



Item: AF: I-2

AUDIT AND FINANCE COMMITTEE

Wednesday, February 21, 2007

SUBJECT: FIVE YEAR QUALITY ASSESSMENT REPORT OF THE OFFICE OF INSPECTOR GENERAL.

PROPOSED BOARD ACTION

Information only.

BACKGROUND INFORMATION

In accordance with standards of the Institute of Internal Auditors (IIA), a quality assessment review of the university's internal audit function was completed in December 2006 by Marty Khan, Ed.D., University of North Florida. The peer review is required at least every five years to determine the level of compliance with IIA standards, and covers governance issues of interest to the audit and finance committee.

As a result of the review, it was determined that the Office of Inspector General (OIG) was generally conforming to IIA standards. The reviewer made four suggestions to improve the internal audit function, including two recommendations that could be addressed by developing a formal charter for the university's BOT Audit and Finance Committee. The Inspector General has responded in part to the reviewer's suggestions by updating the OIG website and briefing the audit staff on the report.

IMPLEMENTATION PLAN/DATE

As soon as possible.

FISCAL IMPLICATIONS

Not Applicable.

Supporting Documentation: Quality Assessment Review Report dated December 20, 2006.

Presented by: Mr. Morley Barnett, Inspector General

Phone: 561-297-3682



20 December 2006

Mr. Frank T. Brogan
President
Florida Atlantic University
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Mr. Norman Tripp, Chair
FAU BOT-Audit and Finance Committee
Tripp Scott P.A.
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Gentlemen:

I have completed my quality assessment review of your Inspector General's Office. In my opinion, the office generally conforms with the International Standards for the Professional Practice of Internal Auditing (*Standards*), promulgated by the Institute of Internal Auditors (IIA). Please see below for the details of my review (including an explanation of the rating system I used) and some suggestions to strengthen the Inspector General's Office's effectiveness.

Rationale for Review

The Institute of Internal Auditors' *Standards* require external assessments to be conducted at least once every five years by a qualified, independent reviewer or review team from outside the organization. One option to fulfill this requirement is to perform a self assessment and have this validated by a qualified independent validation team. Mr. Morley Barnett, your Inspector General, chose this method to accomplish compliance with the quality assessment review standards. I used the IIA's Quality Assessment Manual (5th Edition) as the authoritative guide to conduct my review. My overall objective was to assess the level of your Inspector General's Office compliance with the *Standards*.

Scope

The scope of my review included:

- Review of the self-assessment report prepared by Mr. Barnett. This report includes detailed responses to an array of questions about your institution's operations and also included an assortment of operational issues in the Inspector General's Office;
- Interviews with key officers at the University who are responsible for significant areas;
- Review of audit client surveys to determine the degree of satisfaction with the audit work performed by the Inspector General's Office;
- Interviews with Mr. Barnett and his three auditors;
- Examination of a sample of work papers and reports produced; and,
- A comparison of the Department's audit practices with the *Standards*.

Explanation of the Rating System

The IIA's rating system used for expressing an opinion for this review provides for three levels of conformance: generally conforms, partially conforms, and does not conform.

"Generally Conforms" means that an organization has policies, procedures, and a charter that were judged to be in accordance with the *Standards*; however, opportunities for improvement may exist. "Partially Conforms" means deficiencies, while they might impair, did not prohibit an organization from carrying out its responsibilities. "Does Not Conform" means deficiencies in practice were found that were considered so significant as to seriously impair or prohibit an organization in carrying out its responsibilities.

Conclusion

It is my belief, your Inspector General's Office **generally conforms** with the *Standards* in all areas. All members of management interviewed were complementary of the Office and their interaction with audit clients throughout the University. This level of satisfaction was reflected in the audit client satisfaction surveys I reviewed.

Prior to my review, Mr. Barnett prepared a self-assessment of his office. In my opinion, his self-assessment was conducted in a professional manner, and was comprehensive.

The following table shows my conclusions regarding the level of conformance of the Inspector General's Office activities with relevant sections of the *IIA Standards*:

Standard Type and Description	Opinion
<i>Attribute Standards:</i>	
1000 - Purpose, Authority, and Responsibility	Generally Conforms
1100 - Independence and Objectivity	Generally Conforms
1200 - Proficiency and Due Professional Care	Generally Conforms
1300 - Quality Assurance and Improvement Program	Generally Conforms
<i>Performance Standards:</i>	
2000 - Managing the Internal Audit Activity	Generally Conforms
2100 - Nature of Work	Generally Conforms
2200 - Engagement Planning	Generally Conforms
2300 - Performing the Engagement	Generally Conforms
2400 - Communicating Results	Generally Conforms
2500 - Monitoring Progress	Generally Conforms
2600 - The Management's Acceptance of Risks	Generally Conforms
The Institute of Internal Auditors' <i>Code of Ethics</i>	Generally Conforms

Opportunities for Improvement

The following are some observations to strengthen the effectiveness of your Inspector General's Office:

1. Audit Committees perform critical oversight functions. As such, it would be prudent to have your institution's audit committee's responsibilities documented and approved by your Board of Trustees.

Suggestion: Request that your Audit and Finance Committee develop a formal charter which defines its role, functions, responsibilities and criteria for membership as they relate to audit issues, including the university's internal audit function, and seek charter approval from your Board of Trustees.

2. There should be opportunities for private meetings between the Chair of the Audit and Finance Committee and the Inspector General to discuss issues without any management official present. Since establishment of the Board of Trustees, audit committee contact with the internal auditors has primarily been at its public meetings.

Suggestion: The Chair of the Audit and Finance Committee should periodically meet with the Inspector General in private in order to discuss any issue without any university administrator present.

3. A complaint intake system is essential to give anyone in the organization an opportunity to communicate with the Inspector General in a confidential manner. Currently, the Inspector General's Office relies on the State of Florida's Department of Financial Services' GetLean hotline for receiving confidential complaints.

Suggestion: As an additional means of receiving anonymous complaints of possible fraud, waste, or abuse at the university, establish an online, in-house, complaint intake process to give the FAU community an opportunity to communicate with the Inspector General's Office.

4. Broaden the Inspector General Office's visibility in your campus community, which will increase the awareness of what the office does and its importance for governance and protecting the University's resources.

Suggestions:

- In addition to contact related to scheduled audits and special projects, the Inspector General and his staff should periodically meet with key officers at the outlying partner campuses.
- Post the Inspector General's annual report on the department's webpage.
- At new employees' orientation, distribute information about the Office of Inspector General.
- Encourage the Office of Inspector General's staff to interact with other University personnel during community-related activities to establish and strengthen professional relationships.

Acknowledgment of Thanks

I would like to acknowledge the assistance and courtesies provided to me by Mr. Morley Barnett and his staff prior to and during my review. I would also like to thank both of you and key members of your staff for meeting with me to share your perspectives about the control environment at FAU and your experiences interacting with your Inspector General's Office.

Sincerely,



Marty Z. Khan, Ed.D.
Director, Internal Auditing

Copy: Mr. Morley Barnett, Inspector General, Florida Atlantic University