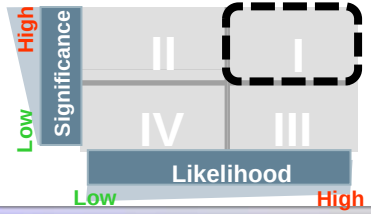
Appendix B – Relevant Risk Definitions: Other Quadrants

Appendix A – Relevant Risk Definitions Quadrant I



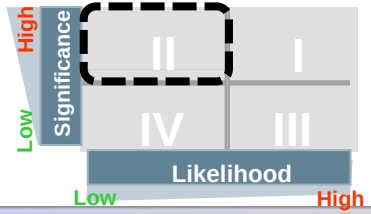
Risk	Definition
Accounting Information Risk	Financial accounting information used to manage business and operational processes is not properly integrated with nonfinancial information focused on stakeholder satisfaction, measuring quality, reducing cycle time and increasing efficiency. The result is a myopic, short-term fixation on manipulating the outputs of processes to achieve financial targets, rather than fulfilling stakeholder expectations by controlling and improving processes.
Authority/Limit Risk	The risk that people either make decisions or take actions that are not within their explicit responsibility or control or fail to take responsibility for those things for which they are accountable. Failure to establish or enforce limits on personnel actions may cause employees to commit unauthorized, illegal or unethical acts or assume unauthorized or unacceptable business risks.
Budget & Planning Risk	Budgets and business plans are not realistic, based on appropriate assumptions, based on cost drivers and performance measures, accepted by management, or used as a monitoring tool.
Capital Availability Risk	The Department does not have efficient access to the capital it needs to fuel its growth, operate programs, execute its strategies, and generate future returns.
Change Readiness Risk	The people within the Department are unable to implement process and improvements quickly enough to keep pace with changes in the marketplace.
Communications Risk	Communication channels (top-down and bottom-up or cross-functional) within the Department are ineffective and result in messages that are inconsistent with authorized responsibilities or established measures.
Compliance Risk	As a result of a flaw in design or operation or due to human error, oversight or indifference, the Department's processes do not meet established requirements or do not comply with prescribed procedures and policies. Compliance risk can also result in failure to conform with laws and regulations at the federal, state and local level that apply to a business process.
Cycle Time Risk	Elapsed time between the start and completion of a business process (or activity within a process) is too long because of redundant, unnecessary and irrelevant steps.
Efficiency Risk	The process is inefficient in satisfying valid user and stakeholder requirements, resulting in redundancies and higher costs.
Human Resources Risk	The personnel responsible for managing and controlling the Department or a particular business process do not possess the requisite knowledge, skills and experience needed to ensure that critical business and operational objectives are achieved and significant risks are reduced to an acceptable level.
Infrastructure Risk	The risk that the Department does not have an effective information technology infrastructure (e.g., hardware, networks, software, people and processes) to effectively support the current and future needs of the organization in an efficient, cost-effective and well-controlled fashion.

Appendix A – Relevant Risk Definitions Quadrant I (continued)



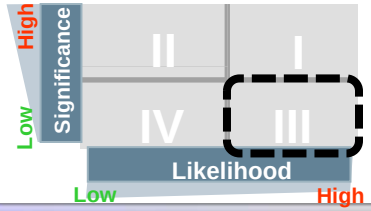
Risk	Definition
Integrity Risk	This risk encompasses all of the risk associated with the authorization, completeness, and accuracy of transactions as they are entered into, processed by, summarized by and reported on by the various application systems deployed by the Department.
Knowledge Capital Risk	Processes for capturing and institutionalizing learning across the Department are either nonexistent or ineffective, resulting in slow response time, high costs, repeated mistakes, slow competence development, constraints on growth and unmotivated employees.
Leadership Risk	The risk that the people responsible for the important business and operational processes do not or cannot provide the leadership, vision, and support necessary to help employees be effective and successful in their jobs.
Opportunity Cost Risk	The use of funds in a manner that leads to the loss of economic value, including time value losses, transaction costs due to inappropriate or inefficient management of cash flows and other causes of loss of value.
Organizational Culture Risk	The Department's culture does not encourage management to realistically portray the potential outcomes of transactions, investments and projects and understand and portray the full picture for decision makers. The Department experiences dysfunctional behavior because management is either risk averse or incented to take risks beyond the Department's risk appetite.
Performance Gap Risk	A process does not perform at a high level because the practices designed into the process are inferior.
Privacy Risk	Privacy encompasses the rights and obligations of individuals and organizations with respect to the collection, use, retention, disclosure, and disposal of personal information.
Resource Allocation Risk	The Department's resource allocation process does not establish and sustain competitive advantage or maximize returns and/or benefits for relevant stakeholders.
Scalability Risk	The inability to operate differently and more efficiently at larger volumes or amortize costs over greater volume, resulting in diseconomies of scale that threaten the Department's ability to execute on their strategies and be competitive.
Security Risk	The risk that a possible threat will use a vulnerability within an information system to cause disruption to the Department's assets, operations and/or objectives.
Succession Planning Risk	Leadership talent within the Department is not sufficiently developed to provide for orderly succession in the future.
Technological Innovation Risk	The Department is not leveraging advancements in technology in its business and operational model to achieve or sustain competitive advantage or is exposed to the actions of competitors or substitutes that do leverage technology to attain superior quality, cost and/or time performance in their services and processes.

Appendix B – Relevant Risk Definitions Quadrant II



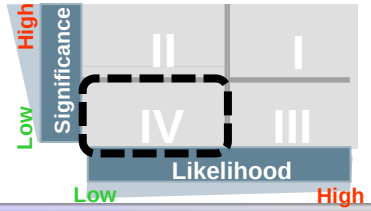
Risk	Definition
Access Risk	Access risk includes the risk that access to information (data or programs) or systems will be inappropriately granted or refused. It encompasses the risks of improper segregation of duties, risks associated with the integrity of data and databases and risks associated with information confidentiality.
Alignment Risk	The objectives and performance measures of the Department's business processes are not aligned with its overall objectives and strategies. The objectives and measures do not focus people on the right things and lead to conflicting, uncoordinated activities.
Availability Risk	The risk that information will not be available when needed. This includes risks such as loss of communications (e.g., cut cables, telephone system outage, satellite loss), loss of basic processing capability (e.g., fire, flood, electrical outage) and operational difficulties (e.g., disk drive breakdown, operator errors).
Board Effectiveness Risk	The board does not constructively engage management and provide anticipatory, proactive and interactive oversight of the Department's activities and affairs, with integrity, vision, common sense and unquestioned independence.
Business Interruption Risk	The Department's capability to continue critical operations and processes may be highly dependent on availability of certain raw materials, information technologies, skilled labor and other resources.
Catastrophic Loss Risk	The inability to sustain operations, provide essential products and services, or recover operating costs as a result of a major disaster.
Customer Wants Risk	The Department is not aware that customer needs and wants change. Such needs and wants may apply to desired quality, willingness to pay and/or speed of execution.
Financial Reporting Evaluation Risk	Financial reports issued to lenders, the public or other stakeholders include material misstatements or omit material facts, making them misleading.
Health & Safety Risk	These risks expose the Department to potentially significant workers' compensation liabilities, financial loss, and negative publicity. The Department could potentially find themselves criminally liable for failure to provide a safe working environment for their employees.
Planning Risk	The Department's business and operational strategies are not driven by creative and intuitive input or based on current assumptions about the external environment resulting in strategies that are out-of-date and unfocused.
Regulatory Reporting Risk	Reports of operating and financial information required by regulatory agencies are incomplete, inaccurate, or untimely, exposing the Department to fines, penalties and sanctions.

Appendix B – Relevant Risk Definitions Quadrant III



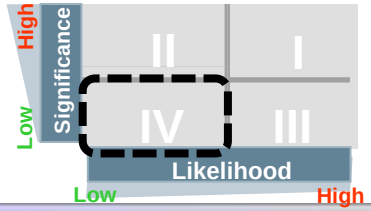
Risk	Definition
Business Portfolio Risk	The risk that the Department will not maximize business performance by effectively prioritizing its programs and services, or balancing its programs and/or services in a strategic context.
Contract Commitment Risk	The Department does not have information that effectively tracks contractual commitments outstanding at a point in time, so that the financial implications of decisions to enter into incremental commitments can be appropriately considered by decision makers.
Customer Satisfaction Risk	The Department's processes do not consistently meet or exceed customer expectations due to a lack of focus on the customer.
Employee Fraud & Third Party Fraud Risk	Fraudulent activities perpetrated by employees, customers, suppliers, agents, brokers or third-party administrators against the Department for personal gain expose the Department to financial loss.
Environmental Scan Risk	The failure to monitor and stay in touch with a rapidly changing environment resulting in obsolete business and operational strategies.
Ethical Behavior Risk	The Department, through its actions or inaction, demonstrates that it is not committed to ethical and responsible business behavior.
Internal Control Evaluation Risk	Failure to accumulate sufficient relevant and reliable information to assess the design and operating effectiveness of internal control over financial reporting, resulting in inaccurate assertions by management in internal control reports.
Organization Structure Risk	The Department's structure does not support change or the Department's business and operational strategies.
Outsourcing Risk	Outside service providers do not act within their defined limits of authority and do not perform in a manner consistent with the values, strategies and objectives of the Department.
Regulatory Risk	Changes in regulations and actions by national or local regulators can result in increased competitive pressures and significantly affect the Department's ability to efficiently run its business and operations.
Unauthorized Use Risk	The Department's employees (or others) use its physical and financial assets for unauthorized or unethical purposes.

Appendix B – Relevant Risk Definitions Quadrant IV



Risk	Definition
Business Model Risk	The Department has an obsolete business model and doesn't recognize it and/or lacks the information needed to make an up-to-date assessment of its current model and build a compelling business case for modifying that model on a timely basis.
Cash Flow Risk	Actual losses incurred as a result of the inability to fund the operational or financial obligations of the Department.
Environmental Risk	Environmental risks expose organizations to potentially enormous liabilities. The exposure is twofold -- (1) liability to third parties for bodily injury or property damage caused by the pollution, and (2) liability to governments or third parties for the cost of removing pollutants plus severe punitive damages.
Illegal Acts Risk	Management and employees individually or in collusion commit illegal acts, placing the Department, its directors and officers at risk to the consequences of their actions.
Image & Branding Risk	The risk that the Department may lose customers (where applicable), key employees or its ability to compete, due to perceptions that it does not deal fairly with customers, suppliers and stakeholders, or know how to manage its business and operations.
Investment Valuation/Evaluation Risk	Management does not have sufficient financial information to make informed short-term and long-term investment decisions and link the risks accepted to the capital at risk. Management and key decision-makers are unable to reliably measure the value of a specific business, program or any of its significant segments in a strategic context.
Legal Risk	The risk that the Department's transactions, contractual agreements and specific strategies and activities are not enforceable under applicable law.
Management Fraud Risk	Management issues misleading financial statements with intent to deceive the public and the external auditor or engages in bribes, kickbacks, influence payments and other schemes for the benefit of the Department.
Measurement (Operations) Risk	Process performance measures do not provide a reliable portrayal of operating performance and do not accurately reflect reality. The measures do not provide relevant information for decision making because they are not informative, understandable, believable, actionable, or indicators of change.
Measurement (Strategy) Risk	Occurs when overall Departmental performance measures focus primarily on near-term financial results or are not consistent with and do not support business and operational strategies.

Appendix B – Relevant Risk Definitions Quadrant IV (continued)



Risk	Definition
Partnering Risk	Inefficient or ineffective alliance, joint venture, affiliate and other external relationships affect the Department's capability to compete. These uncertainties arise due to choosing the wrong partner, poor execution, receiving more value than is given (ultimately resulting in loss of a partner) and failing to capitalize on partnering opportunities.
Performance Incentives Risk	Unrealistic, subjective or unclear performance measures may cause management, supervisors and employees to act in a manner that is inconsistent with the Department's business and operating objectives, strategies, ethical standards and prudent business practice.
Product/Service Failure Risk	The Department's operations create risk of customers receiving faulty or nonperforming products or services.
Product/Service Pricing Risk	The Department's price is more than customers are willing to pay or does not cover production and distribution costs.
Sensitivity Risk	Sensitivity risk results when management commits the Department's resources and expected cash flows from future operations to such an extent that it reduces the Department's tolerance for (or ability to withstand) changes in environmental forces that are totally beyond its control.
Stakeholder Relations Risk	A decline in stakeholder confidence may impair the Department's ability to efficiently raise and/or obtain the necessary resources to run its operations. The Department will not have the same efficient access as competitors to the capital it needs to fuel its growth, execute its strategies, and generate future returns, where applicable.