

# **FLORIDA STATE UNIVERSITY**

## **Office of Inspector General Services**

### **Report #17-06**



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## **Self-Assessment with External Independent Validation**

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## Executive Summary

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The Florida State University Office of Inspector General Services (OIGS) has completed an internal quality assessment review (QAR) of the internal audit activity in preparation for validation by an external independent assessor. The principle objectives of the QAR were to assess the internal audit activity's conformance to The Institute of Internal Auditor (IIA)'s *International Standards for the Professional Practice of Internal Auditing (Standards)* and to identify opportunities for enhancement.

Our review included an evaluation of OIGS's risk assessment and audit planning processes, audit tools and methodologies utilized, and engagement and staff management processes. Based on our review, OIGS **generally conforms** to the IIA Attribute and Performance Standards, and the Code of Ethics. "Generally conforms" means that there is a general conformity to a majority of the individual standards and partial conformity to the others, within the section/category.

Our review of the internal audit activity indicated that OIGS is effectively positioned within the organization to enable it to effectively discharge its responsibilities as defined by the Audit Charter. The established reporting relationship with senior management and the Board of Trustees Finance, Business, and Audit Committee ensures OIGS's independence and adequate consideration of audit recommendations.

We have also concluded that the internal audit environment is well structured and utilized a disciplined approach to evaluating and improving risk management, control, compliance, and governance processes. The *Standards* are well understood by the OIGS team, who receive ongoing professional training. OIGS team members are highly credentialed, with over half of the audit team possessing a master's degree, a range of seven to 47 years of experience per team member, and all staff possess at least one professional certification (e.g., Certified Public Accountant, Certified Internal Auditor).

We have four recommendations based upon the IIA Practice Advisories and other best practice guidance to improve the effectiveness of the internal audit program at Florida State University.

## Opinion as to Conformance with the Standards

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It is our overall opinion that the internal audit activity generally conforms with the *Standards* and Code of Ethics. For a detailed list of conformance with individual *Standards*, please see Attachment A.

The IIA's *Quality Assessment Manual* suggests a scale of three ratings, "Generally Conforms", "Partially Conforms", and "Does Not Conform." "Generally Conforms" means that an internal audit activity has a charter, policies, and processes that are judged to be in conformance with the *Standards*. "Partially Conforms" means deficiencies in practice are noted that are judged to deviate from the *Standards*, but these deficiencies did not preclude the internal audit activity from performing its responsibilities in an acceptable manner. "Does Not Conform" means deficiencies in practice are judged to be so significant as to seriously impair or preclude the internal audit activity from performing adequately in all or in significant areas of its responsibilities.

## Scope, Objectives, and Methodology

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The scope of our self-assessment was to review OIGS operations for the period October 2011 through September 2016.

The primary objectives of the self-assessment were to: (1) evaluate the OIGS's conformance with the IIA's *International Standards for the Professional Practice of Internal Auditing* and (2) identify opportunities for enhancement.

To accomplish the objectives, we reviewed the OIGS Audit Charter, Operations Manual, annual risk assessment, annual Audit Plan, Annual Report, selected working papers, and other relevant documents.

## Background

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The *Standards* require internal audit departments to develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity. The program should include both internal and external assessments designed to enable an evaluation of the internal audit activity's conformance with the standards established by the IIA, and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement. According to the *Standards*, the quality assurance and improvement program must include:

- Ongoing monitoring of the performance of the internal audit department activity. This includes day-to-day supervision, review, and measurement of the internal audit activity.
- Periodic reviews to evaluate conformance with the Definition of Internal Auditing, the Code of Ethics, and the *Standards*.
- External assessments, conducted at least once every five years.

## Observations, Recommendations, and Responses

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### *Standard 1320 – Reporting on the Quality Assurance and Improvement Program*

Standard 1320 – Reporting on the Quality Assurance and Improvement Program – The CAO must communicate the results of the quality assurance and improvement program to senior management and the board.

#### *Interpretation:*

*The form, content, and frequency of communicating the results of the quality assurance and improvement program is established through discussions with senior management and the board and considers the responsibilities of the internal audit activity and chief audit executive as contained in the internal audit charter. To demonstrate conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards, the results of external and periodic internal assessments are communicated upon completion*

*of such assessments and the results of ongoing monitoring are communicated at least annually. The results include the assessor's or assessment team's evaluation with respect to the degree of conformance.*

The CAO has implemented a quality assurance and improvement program to help the internal audit activity add value and improve the operations of the University. The internal audit operating manual was developed to provide guidance to accomplish duties and responsibilities outlined in the Audit Charter. Aspects of an internal quality assurance program are built into the performance process for all audit projects. Several processes are in place to ensure employees are evaluated and receive feedback regarding their performance. In addition, post project surveys are conducted on each audit project, which provides OIGS with management's feedback.

An annual report is submitted to the University President and Board of Trustees with information on the activity of OIGS. The annual report as well as each report issued to the Board of Trustees states "internal audits are conducted in conformance with *The International Standards for the Professional Practice of Internal Auditing*." In addition, the President and Board of Trustees were provided the previous external quality assurance report for their review. Even so, the OIGS should annually communicate with the Board the results of periodic internal assessments and ongoing monitoring.

We recommend that OIGS provide more detail to the Board of Trustees on ongoing monitoring and periodic internal assessments performed.

### **Management's Response:**

The OIGS can improve communications with the BOT Business, Finance and Audit Committee by providing a periodic summary of internal assessments.

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## **Standard 2240 – Engagement Work Program**

Standard 2240 – Engagement Work Program – Internal auditors must develop and document work programs that achieve the engagement objectives.

Standard 2240.A1 – Work programs must include the procedures for identifying, analyzing, evaluating, and documenting information during the engagement. The work program must be approved prior to its implementation, and any adjustments approved promptly.

The internal audit operations manual states “*After all preliminary work has been conducted; the auditor should develop an audit program that achieves the engagement objectives. The audit program should establish the procedures for identifying, analyzing, evaluating and recording information during the engagement. An audit program template resides in Audit Leverage (AL – audit software) and should be the beginning point for developing the audit program. Once the audit program has been completed, it shall be reviewed and approved by the Director. After any revisions are made, the audit program shall be reviewed and approved, within AL, by the CAO.*”

We sampled audit projects that were completed during the period of July 1, 2015 through September 30, 2016. While it is common practice for the auditor to develop detailed audit steps for each objective and to discuss the planned audit steps with the appropriate supervisor and CAO prior to beginning fieldwork, the approval is not always formally documented until the end of the project. For four of the eight audit projects in our sample, there was no formal documentation that the audit program had been approved prior to implementation.

We recommend that the audit program be formally approved by the audit supervisor prior to beginning fieldwork.

Four of the eight audit projects did not document the CAO approved audit program steps, a procedure included in the internal audit operating manual for the CAO. Such CAO approval is not required by the *Standards* and may be delegated based on experience of staff members.

We recommend that the OIGS review the operating manual and update the procedures based on current practice of reviewing the audit program.

### **Management’s Response:**

For each audit, the audit supervisor works closely with staff in development of and subsequent amendments to the audit program.

Going forward, more care will be taken to document formal audit program approval prior to implementation.

The OIGS will update the operating manual to describe the level of CAO delegation of audit program approval going forward. Such delegation will be based upon the complexity of the audit and experience of assigned staff. Currently, the CAO has a very high level of confidence in the Audit Directors as each has over 30 years audit experience. In addition, all staff are classified at the Senior (Audit Administrator) level.

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### **Standard 2340 – Engagement Supervision**

Standard 2340 – Engagement Supervision – Engagements must be properly supervised to ensure objectives are achieved, quality is assured, and staff is developed.

#### *Interpretation:*

*The extent of supervision required will depend on the proficiency and experience of internal auditors and the complexity of the engagement. The CAO has overall responsibility for supervising the engagement, whether performed by or for the internal audit activity, but may designate appropriately experienced members of the internal audit activity to perform the review. Appropriate evidence of supervision is documented and retained.*

The internal audit operations manual states “*the review process will be documented within the audit software through appropriate sign offs and review notes.*”

While the audit director and CAO do review the workpapers throughout the engagement, there were some audit steps that were not formally signed off in the audit software for two of eight projects sampled. This was not a *Standards* issue as there is significant evidence of supervisor and CAO review of audit working papers and the resulting reports.

We recommend that the OIGS review the operating manual and update the procedures for the level of sign offs for audit steps based on current practice of engagement supervision.

**Management's Response:**

The CAO is very confident that every audit is appropriately supervised throughout the audit engagement. However, for some audits, the sign-off of certain steps may not have been documented by the audit director/CAO. The operating manual will be updated to describe the level of sign-offs needed based on current practice and compliance with the *Standards*.

Self-Assessment conducted by: Jeffrey Caines, CIA, CGAP, CFE  
Heather Harrell, CPA

## Attachment A

### Quality Assessment Evaluation Summary

| Quality Assessment Evaluation Summary – Major/Supporting Standards                                                                    | GC | PC | DNC |
|---------------------------------------------------------------------------------------------------------------------------------------|----|----|-----|
| <b>1000 – Purpose, Authority, and Responsibility</b>                                                                                  | X  |    |     |
| 1010 – Recognition of the Definition of Internal Auditing, the Code of Ethics, and the <i>Standards</i> in the Internal Audit Charter | X  |    |     |
| <b>1100 – Independence and Objectivity</b>                                                                                            | X  |    |     |
| 1110 – Organizational Independence                                                                                                    | X  |    |     |
| 1111 – Direct Interaction with the Board                                                                                              | X  |    |     |
| 1120 – Individual Objectivity                                                                                                         | X  |    |     |
| 1130 – Impairment to Independence or Objectivity                                                                                      | X  |    |     |
| <b>1200 – Proficiency and Due Professional Care</b>                                                                                   | X  |    |     |
| 1210 – Proficiency                                                                                                                    | X  |    |     |
| 1220 – Due Professional Care                                                                                                          | X  |    |     |
| 1230 – Continuing Professional Development                                                                                            | X  |    |     |
| <b>1300 – Quality Assurance and Improvement Program</b>                                                                               | X  |    |     |
| 1310 – Requirements of the Quality Assurance and Improvement Program                                                                  | X  |    |     |
| 1311 – Internal Assessments                                                                                                           | X  |    |     |
| 1312 – External Assessments                                                                                                           | X  |    |     |
| 1320 – Reporting on the Quality Assurance and Improvement Program                                                                     | X  |    |     |
| 1321 – Use of “Conforms with the <i>International Standards for the Professional Practice of Internal Auditing</i> ”                  | X  |    |     |
| 1322 – Disclosure of Nonconformance                                                                                                   | X  |    |     |
| <b>2000 – Managing the Internal Audit Activity</b>                                                                                    | X  |    |     |
| 2010 – Planning                                                                                                                       | X  |    |     |
| 2020 – Communication and Approval                                                                                                     | X  |    |     |
| 2030 – Resource Management                                                                                                            | X  |    |     |
| 2040 – Policies and Procedures                                                                                                        | X  |    |     |
| 2050 – Coordination                                                                                                                   | X  |    |     |
| 2060 – Reporting to Senior Management and the Board                                                                                   | X  |    |     |
| 2070 – External Service Provider and Organizational Responsibility for Internal Auditing                                              | X  |    |     |
| <b>2100 – Nature of Work</b>                                                                                                          | X  |    |     |

|                                                                                                                                      |   |  |  |
|--------------------------------------------------------------------------------------------------------------------------------------|---|--|--|
| 2110 – Governance                                                                                                                    | X |  |  |
| 2120 – Risk Management                                                                                                               | X |  |  |
| 2130 – Control                                                                                                                       | X |  |  |
| <b>2200 – Engagement Planning</b>                                                                                                    | X |  |  |
| 2201 – Planning Considerations                                                                                                       | X |  |  |
| 2210 – Engagement Objectives                                                                                                         | X |  |  |
| 2220 – Engagement Scope                                                                                                              | X |  |  |
| 2230 – Engagement Resource Allocation                                                                                                | X |  |  |
| 2240 – Engagement Work Program                                                                                                       | X |  |  |
| <b>2300 – Performing the Engagement</b>                                                                                              | X |  |  |
| 2310 – Identifying Information                                                                                                       | X |  |  |
| 2320 – Analysis and Evaluation                                                                                                       | X |  |  |
| 2330 – Documenting Information                                                                                                       | X |  |  |
| 2340 – Engagement Supervision                                                                                                        | X |  |  |
| <b>2400 – Communicating Results</b>                                                                                                  | X |  |  |
| 2410 – Criteria for Communicating                                                                                                    | X |  |  |
| 2420 – Quality of Communications                                                                                                     | X |  |  |
| 2421 – Errors and Omissions                                                                                                          | X |  |  |
| 2430 – Use of “Conducted in Conformance with the <i>International Standards for the Professional Practice of Internal Auditing</i> ” | X |  |  |
| 2431 – Engagement Disclosure of Nonconformance                                                                                       | X |  |  |
| 2440 – Disseminating Results                                                                                                         | X |  |  |
| 2450 – Overall Opinions                                                                                                              | X |  |  |
| <b>2500 – Monitoring Progress</b>                                                                                                    | X |  |  |
| <b>2600 – Communicating the Acceptance of Risks</b>                                                                                  | X |  |  |
| <b>The IIA’s Code of Ethics</b>                                                                                                      | X |  |  |