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External Quality Assessment Of

The University Of Florida's Office Of Audit & Compliance Review

May 2012

Prepared By:

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Pursuant to the engagement letter dated December 15, 2011, we hereby submit our Quality Assessment Report of the Office of Audit & Compliance Review (OACR) internal audit activity at the University of Florida (UF or the University). We will be presenting this report to the Audit Committee at the next scheduled meeting on June 7, 2012.

As requested by the chief audit executive (CAE), the OACR internal audit activity underwent an external quality assessment review (QAR) by a team of independent reviewers from 3 peer institutions (Auburn University, Duke University and Florida State University) led by McGladrey. The principal objectives of the QAR were to assess the OACR's activity's conformance to The IIA's *International Standards for the Professional Practice of Internal Auditing Standards (Standards)*, evaluate OACR's effectiveness in carrying out its mission as set forth in its charter and expressed in the expectations of UF's management, and identify opportunities to enhance its management and work processes, as well as its value to the University.

Opinion As To Conformance To The *Standards*

It is our overall opinion that the UF Office of Audit & Compliance Review generally conforms to the *Standards* and Code of Ethics. This opinion means policies, procedures and practices are in place to implement the standards and requirements necessary for ensuring independence, objectivity and proficiency of the internal audit function. The OACR is highly respected throughout the University, well managed, utilizes a systematic approach to improve UF's operations and employs qualified personnel. The OACR is a first rate organization which demonstrates several positive attributes noted below. For a detailed list of conformance to individual *Standards*, please see Attachment A. The QAR team identified opportunities for further improvement, details of which are provided in this report.

The IIA's *Quality Assessment Manual* suggests a scale of three ratings, "generally conforms," "partially conforms," and "does not conform.*"* "Generally Conforms" is the top rating and 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.

Objectives, Scope And Methodology

The primary objective of the quality assessment review was to evaluate the UF's OACR conformance to the *Standards*. The work performed included the following:

- Reviewed and analyzed the OACR completed self assessment advanced preparation document, Chief Audit Executive Questionnaire, along with detailed information and documentation.
- Submitted, reviewed and evaluated surveys to OACR staff and a representative sample of OACR customers. A summary of the survey results (without identifying the individual survey respondents) has been furnished to the OACR.
- Before commencement of the onsite work by the quality assessment team on April 30, 2012, McGladrey conducted a preliminary meeting with the CAE to gather additional background information, finalized the interview list to take place during the onsite fieldwork, and finalized planning and administrative arrangements for the QAR.
- Conducted 35 interviews including the President, Chief Operating Officer, Chief Financial Officer, Chief Information Office, Chairman of the varying Audit Committees, Provost, other identified from Senior Management, external auditors, a sample of OACR customers and OACR staff.
- Reviewed and evaluated a sample of audit reports, working papers and audit committee minutes.
- Reviewed OACR's risk assessment and audit planning processes, IA charter, organizational charts, audit personnel position descriptions, independence assertions, prior peer review report, audit tools and methodologies, engagement and staff management processes, and other relevant documents.

The quality assessment team met with OACR throughout the course of the review, including an exit conference on May 1, 2012. A facilitated roundtable discussion was held with the OACR staff including the CAE and the quality assessment team sharing experiences, approaches, best practices and other insights to consider further to enhance the OACR. The internal audit activity environment where we performed our review is well-structured and progressive where IIA standards are understood and used by management to provide useful audit tools and implement appropriate practices. We have outlined observations below and in more detail within the report that are intended to build on the strong foundation in place at the University.

Part I – Positive Attributes

1.	Highly Regarded by Senior Management and External Auditors
2.	Professional Proficiency
3.	Audit Follow-Up
4.	Internal Assessment

Part II – Matters for Consideration of University of Florida

1.	Enterprise-Wide Risk Assessment
2.	Frequency of Audit Committee Meetings
3.	Changing the Name of Office of Audit and Compliance Review

Part III – Issues Specific to the Internal Audit Activity

1.	Information Technology Proficiency
2.	Executive Summary in Engagement Reports
3.	Reporting on the Quality Assessment Results

We would like to thank the external team members for their assistance and input throughout this process.

- Leigh Goller: Director – Internal Audit, Duke University
- Ransom McClung: Adjunct Instructor, Accounting Department, Florida State University
- Kevin Robinson: Executive Director – Internal Auditing, Auburn University

We would also like to thank the Office of Audit & Compliance Review for the opportunity to be of continued service to the University of Florida. We will be pleased to respond to further questions concerning this report and furnish any desired information.

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Observations and Recommendations

Part I - Positive Attributes

We observed several positive attributes and practices that demonstrate the internal audit activity's commitment to the highest level of quality and professionalism. Some of the positive attributes observed were:

1.   Highly Regarded by Senior Management and External Auditors
Senior Management and customers of the OACR, viewed the OACR as a credible, professional organization committed to providing value added services. The stakeholders consistently described the OACR's role as a critical element in UF's infrastructure. The effectiveness, professionalism, ability to collaborate and find right solutions and responsiveness of the OACR, which helps management understand the audit process and their relationship to the University, was a theme presented throughout the review. The Auditor General's office spoke of the value OACR adds in planning their audit.
2.   Professional Proficiency
The OACR staff individually and collectively possesses the knowledge, skills and other technical expertise required to sufficiently perform their duties. Seventy-five percent of the staff possess professional designations, including Certified Public Accountant and Certified Internal Auditor, and Certified Information Systems Auditor. The OACR's policy is to ensure Continued Professional Education is in compliance with IIA standards. The proficiency of the OACR enables them to be proactive and reasonable in finding solutions and not just identify issues.
3.   Audit Follow-Up
The OACR expects follow-up to be completed and recommendations to be implemented within two follow-up attempts. As such, the OACR has developed and implemented a rigorous follow-up process, which is fully supported by audit committee. After the second follow-up OACR will report the status of the action item or that follow-up has ceased for items that have not been corrected. This expectation of management to effectively remediate issues has increased the accountability directly to the Audit Committee and has proved effective. The follow-up process is concise, with focus on risk and ensures the timely and effective implementation of audit recommendations in addition to ensuring management's responsibility and accountability.
4.   Internal Assessment
As part of the quality assurance process, the OACR prepared a comprehensive self assessment. The self assessment addressed all attribute and performance standards in an organized and concise manner and fairly reported the conclusions reached.   Relevant documentation was included to support the opinions reached during the internal assessment. The self assessment was prepared by a qualified senior staff member and was reviewed by the CAE. This self-assessment is performed annually and is part of their quality assurance process.

Observations and Recommendations - continued

Part II - Matters for Consideration for the University of Florida Management

The observations and recommendations noted below are those that pertain to the University as a whole. Consequently, our comments and recommendations are intended to build on the strong foundation already in place. Some of these are matters outside the scope of the QAR, as set out above, however these are included because they could be useful to UF management and could impact the effectiveness of the OACR and the value it can add.

1. *Enterprise-Wide Risk Assessment*

As noted in the previous quality assessment report dated February 2, 2007 and identified again during this quality assessment review, the current risk assessment process does not include enterprise-wide strategic focus. Senior Management acknowledges a risk-based approach to planning and conducting audit activities. They explored an enterprise-wide risk assessment program several years ago, but soon determined that enterprise risk management may not provide value greater than the resources required to maintain the initiative and was not an immediate priority. Currently, the OACR successfully employs a traditional audit risk assessment, which includes system and institutional risks, and is updated on an annual basis. Per review of the one and three year work plans, high risk audits have been appropriately identified, however light on operational and strategic risk, leading to a lack of enterprise-wide strategic focus.

Recommendation
The CAE and the audit committee in collaboration with Senior Management, should continue to discuss bridging the focus of a traditional audit risk assessment to characteristics of an enterprise-wide risk assessment, with the main objective of broadening perspective to look at enterprise risk and not just auditable entities. This bridge would roadmap board level risks; identify cross business risks, determine the risk appetite of the organization; establishment of an appropriate internal environment, including a risk management framework. This process could elevate the current risk assessment to a best practice that is more strategic in nature. (Standard 2120)

2. *Frequency of Audit Committee Meetings*

In previous years, the audit committee would meet 4 times a year on a formal basis, in which the CAE was present. Recently, the audit committee has changed the meeting structure to twice via a formal audit committee meeting and twice via a workshop. The workshop sessions were established to focus on budget shortfalls and the affect on the University. Although the audit committee fosters an environment of open communication between itself and the CAE, the CAE only formally meets with the audit committee during the 2 formal audit committee meetings. This limits communication on the activities of the internal audit function and the OACR's visibility to the audit committee.

Recommendation
As appropriate, the audit committee should return to its goal of meeting 4 times per year on a formal basis with the CAE.

Observations and Recommendations - continued

Part II - Matters for Consideration of University of Florida Management - continued

3. The Name of The Office of Audit and Compliance Review
The primary role of the OACR is described as one that promotes fiduciary responsibility for UF assets and expenditures through the conduct of audits, reviews and advisory services. This differs from a typical compliance function which oversees the organization compliance program, functioning as an independent and objective body that reviews and evaluates compliance issues/concerns within the organization. Compliance at the University is 'owned' by each Department. Thus the name of the audit function could be misleading and contrary to its primary role. *Recommendation* The University should consider modifying the name of the Office of Audit & Compliance Review by the removal of "Compliance", as it could facilitate a misconception that this department has responsibility over University compliance. (Standard 1000)

Observations and Recommendations - continued

Part III - Issues Specific to the Office of Audit & Compliance Review

The observations and recommendations noted below are those that relate to the OACR's structure, staffing, deployment of resources, and similar matters that should be considered within the OACR, with support from senior management.

1. *Information Technology Focus*

We noted that the CAE has dedicated a full-time IT manager and a staff for IT auditing. This coincides with the University's creation of a Chief Information Officer. Included in the fiscal year 2013 audit plan is IT Security and Compliance. However, It was noted that high risk IT audit areas such as distributed IT, mobile devices, cloud computing, etc have not been covered in past and current audits

Recommendation
The OACR should continue to review their current IT staffing levels and IT audit universe to ensure that they have adequate resources/coverage to handle high risk IT audit areas. (Standard 1210)

2. *Executive Summary in Engagement Reports*

We found the reports informative and describe appropriate and practical recommendations, however, we noted that issued internal audit reports do not contain an executive summary. Executive summaries are provided to the audit committee regarding the issued reports to be discussed during the schedule audit committee meeting.

Recommendation
We recommend that the OACR consider including executive summaries within the issued reports to assist in ensuring the audit committee and Senior Management focus on the highest priority risks identified and reported in the audits. The executive summary should be sufficient in content to ensure that the reader can completely understand the contents of the longer document. (Standard 2400)

3. *Reporting on the Quality Assessment Results*

The CAE is required to communicate the results of the quality assessment and improvement program to Senior Management and the board. (Standard 1320)

Recommendation
We recommend that the CAE formally communicate the results of the quality assessment to Senior Management, OACR customers, and the Board of Trustees once they have been reported to the audit committee. (Standard 1320)

Appendix A

Standards Conformance Evaluation Summary
University of Florida – Office of Audit & Compliance Review

		("X" Evaluator's Decision)		
		GC	PC	DNC
OVERALL EVALUATION		X		
ATTRIBUTE STANDARDS				
1000	**Purpose, Authority, and Responsibility**	X		
1010	Recognition of the Definition of Internal Auditing	X		
1100	**Independence and Objectivity**	X		
1110	Organizational Independence	X		
1111	Direct Interaction with the Board/Audit Committee	X		
1120	Individual Objectivity	X		
1130	Impairments to Independence or Objectivity	X		
1200	**Proficiency and Due Professional Care**	X		
1210	Proficiency	X		
1220	Due Professional Care	X		
1230	Continuing Professional Development	X		
1300	**Quality Assurance and Improvement Program**	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 *International Standards for the Professional Practice of Internal Auditing*"	X		
1322	Disclosure of Nonconformance	X		

Appendix A - Continued

Standards Conformance Evaluation Summary
University of Florida – Office of Audit & Compliance Review

		("X" Evaluator's Decision)		
		GC	PC	DNC
PERFORMANCE STANDARDS				
2000	**Managing the Internal Audit Activity**	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		
2100	**Nature of Work**	X		
2110	Governance	X		
2120	Risk Management		X	
2130	Control	X		
2200	**Engagement Planning**	X		
2201	Planning Considerations	X		
2210	Engagement Objectives	X		
2220	Engagement Scope	X		
2230	Engagement Resource Allocation	X		
2240	Engagement Work Program	X		

Appendix A - Continued

Standards Conformance Evaluation Summary
University of Florida – Office of Audit & Compliance Review

		("X" Evaluator's Decision)		
		GC	PC	DNC
2300	**Performing the Engagement**	X		
2310	Identifying Information	X		
2320	Analysis and Evaluation	X		
2330	Documenting Information	X		
2340	Engagement Supervision	X		
2400	**Communicating Results**	X		
2410	Criteria for Communicating	X		
2420	Quality of Communications	X		
2421	Errors and Omissions	X		
2430	Use of "Conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*"	X		
2431	Engagement Disclosure of Nonconformance	X		
2440	Disseminating Results	X		
2500	**Monitoring Progress**	X		
2600	**Management's Acceptance of Risks**	X		
IIA Code of Ethics		X		
Definition of Internal Auditing		X		

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Your business,
Your aspirations,
Your challenges.
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tailored expertise to help you succeed.

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