



Item: AF: I-1

AUDIT AND FINANCE COMMITTEE
Thursday, April 19, 2012

SUBJECT: REVIEW OF THE QUALITY ASSESSMENT REPORT FOR THE OFFICE OF INSPECTOR GENERAL FOR THE FIVE-YEAR PERIOD ENDED JUNE 30, 2011

PROPOSED COMMITTEE ACTION

None: for 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 February 2012 by Mr. Allen Vann, FIU Audit Director. Quality assessment reviews are 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's observations and suggestions noted in the report reflect issues that are mainly attributable to budgetary constraints, and not to OIG core operations.

IMPLEMENTATION PLAN/DATE

As soon as practicable

FISCAL IMPLICATIONS

Budgeted funds for external information technology assessment and some increased funding for OIG operations.

Supporting Documentation: Quality Assessment Review report dated February 3, 2012 and OIG response dated February 17, 2012

Presented by: Mr. Morley Barnett, Inspector General

Phone: 561-297-3682



OFFICE OF INTERNAL AUDIT

February 3, 2012

Mr. Morley Barnett
Inspector General
Florida Atlantic University
777 Glades Road ADM-293
Boca Raton, FL 33431

Dear Mr. Barnett:

This letter summarizes the results of my independent validation of Florida Atlantic University (FAU) Office of Inspector General's Quality Assurance Self-assessment. The primary objective of the validation was to verify the assertions made in the attached quality self-assessment report prepared by your office concerning adequate fulfillment of the University's basic expectations that its internal audit function conforms to The Institute of Internal Auditors' (IIA) International Standards for the Professional Practice of Internal Auditing. Other matters that might have been covered in a full independent assessment, such as consulting services performed by your office, were excluded from the scope of this independent validation.

The validation covered the five year period ending June 30, 2011 and primarily consisted of a review and testing of your procedures and the results of your self-assessment. I appreciated the courtesies and assistance that you and your staff extended to me during my on-site work, as well as from the other individuals who provided their input, including the Board of Trustees' Audit and Finance Committee Chair, the President, Chief Financial Officer and Chief Information Officer.

I concur fully with the conclusions in the attached self-assessment report. Furthermore, I am pleased to report that FAU has a vibrant and strong internal audit function. In particular:

1. The audit staff exhibits a high level of skills, experience and professionalism,
2. There is strong governance through a direct reporting relationship to the BOT Audit & Finance Committee, which promotes the independence and objectivity of the internal audit function,
3. Reports are fully supported by comprehensive working papers, and
4. Audit staff's commitment and focus on risk assessment and on internal control evaluation is evident.

FAU/OIG Quality Assurance Independent Validation

February 3, 2012

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Notwithstanding the above, the following areas represent issues that arose through the Quality Assurance process indicating limitations to the value added provided by the OIG as envisioned by The Institute of Internal Auditors' Professional Practices Framework and observable challenges to the continued sustainability of the internal audit function at its current high level:

1. Is sufficient attention given to auditing information technology?

Observation: The OIG does not have a dedicated IT auditor. Because "all internal auditors are not expected to have the expertise of an auditor whose primary responsibility is information technology auditing" (IIA§1210.A3) only very basic IT control elements are considered within the scope of the OIG's individual audits. Based on FAU's current operations and its dependence on technology, the employment of an individual with a special level of IT audit proficiency, e.g., a Certified Information Systems Auditor would enable the OIG to address specific IT risks and controls not currently within its capability.

2. Are funding, technology and other resources sufficient to fulfill the OIG mission?

Observation: Since the last Quality Assurance review, which was conducted in 2006, University budget constraints and cost cutting measures have had substantial impact on the internal audits core mission. The expense budget has been cut by 2/3. For example, other than personnel service expenses represent only 2% of the OIG's budget. While larger departments at the University may be able to sustain large cuts in administrative costs, proportionate cuts to the OIG, a small unit has had a much more severe impact:

- Training - FAU's internal audit staff needs to stay informed and maintain their proficiency in current developments in internal audit standards, procedures, and techniques. Attending conferences, seminars, self-study courses and other training opportunities are typically used by internal audit organizations to fulfill the mandatory *Continuing Professional Development* standard (IIA§1230). The OIG has met this standard quantitatively by attending local accounting seminars and free webinars. However, due to budget, the audit staff has not been able to take full advantage of continuing education offered to internal auditors in the higher education field, such as conferences sponsored by the Association of College and University Auditors (ACUA).
- Administrative staff – Due to budget cuts the OIG lost its clerical staff/program assistant. Administrative functions, which would normally be performed by clerical staff, are handled by the professional audit staff or the Inspector General himself, which reduces their availability to perform audit work. This is not an efficient or cost effective use of the professional staff.
- Technology – Extensive and productive use of technology is a necessity for internal auditors in order for them to be successful and efficient in performing their audit fieldwork. The four professional staff members in the Office of Inspector General are assigned personal computers that are over four years old and share one laptop that is over three years old. Currently, there are no plans or budgeted funds available for replacement.

Recommendation: The Inspector General should communicate annually with the Board of Trustee's Audit and Finance Committee and the President on scope and resource limitations.

Thank you for the opportunity to perform this independent validation of your Quality Assessment of FAU's internal audit function. Please feel free to contact me if you have any questions or require further details concerning my review.

Sincerely,

A handwritten signature in blue ink that reads "Allen Vann". The signature is written in a cursive, flowing style.

Allen Vann, CPA
Audit Director

C: Anthony Barbar, Chair, Board of Trustees, Audit & Finance Committee, Florida Atlantic University
Mary Jane Saunders, University President, Florida Atlantic University

Attachment:

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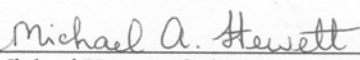
November 30, 2011

Mr. Morley Barnett
Inspector General
Florida Atlantic University
Boca Raton, Florida

Dear Mr. Barnett,

Pursuant to Standard 1312, *External Assessments*, of the Institute of Internal Auditors (IIA), the Office of Inspector General (OIG) has recently undertaken a self-assessment of its activities which will be further evaluated by an independent external reviewer. A Quality Assessment Review (QAR) questionnaire related to activities and administration of the internal audit function at Florida Atlantic University has been completed as the primary basis to determine whether the OIG is in compliance with the international standards of the IIA.

In the near future, an independent peer review will be conducted by Mr. Allen Vann, Audit Director of Florida International University. The objective of his review is to validate the results of the self-assessment and express an opinion about the indicated level of the OIG's conformity with the IIA standards. In my judgment, the internal audit activities of our office are being conducted in general compliance with IIA's standards. Notwithstanding this conclusion, I believe that the self-assessment process will have its greatest meaning if the peer reviewer's conclusion validates my opinion. Mr. Vann expects to issue his report by January 2012. My conclusion that OIG is in general compliance with IIA's standards, including the institute's code of ethics, does recognize that minor revisions were needed and have been made to OIG's internal audit charter. It is anticipated that the revised charter will be approved by the appropriate parties in the near future.


Michael Hewett, CIA, CBA, CFSA, CGAP
Assistant OIG Director

cc: Dr. Mary J. Saunders, President
Anthony Barbar, Chair - BOT Audit and Finance Committee

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MEMORANDUM

TO: Dr. Mary J. Saunders
President

FROM: Morley Barnett 
Inspector General

DATE: February 17, 2012

SUBJECT: Responses to Quality Assurance observations

We have expressed our deep appreciation to Mr. Allen Vann, FIU Internal Auditor, for his review of the internal audit function at FAU for the five-year period ending June 30, 2011. We believe his report is fair and informative and I am pleased that he concluded that our operations comply with the International Standards for the Professional Practice of Internal Auditing set by the Institute of Internal Auditors.

The following are my responses to Mr. Vann's observations detailed in his independent validation report on Quality Assessment Review:

1. Insufficient attention given to auditing information technology (IT)

It is a well-recognized fact that technological advances have become a driving force in conducting business in our modern world and the risks associated with the use of technology continue to pose threats to individuals as well as institutions with which they do business. Currently, IT risks are evaluated by Information Resource Management and other qualified university personnel through on-going policies and procedures reviews, vulnerability testing of networks, and an annual risk survey completed at the request of the Florida Auditor General.

We recognize that higher-education institutions are inherently vulnerable to technological threats and appreciate Mr. Vann's recommendation to consider hiring a dedicated IT auditor. However, in discussing alternative considerations for addressing technological risks, senior management believes that periodic, independent IT risk reviews are an acceptable and economical means of evaluating FAU's exposures and making recommendations to reduce internal and external threats. In light of these circumstances, the Office of Inspector General recommends that an independent review of the university's IT environment be conducted at least every 2 - 3 years.

2. Inadequate funding, technology, and other resources to fulfill the OIG mission

Additional analysis will be made for future budgets to ensure that the needs of the internal audit function are adequately funded.

cc: Mr. Anthony Barbar, Chair - BOT Audit and Finance Committee

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