



# **Office of Internal Audit Status Report**

BOARD OF TRUSTEES

February 5, 2010

**Date:** January 13, 2010

**To:** Board of Trustees and Finance and Audit Committee

**From:** Allen Vann, Audit Director

**Subject:** OFFICE OF INTERNAL AUDIT STATUS REPORT

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## **COMPLETED AUDITS AND INVESTIGATIONS**

Since our last Finance and Audit Committee meeting on November 19, 2009 we completed the following projects:

- 1. University Asset Management Accounting Observations** – Based on recent audits and investigations and additional observations, we highlighted in this review a number of issues relating to University personal property accounting that requires the attention of the Controller’s Office. We reported the need to further strengthen surplus media procedures so as to ensure that sensitive data are properly removed to avoid a data breach. Also, before donating surplus property to nonprofit organizations better communication to the University community might identify internal needs and when donating property staff needs to ensure that organizations legitimately qualify as nonprofits.

There also needs to be greater accountability over attractive property items that fall under the \$1,000 property recording threshold. Our inventory records also have to more accurately reflect personal property locations. Management has implemented or is in the process of implementing the ten recommendations resulting from this review.

- 2. Investigation of Improper Procurement Card Use and Questionable Payroll Transactions in the College of Education** – This report summarized the results of three investigations relating to Procurement card use in the College of Education. Based on a complaint we initiated an investigation to determine whether the University was defrauded as a result of the questionable procurement activity. Based on our investigation, we concluded that an Administrative Assistant misused the procurement card provided to her by the University by purchasing personal and unallowable items. The Administrative Assistant also made procurement card transactions at the direction of the former Interim Dean to reward certain employees.

The current Interim Dean of the College of Education Business in consultation with the Provost, Human Resources, and Office of the General Counsel took appropriate disciplinary action resulting in the separation from employment of the Administrative Assistant and the Office Assistant responsible for approving her credit card transactions. The Office of Internal Audits also referred this matter to FIU Police. An active criminal case is pending in the State Attorney’s Office.

- 3. Investigation of Improper Procurement Card Use at the College of Education – Former Interim Dean** – This report represents the second of three investigations of procurement card use at the College of Education. This investigation focuses on the former Interim Dean of the College, who subsequently returned to his responsibilities as a Professor at the College. Based on our investigation, we concluded that the former Interim Dean misused the procurement card provided to him by the University by purchasing personal and unallowable items. In addition, the former Interim Dean instructed the Information Technology Director and the former Administrative Assistant to purchase numerous personal and unallowable items for him and others using their procurement cards. We also noted other instances of inappropriate and wasteful spending made at the former Interim Dean’s direction. These expenditures included payment of indiscriminate bonuses, payroll/timekeeping manipulation for an OPS employee, and wasteful travel costs.

The current Interim Dean of the College of Education in consultation with the Provost, Human Resources, and Office of the General Counsel is in the process of taking appropriate disciplinary action resulting in the separation from employment of the Professor and monetary restitution.

- 4. Investigation into Allegations Against a Professor at the College of Medicine** – This investigation was based on a complaint forwarded to us through the Division of Human Resources alleging that a Professor at the College of Medicine had misused grant funds. Other allegations were investigated by the Division of Human Resources, the Office of Sponsored Research Administration (OSRA) and the College of Medicine (College).

Based on our investigation, we concluded that the Professor had several business relationships outside the University that he should have reported. In addition, there were purchases of computers which should not have been made using the University procurement card. Finally, our review disclosed a weakness in the manner in which the College accounted for FedEx transactions to ensure that shipments were business related. Otherwise the allegations were not sustained, i.e., there was insufficient evidence to prove or disprove the allegation(s).

We made six recommendations that the College of Medicine agreed to implement.

## WORK IN PROGRESS

Audits/Investigations	Status
Investigation of ProCard use at the College of Education	Fieldwork in progress
Investigation of ProCard use at the College of Medicine	Fieldwork in progress
Audit of the University Purchasing Card Program	Fieldwork on hold
Audit of the University's IT Governance	Fieldwork in progress
Audit of Financial Controls Over College of Medicine Expenditures	Fieldwork on hold
Audit of the University's Information System Continuity Plan	Fieldwork in progress
Audit of the Federal Stimulus Funds	Fieldwork in progress
Review of PeopleSoft Upgrade Implementation	Fieldwork in progress

## CONSULTING ACTIVITIES

In conjunction with our Interim Controller, I have designed and am providing training to University staff on *Understanding Fraud in University Credit Card Programs*. This course provides fraud awareness training to staff and an overview of related policies and required procedures.

## RESULTS OF QUALITY ASSESSMENT OF THE OFFICE OF INTERNAL AUDITS

At our last Finance and Audit Committee meeting, I provided a detailed report of a *Quality Self-Assessment* I performed of the Office of Internal Audit. Attached is an independent validation of our assessment. I am pleased to inform you that the independent validator concluded that FIU's internal audit department conforms to the International Standards for the Professional Practice of Internal Auditing,

## FOLLOW-UP STATUS REPORTS

Due to time constraints and the short lead time between meetings we will update the Finance and Audit Committee on the implementation status of audit recommendations at our next scheduled meeting.

Attachment

**INDEPENDENT VALIDATION  
QUALITY ASSESSMENT OF  
FLORIDA INTERNATIONAL UNIVERSITY  
OFFICE OF INTERNAL AUDIT**

**Drummond Kahn, MS, CIA, CGFM, CGAP**

January 10, 2010

Mr. Allen Vann  
Audit Director  
Office of Internal Audit  
Florida International University  
University Park, CSC 446  
11555 SW 17<sup>th</sup> Street  
Miami, Florida 33199

Dear Mr. Vann:

I conducted an independent validation of your internal Quality Assessment of Florida International University's internal audit function – FIU's Office of Internal Audit. This letter and its attachments summarize the results of my independent validation, and contain additional documentation explaining the scope of the independent validation, as well as additional comments and suggestions to further bolster the quality of FIU's internal audit function.

I appreciated the courtesies and assistance that you and your office extended to me during my on-site work, as well as the input from the many other individuals and offices involved in my review, including the Chair of the Finance and Audit Committee of FIU's Board of Trustees, the Chief of Staff to the President of FIU, the Chief Financial Officer and the Chief Information Officer.

FIU has a vibrant and strong internal audit function, and attention to quality assessment is one key ingredient in further bolstering this important function.

Thank you for the opportunity to perform this independent validation of your Quality Assessment of FIU's audit function. Please feel free to contact me if you have questions or comments about my validation or the additional documentation.

Sincerely,



Drummond Kahn, M.S., CIA, CGFM, CGAP  
9535 SW Washington Street  
Portland, Oregon 97225  
(503) 784-5749 (Mobile)  
[drummondk@aol.com](mailto:drummondk@aol.com) (e-mail)

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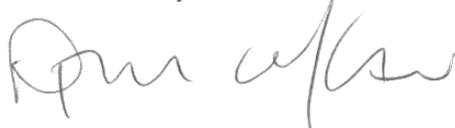
**RESULTS OF INDEPENDENT VALIDATION  
INDEPENDENT VALIDATOR STATEMENT**

The validator was engaged to conduct an independent validation of the Florida International University (FIU) internal audit activity's self-assessment. The primary objective of the validation was to verify the assertions made in the attached quality self-assessment report concerning adequate fulfillment of the organization's basic expectations of the internal audit activity and its conformity to The Institute of Internal Auditors' (The IIA's) *International Standards for the Professional Practice of Internal Auditing* (Standards). Other matters that might have been covered in a full independent assessment, such as an in-depth analysis of successful practices, governance, consulting services, and use of advanced technology, were excluded from the scope of this independent validation by agreement with the Audit Director.

In acting as validator, I am fully independent of the organization and have the necessary knowledge and skills to undertake this engagement. This validation, conducted between November 2009 and January 2010, consisted primarily of a review and testing of the procedures and results of the self-assessment. In addition, interviews were conducted with the President's Chief of Staff, the Chief Financial Officer, the Chief Information Officer, the audit committee chair, and members of the internal audit function.

I concur fully with the internal audit activity's conclusion in its self-assessment report.

Implementation of the recommendations contained in the self-assessment report will improve the effectiveness and enhance the value of the internal audit activity and ensure its full conformity to the Standards.



Drummond Kahn, M.S., CIA, CGFM, CGAP  
Independent Validator

January 10, 2010

## OBJECTIVE, SCOPE AND METHODOLOGY

In November, 2009, I was engaged to conduct an independent validation of Florida International University's self-assessment (Quality Assessment) of its internal audit function.

The primary objective of the validation was to verify the assertions made in the attached quality self-assessment report concerning adequate fulfillment of the organization's basic expectations of the internal audit activity and its conformity to The Institute of Internal Auditors' (The IIA's) *International Standards for the Professional Practice of Internal Auditing* (Standards). Other matters that might have been covered in a full independent assessment, such as an in-depth analysis of successful practices, governance, consulting services, and use of advanced technology, were excluded from the scope of this independent validation by agreement with the Audit Director.

The internal audit self-assessment, and my independent validation, used the Quality Assessment Manual for the Internal Audit Activity (6<sup>th</sup> Edition) by the Institute of Internal Auditors' Research Foundation (2009).

The University's internal audit function prepared an extensive self-assessment report, and provided this report and its supporting documentation to me in November. I reviewed this information and conducted a site visit in December. During the site visit, I met with each internal auditor on the staff, and conducted interviews of each auditor, the Chief of Staff to the President, the Chief Financial Officer, the Chief Information Officer, and the Finance and Audit Committee Chair, using IIA guidance for interview topics and questions, as well as follow-up questions as I deemed appropriate.

I had full access to internal audit documentation during my visit in December. I reviewed workpapers from two audit engagements I selected, as well as many recently-issued audit reports. I observed operating procedures in the office, discussed my questions from the self-assessment with audit staff and the Audit Director, and reviewed resumes and the professional and academic background of each auditor on the staff. In addition, I reviewed the format for and two recent examples of the office's "Audit Review Checklist", which appeared complete and appropriate and consistent with professional practices to document assignment reviews.

I also reviewed survey responses from two surveys administered before and during the site visit – a survey of auditees and university management, and a second survey of audit staff members.

During my site visit, I had the full cooperation of all staff members and with the individuals outside the audit function I interviewed. All offered frank and direct feedback on the audit activity, and fully participated in the validation process.

I reviewed office processes and manuals/guidance, including the 2006 operations manual (now under revision). I reviewed the audit function's authority, process, charter; the Board structure for management and the audit committee; the office's status reporting process to the audit committee and executive management; the followup process and process for describing followup to management and the audit committee; and position descriptions for audit staff.

After my site visit, I reviewed the self-assessment documentation again, as well as the notes from my interviews and the IIA Quality Assessment Manual, prior to preparing this final summary document. My notes and this document will be stored with the self-assessment working papers at Florida International University.

I conducted my work from November 2009 to January 2010 based on my knowledge and experience in auditing (since 1990) and my experience leading and participating in external quality reviews of several audit offices, as well as with the guidance from the IIA Quality Assessment Manual described above.

I prepared the final documentation for this report in December 2009 and January 2010.

## OBSERVED STRENGTHS

Florida International University's audit function is strong, and complies with almost all of the professional standards, per its self-assessment and this independent validation. FIU's Office of Internal Audit is effective in providing internal audit services to the Trustees, senior management, and other interested parties. Especially notable are:

- **Auditors' high level of skills, experience, and professionalism** – The team of auditors at FIU is highly trained and experienced. Those members new to FIU still have considerable auditing experience outside of the organization, and all share a positive attitude toward the office, to continuing professional development, and to the audit function at the University. Teamwork is apparent in the written records supporting audits (meetings, interview participation, and workpaper review), and was apparent during the site visit. Informal and formal meetings and discussions are common in the office, and the quality and scope of supervision appeared appropriate – both from the Audit Director and from several experienced team members, two of whom served leadership roles in the organization during a recent transition.
- **Strong and direct reporting to the audit committee** – The Audit and Finance Committee is a subset of the Trustees, and meets regularly. Agendas and meeting minutes are shared among all trustees, and meetings are public. Based on my review of public documents and in meetings including an interview with the Chair of the Finance and Audit Committee, I was impressed with the high level of oversight by the Trustees generally and the Committee specifically. Additional features to increase transparency included sharing quarterly updates on the audit function, private time with the audit function in Finance and Audit Committee meetings, and the fact that all contents of Trustee meeting packets are shared with each Trustee – not only those Trustees on the Finance and Audit Committee. Since FIU is a public institution, the presence of public observers and media members in meetings of the Committee serve to further increase public transparency and oversight of FIU and audit office operations. The Audit Director also has direct communication with the Finance and Audit Committee Chair, both through scheduled updates, Committee meetings, and the potential for ad-hoc or emergency communication.
- **Strong communication with executive management** – The Office of the President is clearly involved with and interested in the reports and operations of the audit function. This regular communication and support – including financial support and organization-wide commitment to implement audit recommendations – was apparent through reviewing recent audit reports, management responses, interviews, and the organization's support for internal auditing through a recent series of controversial investigations which resulted in public and media attention.

- **Appropriate reporting authority** – The internal audit function used to report administratively through the General Counsel’s office. This placed reporting at least two layers below the top layer of executive management (the Office of the President). Now, internal audit reports through the President’s Chief of Staff, rather than through the legal department. With the direct-line of communication with the Office of the President, and the strong audit committee involvement discussed above, this reporting relationship appears appropriate and is placed at a higher organizational level than past practices.
- **Clear and convincing reporting** – The audit reports and working papers I reviewed were well-structured, clear, concise, and supported the recommendations made in the reports. In addition, the audit reports have withstood scrutiny from public, media, and management attention. Reports and office information are posted on the organization’s web site, further enhancing transparency and accountability.
- **Well-supported reports with extensive working papers** – The working papers I reviewed were clear and complete, and contained evidence of appropriate review. Reports and details were well-supported with audit evidence, including specific evidence for several recent investigative reports I reviewed.
- **Commitment to specific areas of auditing, including fraud auditing, information technology auditing** – The audit activity is committed to completing the audit work planned for in its annual risk assessment, as well as to a highly-responsive process to answer current calls for investigative work. In addition, the office has bolstered its capacity to conduct information technology auditing through its hiring of a highly-experienced IT professional to conduct IT audits. Audit office management, as well as University management, are committed to selecting high-risk topics and to completing and releasing value-added audit reports on these topics. The high level of communication with the Finance and Audit Committee (discussed above) serves as both a catalyst for good topic selection and appropriate reporting, as well as a safeguard for good audit reports following standards to be well-supported in the organizations. In some organizations, focus on critical and important areas can bring criticism of the audit function. Here, though, with management and Finance and Audit Committee involvement, the audit function appears well-supported to conduct important and sensitive work.
- **Commitment to professional development and participation in professional associations and training** – The internal audit office is clearly committed to professional development for its staff and to participation in professional associations. Further enhancement of the budget process that allows the office to identify and fund training and memberships throughout the year is appropriate, as is the office’s focus on external training, where appropriate, to bolster staff skills.

- **Commitment to quality improvement, including this self-assessment and independent validation** – Quality efforts like self-assessments with independent validation and up to a full external quality control review are important under the IIA’s Standards, as well as to organizational improvement generally, and sustaining the high view the organization places on the audit function.
- **Commitment to risk assessment by the audit function and risk reduction by the organization** – Management and the Finance and Audit Committee seem both aware of and highly interested in risk assessment and risk reduction in the organization – and are convinced of the important role internal audit plays in identifying and auditing to the risks that face the organization. The university “sees the value of and understands this role of internal audit,” according to an executive manager.

## POTENTIAL CHALLENGES

Florida International University's internal audit function is a well-managed and well-staffed professional audit office, with excellent access to senior management and to the audit committee. The following areas for consideration are possible challenges to the internal audit function, and also result in specific suggestions for improvement:

- The IIA Attribute Standard for Purpose, Authority, and Responsibility requires that the **nature and definition of internal auditing services must be included in the Charter for internal auditing** – specifically, the proposed language in the self-assessment could be amended to the Charter (see p. 2 of the October 2009 Self-Assessment). This language could formally document the purpose, authority and responsibility for FIU's audit function in the charter.
- IIA Standards require **quality assurance** – this current effort is appropriate (to conduct a self-assessment with independent validation) – and can be more fully linked to the Standards with a full external quality assurance review every five years.
- In conclusion, the only areas where the self-assessment found non-compliance with Standards are in two key areas (linked to the points above) – First, a need for clearer definitions enshrined in the Charter; Second, a more frequent and robust quality assurance review. Implementation of the Charter change, and an organizational commitment to provide more frequent quality assurance reviews, will also help the internal audit function with a third area – allowing it to continue to **use the statement that the office “conforms with the *International Standards for the Professional Practice of Internal Auditing*” in each of its written reports.**

## **OPPORTUNITIES FOR IMPROVEMENT AND RECOMMENDED ACTION ITEMS**

From Above (Potential Challenges, p. 9) – two main opportunities for improvement from the self-assessment:

- Effect **change in Charter language** as described above and in the self-assessment.
- Commit to **more regular quality assurance activities**.
- As Charter is clarified, **use reporting language to indicate conformance with Standards**.

Additional opportunities:

- **Clarity/Responsibility for Budget and Resources** – FIU management clearly supports the internal audit function, and has provided specific financial support for office equipment, quality assurance activities, and training. Recent support, pending an adequate budget, has been “ad-hoc” and on a case-by-case basis, rather than stemming from an initial budget directed by the audit activity. In future fiscal years, an initial budget amount, directed by the audit activity, could bolster the independent decisions of the audit function rather than requesting funds on a case-by-case basis from other FIU offices.
- **Revise Operations Manual** – The existing 2006 Operations Manual for the internal audit function appears appropriate, but due to recent leadership transitions and a new reporting authority, the Manual should be revised to reflect current operations. This revision is underway.
- **Specific Software Needs** – The capacity to perform database queries independently is an important one, since auditors would not need to request data from management, but can directly query databases. The office may have additional needs now and in the future, and the first opportunity on “Clarity/Responsibility for Budget and Resources” could help the audit office quickly and nimbly respond to its needs within an approved budget as situations warrant in the future.