

**AUDIT AND COMPLIANCE COMMITTEE**  
Tuesday, May 16, 2017

**SUBJECT: REVIEW OF THE QUALITY ASSESSMENT REPORT FOR THE OFFICE OF INSPECTOR GENERAL FOR THE FIVE-YEAR PERIOD ENDED JUNE 30, 2016**

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**PROPOSED COMMITTEE ACTION**

Informational 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 March 2017 by Ms. Marion Candrea, Manager of Audit and Advisory Services - Rutgers University. Quality assessment reviews are required at least every five years to determine the level of compliance with IIA standards, and covers governance and operational issues of interest to the Audit and Compliance Committee and senior management.

As a result of the review, it was determined that the Office of Inspector General (OIG) generally conformed to IIA standards. The external reviewer's two main observations focused on opportunities to strengthen OIG operations through increased communications with the Audit and Compliance Committee chair and expanding the scope of our work plans.

**IMPLEMENTATION PLAN/DATE**

As soon as practicable

**FISCAL IMPLICATIONS**

Not applicable.

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**Supporting Documentation:** Quality Assessment Review report dated March 30, 2017 and  
OIG response dated April 7, 2017

**Presented by:** Mr. Morley Barnett, Inspector General

**Phone:** 561-297-3682



**Florida Atlantic University**  
**External Validation of Self-Assessment**

Performed by: Marion L. Candrea, CIA, CFE  
*Rutgers University – Manager of Audit and Advisory Services*

Issued: March 30, 2017

March 30, 2017

Morley Barnett, CPA, CFE  
Inspector General  
Office of Inspector General  
777 Glades Road - IS4/213  
Boca Raton, FL 33431

Dear Mr. Barnett:

At your request, I have conducted an external quality assessment (QA) validation of Florida Atlantic University (FAU) Office of Inspector General's quality assurance self-assessment. This review was conducted on-site the week of February 21 – February 23, 2017. I have reviewed the FAU internal audit function and operations for conformance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing (IIA Standards)*.

#### **BACKGROUND**

The *IIA Standards* require external assessments to be performed at least once every five years by a qualified, independent reviewer or review team from outside the organization. I performed this review using the IIA's 2013 *Quality Assessment Manual for the Internal Activity* as a reference guide.

#### **OBJECTIVES**

The principal objective of the review was to verify assertions made in the attached self-assessment report prepared by your office assessing FAU's conformity to the *IIA Standards*. This review also aims to evaluate FAU's effectiveness in carrying out its mission as set forth in its charter and expressed in the expectations of management, and identify opportunities to enhance its management and work processes, as well as its value to the University.

#### **SCOPE**

This review covered the internal audit activity performed during fiscal year 2015-2016. The scope of this review included:

- Review of the self-assessment report dated February 10, 2017, and supporting materials prepared by FAU;
- Review of the previous external quality assurance report issued on February 3, 2012;
- Interviews with the President and key senior administrators at FAU;
- Interviews with the Inspector General and members of his staff;
- Examination of a sample of work papers and reports produced by FAU; and
- A comparison of FAU's audit practices with the *IIA Standards*.

#### **OVERALL OPINION**

I concur with the conclusions in the attached self-assessment report and believe that the Office of the Inspector General **generally conformed** in all material respects to the *IIA Standards* and the *IIA Code of Ethics* during the period under review.

The rating system that was 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 FAU has policies, procedures, and a charter that were judged to be in accordance with the *IIA Standards*; however, opportunities for improvement may exist. "Partially Conforms" means deficiencies, while they might impair, did not prohibit FAU 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 FAU from carrying out its responsibilities.

The table in Appendix A lists my opinion of FAU'S Office of Inspector General conformance to the specific sections of the *IIA Standards*.

### **LEADING PRACTICES**

Throughout the review, the Office of Inspector General demonstrated some leading practices in its processes and procedures for operating in conformance with the *IIA Standards*. Listed below are a few examples of these observations:

- All reports and internal initiatives are fully supported by complete and comprehensive work papers
- The department consistently tracks and monitors management progress on audit recommendations, not only for its own audits, but also for any recommendations originating from a state audit
- The audit staff exhibits a high-level of professionalism, which was echoed in interviews with key members of management at the university
- The Office of Inspector General successfully coordinates its efforts with the Florida Auditor General, federal auditors, and other governing bodies and external auditors to avoid duplication of work
- Collectively, the Office brings over 60 years of institutional knowledge to its audit and advisory projects

### **OPPORTUNITIES TO STRENGTHEN OPERATIONS**

Along with the observations described in the 2017 self-assessment report, the following items listed below represent additional opportunities for improvement identified during the review, which may enhance Office of Inspector General operations and value added activities within FAU.

*Strengthening Communication with and Oversight by the Audit and Compliance Committee* – Based on interviews with various stakeholders having governance responsibilities and a review of critical documents affecting the university’s internal audit function, opportunities remain for the Board of Trustees (BOT) Audit and Compliance Committee and the Inspector General to further comply with the spirit of *IIA Standards* related to oversight and independence. Specifically, I recommend that the Inspector General conduct more frequent communication with the BOT Audit and Compliance Committee Chair. In addition, to promote independence, the new BOT Audit and Compliance Committee charter—currently in draft—should reiterate the responsibility of the committee to approve the appointment, removal, and compensation level of the inspector general position.

*Expanding the breadth of the Office of Inspector General Work Plan* – Survey and interview results indicated that the Office of Inspector General may be focusing a significant portion of its annual work plan on traditional operational/compliance risk areas. Excluding high-level strategic or reputational risks in the annual work plan may leave FAU more vulnerable to these already high-risk areas. It is my understanding that FAU is in the research and planning phase of implementing an enterprise risk management (ERM) process. I recommend that the Inspector General play a role in the ERM process. Additionally, once FAU identifies its high priority risks, the Inspector General should incorporate at least one or two of these areas into the annual work plan and continue to do so each year as the risks evolve.

Thank you for the opportunity to perform this independent validation of your Quality Assurance Self-assessment. I appreciate the cooperation and assistance provided throughout the course of this review by the FAU President and key senior administrators, and, of course, the Office of Inspector General management and staff.

Sincerely,



Marion L. Candrea, CIA, CFE  
Rutgers University

**Attribute Standards**

Standard	GC	PC	DNC
<b>1000 Purpose, Authority, and Responsibility</b>	<b>X</b>		
<i>1010 – Recognition in the Internal Audit Charter</i>	X		
<b>1100 Independence and Objectivity</b>	<b>X</b>		
<i>1110 – Organizational Independence</i>		X	
<i>1111 – Direct Interaction with the Board</i>	X		
<i>1120 – Individual Objectivity</i>	X		
<i>1130 – Impairments to the Independence or Objectivity</i>	X		
<b>1200 Proficiency and Due Professional Care</b>	<b>X</b>		
<i>1210 – Proficiency</i>	X		
<i>1220 – Due Professional Care</i>	X		
<i>1230 – Continuing Professional Development</i>	X		
<b>1300 Quality Assurance Improvement Program</b>	<b>X</b>		
<i>1310 – Quality Program Assessments</i>	X		
<i>1311 – Internal Assessments</i>		X	
<i>1312 – External Assessments</i>	X		
<i>1320 – Reporting on the Quality Program</i>	X		
<i>1330 – Use of “Conducted in Accordance with Standards”</i>	X		
<i>1340 – Disclosure of Noncompliance</i>	X		

**Performance Standards**

Standard	GC	PC	DNC
<b>2000 Managing the Internal Audit Activity</b>	<b>X</b>		
<i>2010 – Planning</i>		X	
<i>2020 – Communication and Approval</i>	X		
<i>2030 – Resource Management</i>		X	
<i>2040 – Policies and Procedures</i>	X		
<i>2050 – Coordination</i>	X		
<i>2060 – Reporting to the Board and Senior Management</i>	X		
<i>2070 – External Service Provider and Organizational Responsibility for IA</i>	X		
<b>2100 Nature of Work</b>	<b>X</b>		
<i>2110 – Governance</i>	X		
<i>2120 – Risk Management</i>	X		
<i>2130 – Control</i>	X		
<b>2200 Engagement Planning</b>	<b>X</b>		
<i>2201 – Planning Considerations</i>	X		
<i>2210 – Engagement Objectives</i>	X		
<i>2220 – Engagement Scope</i>	X		
<i>2230 – Engagement Resource Allocation</i>	X		
<i>2240 – Engagement Work Program</i>	X		
<b>2300 Performing the Engagement</b>	<b>X</b>		
<i>2310 – Identifying Information</i>	X		
<i>2320 – Analysis and Evaluation</i>	X		
<i>2330 – Documenting Information</i>	X		
<i>2340 – Engagement Supervision</i>	X		
<b>2400 Communicating Results</b>	<b>X</b>		
<i>2410 – Criteria for Communication</i>	X		
<i>2420 – Quality of Communications</i>	X		
<i>2421 – Errors and Omissions</i>	X		
<i>2430 – Engagement Disclosure of Noncompliance with Standards</i>	X		
<i>2440 – Disseminating Results</i>	X		
<i>2450 – Overall Opinions</i>	X		
<b>2500 Monitoring Progress</b>	<b>X</b>		
<b>2600 Management’s Acceptance of Risks</b>	<b>X</b>		



February 10, 2017

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 for this internal self-assessment to determine whether the OIG is in compliance with the international standards of the IIA.

The internal self-assessment has concluded that the OIG is being administered and operated in general conformance with the IIA standards. Notwithstanding this conclusion, the following areas have been identified for improvement:

- Additional steps are necessary for a more comprehensive and ongoing Quality Assurance and Improvement Program (QAIP). Although our ongoing quality monitoring for internal audits is reasonable, the standards also require periodic assessments by a competent audit professional - external to the department - to evaluate the performance of internal audit at a point in time. Results of these periodic assessments, including any follow-up on prior recommendations, are to be reported to the Board of Trustees (BOT) audit and compliance committee. A periodic review every two years has been deemed adequate;
- There is a need for revision of our operations manual and internal audit charter. These revisions were completed in January 2017 to reflect, among other things, Board of Governors Regulation 4.002, *State University System Chief Audit Executives*, and the periodic assessments for the QAIP as discussed above. The draft of our revised charter will be submitted to the BOT audit and compliance committee for approval in the future;
- There should be more frequent and in-depth communication between the Inspector General (IG) and the BOT audit and compliance committee chair in keeping with our charter and that of the committee; and,

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- Consideration needs to be given as to how the OIG might better address information technology (IT) risks. Longer term options include the implementation of a form of continuous auditing or monitoring, while short term options include the IG's continued recommendation - to senior management and the BOT audit and compliance committee - of periodic external IT assessments.

In the very near future, an independent peer review of our office will be conducted by Ms. Marion Candrea, Audit & Advisory Services Manager – Rutgers University. The objective of her review is to validate the results of the self-assessment and express an opinion regarding the indicated level of the OIG's conformity with the IIA standards. Although I consider the internal audit activities of our office to be in general compliance with IIA standards, I believe the external assessment process will have its greatest meaning by acceptance of the peer reviewer's conclusions, and recommendations, if any. Ms. Candrea is expected to issue her report during the month of March 2017.

Sincerely,




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

cc: Dr. John Kelly, President  
Mr. Thomas Workman, Jr., Chairman, BOT Audit and Finance Committee

**FAU**  
FLORIDA ATLANTIC  
UNIVERSITY

MEMORANDUM

TO: Dr. John Kelly  
President

FROM: Morley Barnett   
Inspector General

DATE: April 7, 2017

SUBJECT: Responses to 2016 External Quality Assessment report

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We are deeply appreciative to Ms. Marion Candrea of Rutgers University for her independent assessment of the internal audit function at FAU for the five-year period ending June 30, 2016. We believe her report is fair and informative, and I am pleased that she has concluded that our operations “generally conform” - the highest possible rating - with the International Standards for the Professional Practice of Internal Auditing set by the Institute of Internal Auditors.

The following are my responses to Ms. Candrea’s observations detailed in her independent validation report on our Quality Assurance Self-assessment:

1. Strengthening Communication with and Oversight by the Audit and Compliance Committee

The inspector general agrees with Ms. Candrea’s conclusion that greater communication with the committee chair will be beneficial for both parties and looks forward to productive, on-going conversations. Further, the governance role of the committee is properly recognized by Ms. Candrea and the inspector general expects that the new charter will appropriately reflect best practices with respect to the university’s chief audit executive position.

2. Expanding the breadth of the Office of Inspector General Work Plan

The Office of Inspector General looks forward to a more holistic approach for management to identify and manage various risks facing the university. Implementation of an enterprise risk management process will undoubtedly expand the scope of our audits and consulting projects. This should prove to be a positive and logical means by which the internal audit function can add more value to the university and support its strategic plan.

cc: Mr. Anthony Barbar, Chair - Board of Trustees  
Mr. Shaun Davis, Chair - BOT Audit and Compliance Committee

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