Florida A&M University

External Quality Assessment Review of the Division of Audit and Compliance

February 2017

February 6, 2017

Craig Reed
Chair, Audit Committee of Florida A&M University Board of Trustees

Richard Givens
Vice President, Audit & Compliance

Gentlemen:

We have completed the procedures with respect to Institute of Internal Auditors (IIA) External Quality Assessment Review (QAR) at Florida A&M University (FAMU or the University) solely to assist the University. Our scope period was limited to processes and procedures for the 2015-16 fiscal year, and fieldwork was conducted during December 2016 to February 2017. Our procedures were performed in accordance with the Scope of Work, executed on December 6, 2016, and as further defined in the accompanying report.

Our work was limited to the scope and time defined by contract with FAMU, and were only for the purpose of conducting the QAR. Management is responsible for designing, implementing, monitoring, and asserting to the adequacy of the operations within the processes noted in this report. We were responsible for specific agreed upon work, as contained in this report. We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the financial reports of the University. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. This report is intended solely for the information and use of FAMU.

We value the opportunity to work with FAMU and appreciate the cooperation and assistance provided to us to conduct our work. We will be available to discuss any aspect of our procedures or this report with you or other members of management at your convenience. If you have any questions, please call Kaye Kendrick at (850)509-5927.

This report is intended solely for the information and use of management and the Board of Trustees of FAMU and is not intended to be and should not be used by anyone other than these specified parties. We, therefore, assume no responsibility to any user of the report other than these specified parties.

Sincerely,

Kaye Kendrick Enterprises, LLC
Tallahassee, Florida

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EXECUTIVE SUMMARY

We conducted an external quality assessment of the internal audit activity of the Florida A & M University (FAMU), Division of Audit and Compliance. The principal objectives of the quality assessment were to assess the internal audit activity's conformance to The Institute of Internal Auditors' (IIA's) International Standards for the Professional Practice of Internal Auditing (Standards), to evaluate the internal audit activity's effectiveness in carrying out its mission (as set forth in its charter and expressed in the expectations of FAMU's management), and to identify opportunities to enhance its management and work processes, as well as its value to FAMU.

The FAMU Division of Audit and Compliance is managed by Vice President Richard (Rick) Givens, who reports administratively to the University President and functionally to the Board of Trustees. The Vice President-Audit and Compliance position oversees eight employees, operating on the FAMU Tallahassee campus.

OPINION AS TO CONFORMANCE WITH THE STANDARDS

It is our overall opinion that the internal audit activity generally conforms with the Standards and Code of Ethics. 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.

For a detailed list of conformance with individual Standards, please see Attachment. The quality assessment team identified opportunities for further enhancement, details of which are provided in this report.

SCOPE AND METHODOLOGY

As part of the preparation for the quality assessment, the internal audit activity provided us requested background and other information, sent out surveys to its staff and to a representative sample of FAMU executives. We reviewed and gathered background information, conducted interviews during the onsite fieldwork, and reviewed policies and procedures, as well as other administrative and monitoring documents. Our document review included the internal audit activity's risk assessment and audit planning processes, audit tools and methodologies, engagement and staff management processes. We also reviewed a representative sample of the internal audit activity's work papers and reports.

RECOMMENDATIONS AND OBSERVATIONS: SUMMARY

The internal audit activity environment is deemed to be an essential function of the University, exhibiting professionalism, diligence, and support for development of its staff, which are the key attributes envisioned by the standards for the professional practice of internal auditing. Consequently, our comments and recommendations are intended to assist the internal audit activity in its goal to continue to increase its value to the University.

Recommendations and observations are divided into four groups:

- Recommendations that concern FAMU as a whole, and that suggest actions by senior management. Some of these are matters outside the scope of the quality assessment, as set out above, which came to our attention through the surveys and interviews. These are included because they will be useful to FAMU

management and because they impact the effectiveness of the internal audit activity and the value it can add.

• Recommendations that relate to the internal audit activity's structure, staffing, deployment of resources, and similar matters that should be implemented within the internal audit activity, with support from senior management.

• Observations that recognize best practices employed by the internal audit activity leading to a level of performance beyond generally conforming to the mandatory guidance of The IIA's International Professional Practices Framework (IPPF).

• Observations of process improvement opportunities for the internal audit activity to consider in its continuous improvement efforts. These do not indicate a lack of conformance to mandatory guidance of the IPPF. They are offered as suggestions for the continued growth of the internal audit activity's successful internal audit practice.

Highlights of the more significant recommendations and observations are summarized below, with detailed descriptions following later in the report.

PART I—RECOMMENDATION FOR CONSIDERATION BY FAMU MANAGEMENT

1. Many organizations have found value in *implementing an enterprise-wide risk management (ERM) function* to help them anticipate and mitigate obstacles to accomplishing their mission and goals. Since the University is currently in the process of implementing a more robust compliance function, it may also be an opportune time to consider the compliance function needs within the context of an enterprise-wide risk management system.

2. The internal audit function does "add value" to the University, but *aspires to contribute even more value*. One strategy is to keep the internal audit activity as the "second line of defense" in ensuring that University controls are in place achieve its goals and mission and ensuring compliance with policies and procedures. Another strategy is to ensure the prompt and effective resolution of findings by the DAC. It is recommended that possible strategies to better realize these goals be explored in a strategic planning workshop, to include the University President and a Board Audit Committee Chair. (Standard 2500)

3. Empowerment, continuous improvement, and support for training and communication were all evident from the work performed; however, *additional recognition and staff support could help enhance the audit function*. It is recommended that strategies such as a position specification career ladder and a recognition program for accomplishments of DAC staff be explored. (Standard 2030)

PART II—RECOMMENDATIONS FOR THE INTERNAL AUDIT ACTIVITY

1. The DAC has made efforts toward *use of more technology* and can now begin to pilot and implement them (e.g., data analytics, electronic work papers, shared files and storage). It is recommended that goals be established for the pilot and implementation of more technology use. (Standard 2030)

PART III—OBSERVATIONS OF BEST PRACTICES

1. The results of the work indicated the DAC is considered a *valued and essential function* within the University and that there is *strong communication and support between the DAC, FAMU President and Audit Chair*, with regularly scheduled formal reporting and meetings.

2. The *risk assessment framework used by the DAC is a "best practice" model* for a University, and has yielded results in project prioritization that have been effective.

PART IV—OBSERVATIONS OF PROCESS IMPROVEMENT OPPORTUNITIES

1. There are a variety of methods by which audit functions demonstrate their ability to effectively and efficiently manage their resources. It is recommended the DAC consider setting goals for implementing a project *time management system* and formal process for *documenting and maintaining its necessary workplan revisions.*

2. The DAC has established a goal and strategy to *ensure efficiency* in its audit work, which will be monitored for desired audit duration times, and to overcome any risks and obstacles which may affect efficiency goals. It is recommended the DAC consider additional strategies we verbally discussed, particularly if target goals are not being met.

3. The nature of the work in DAC results in the *risk assessment and workplan being a dynamic process.* It could help the DAC better attain and communicate its value, to view these processes as "on-going", incorporating risk and plan changes throughout the year.

4. The internal audit function is supported with an operational policy and procedure manual and Quality Assurance Improvement Program that helps ensure compliance with IIA Standards. It is recommended the DAC establish a time certain goal to make its *desired enhancements to its operational policy and procedure manual.*

Thank you for the opportunity to be of service to FAMU. We will be pleased to respond to further questions concerning this report and furnish any desired information.

Sincerely,

Kaye L. Kendrick, CIA, CPA, CGMA, CPM

RECOMMENDATIONS AND OBSERVATIONS: DETAILS

PART I—RECOMMENDATIONS FOR CONSIDERATION OF FAMU MANAGEMENT

1. Many organizations have found value in *implementing an enterprise-wide risk management (ERM) function* to help them anticipate and mitigate obstacles to the accomplishment of their mission and goals. Since the University is currently in the process of implementing a more robust compliance function, it may also be an opportune time to consider the compliance function needs within the context of an enterprise-wide risk management system. Since professional auditing standards dictate that the internal audit activity be an independent oversight role, these functions would not be the primary responsibility of the DAC, but rather the DAC would be an expert advisor and evaluator of the controls within the function, using its own risk management assessment process for its audit planning as one tool to assess the functionality of the ERM system.

2. The internal audit function does "add value" to the University, but *aspires to contribute even more value*. One strategy is to keep the internal audit activity as the "second line of defense" in ensuring that University controls are in place to achieve its goals and mission and ensuring compliance with policies and procedures. We observed that some complaints received by the DAC could be resolved within the University with the proper oversight function, and with monitoring and follow-up by the DAC, avoiding DAC *investigation costs*. Too many "first line of defense" assignments can prevent an internal audit activity from working at a strategic level, which is necessary to make sure important University-wide controls are in place and functioning properly. Another strategy is to enhance value of the DAC is to ensure the prompt and effective resolution of findings by the DAC. While the DAC has an adequate follow-up system, some improvement in the timeliness and adequacy of resolutions could be realized. It is recommended that possible strategies toward these goals be explored in a strategic planning workshop, including the University President and a Board Audit Committee Chair. (Standard 2500)

3. Empowerment, continuous improvement, and support for training and communication were all evident from the work performed; however, *additional recognition and support* could help enhance the audit function. The current position specifications are limited, making it difficult for employees to envision a career path in DAC. In addition, more position specifications to create a career path would enable more reward for employee accomplishments such as the new certifications, completion of specialized training and skill development. Alternative rewards, such as recognition ceremonies or celebration could also be beneficial. (Standard 2030)

PART II—RECOMMENDATIONS FOR THE INTERNAL AUDIT ACTIVITY

1. The DAC has made efforts toward *use of more technology* and can now begin to pilot and implement them (e.g., data analytics, electronic work papers, shared files and storage). While this may take some initial investment, improved communication and efficiency can be expected from this initiative. It is recommended that goals be established for the pilot and implementation of more technology use. (Standard 2030)

PART III—OBSERVATIONS OF BEST PRACTICES

1. The results of the work indicated the DAC is considered a *valued and essential function* within the University and that *strong communication and support between the DAC, FAMU President and Audit Chair*, with regularly scheduled formal reporting and meetings. In addition, the DAC has made progress in its

performance reporting. Further strengthening of this "best practice" may be possible with a *consistent performance reporting format* that demonstrate value and resource needs, with key performance measures (e.g., #/hours/percent investigations, audits, advisory services, special projects, administration, training; survey results; dollars saved, when applicable; costs expended; staff size and composition; comparisons to other similar sized audit functions used for benchmarking). Benchmarking information, such as the IIA's Global Audit Information Network (GAIN) and the IIA's International Professional Practices Framework (IPPF) resources are tools that can be used in this endeavor.

2. The *risk assessment framework used by the DAC is a "best practice" model* for a University, and the results it has yielded in project prioritization have been effective. It may be possible to enhance this model even further by ensuring outcome clarity for each attribute and *"cross-walking" to the University strategic plan* to ensure clear understanding of the "bridging" between the documents and possibly identifying more desired risk categories that may be unique to FAMU.

PART IV—OBSERVATIONS OF PROCESS IMPROVEMENT OPPORTUNITIES

1. Audit functions demonstrate their ability to effectively and efficiently manage their resources in a variety of ways. One way is with the assistance of a *project time management system*, which helps communicate how resources are being used and alleviates wondering, "where did all our time go!" Another process that is helpful is ensuring that modifications which are often made to audit plans are documented and all versions of the plan throughout the year are maintained, so variances are easily communicated and understood.

2. The DAC has established a goal and strategy to *ensure efficiency* in its audit work, which will be monitored for desired audit duration times, and to overcome any risks and obstacles which may affect efficiency goals. Some possible ways to assist in this endeavor include: (1) formal weekly or bi-weekly goal setting/accomplishment meetings with performance feedback, (2) formal engagement discussion meetings for each audit to discuss risk and internal control, and necessary test work to be performed, (3) sharing of audit findings among staff, and (4) a formal staff training plan for each employee to ensure all have important skills such as, project management, the ability to positively influence people, leadership, stress management, conflict resolution and negotiation.

3. The nature of the work in DAC results in the risk assessment and workplan being a dynamic process. Since the risk assessment and workplan process is a project itself, and may not always be completed before the work year begins, it could help the DAC better attain and communicate its value to view these processes as "on-going". An "on-going" process would *incorporate risk and plan changes throughout the year*, maintaining a version control process that enables good communication and justification for changes.

4. The internal audit function is supported with an operational policy and procedure manual and Quality Assurance Improvement Program that helps ensure compliance with IIA Standards. The DAC has identified enhancements needed to its *operational policy and procedure manual* which will further the effectiveness of this tool. To ensure this tool attains and maintains the greatest level of usefulness to the internal audit function, it may be prudent to include a process for (1) training staff as needed to ensure consistency in its use, particularly required and/or recommended checklists, (2) documentation of changes or enhancements desired as soon as they are identified, (2) process for approving changes or enhancements, and (3) a process for version control.

QUALITY ASSESSMENT EVALUATION SUMMARY

(GC = Generally Conforms, PC = Partially Conforms, DNC = Does Not Conform)

Quality Assessment Evaluation Summary—Overall Evaluation	GC	PC	DNC
OVERALL EVALUATION	X		
Quality Assessment Evaluation Summary—Major/Supporting Standards	**GC**	**PC**	**DNC**
1000 Purpose, Authority, and Responsibility			
1010 Recognition of the Definition of Internal Auditing, the Code of Ethics, and the *Standards* in the Internal Audit Charter	X		
1100 Independence and Objectivity			
1110 Organizational Independence	X		
1111 Direct Interaction with the Board	X		
1120 Individual Objectivity	X		
1130 Impairment to Independence or Objectivity	X		
1200 Proficiency and Due Professional Care			
1210 Proficiency	X		
1220 Due Professional Care	X		
1230 Continuing Professional Development	X		
1300 Quality Assurance and Improvement Program			
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		

Quality Assessment Evaluation Summary—Overall Evaluation		GC	PC	DNC
2000	**Managing the Internal Audit Activity**			
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		
2100	**Nature of Work**			
2110	Governance	X		
2120	Risk Management	X		
2130	Control	X		
2200	**Engagement Planning**			
2201	Planning Considerations	X		
2210	Engagement Objectives	X		
2220	Engagement Scope	X		
2230	Engagement Resource Allocation	X		
2240	Engagement Work Program	X		
2300	**Performing the Engagement**			
2310	Identifying Information	X		
2320	Analysis and Evaluation	X		
2330	Documenting Information	X		
2340	Engagement Supervision	X		
2400	**Communicating Results**			

Quality Assessment Evaluation Summary—Overall Evaluation		GC	PC	DNC
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		
2450	Overall Opinions	X		
2500	Monitoring Progress	X		
2600	Communicating the Acceptance of Risks	X		
	The IIA's Code of Ethics	X		

Rating Definitions

"Generally Conforms" means the assessor has concluded the following:

- For individual standards, that the internal audit activity conforms to the requirements of the standard (e.g., 1000, 1010, 2000, 2010, etc.) or elements of the Code of Ethics (both Principles and Rules of Conduct) in all material respects.

- For the sections (Attribute and Performance) and major categories (e.g., 1000, 1100, 2000, 2100, etc.), the internal audit activity achieves general conformity to the majority of the individual standards and/or elements of the Code of Ethics, and at least partial conformity to others, within the section/category.

- For the internal audit activity, overall, there may be opportunities for improvement, but these should not represent situations where the internal audit activity has not implemented the *Standards* or the Code of Ethics, has not applied them effectively, or has not achieved their stated objectives.

"Partially Conforms" means the assessor has concluded the following:

- For individual standards, the internal audit activity is making good faith efforts to conform to the requirements of the standard (e.g., 1000, 1010, 2000, 2010, etc.) or element of the Code of Ethics (both Principles and Rules of Conduct) but falls short of achieving some major objectives.

- For the sections (Attribute and Performance) and major categories (e.g., 1000, 1100, 2000, 2100, etc.), the internal audit activity partially achieves conformance with most the individual standards within the section/category and/or elements of the Code of Ethics.

- For the internal audit activity, overall, there will be significant opportunities for improvement in effectively applying the *Standards* or Code of Ethics and/or achieving their objectives. Some deficiencies may be

beyond the control of the internal audit activity and may result in recommendations to senior management or the board of the organization.

"Does Not Conform" means the assessor has concluded the following:

- For individual standards, the internal audit activity is not aware of, is not making good faith efforts to conform to, or is failing to achieve many or all of the objectives of the standard (e.g., 1000, 1010, 2000, 2010, etc.) and/or elements of the Code of Ethics (both Principles and Rules of Conduct).

- For the sections (Attribute and Performance) and major categories (e.g., 1000, 1100, 2000, 2100, etc.), the internal audit activity does not achieve conformance with the majority of individual standards within the section/category and/or elements of the Code of Ethics.

- For the internal audit activity, overall, there will be deficiencies that will usually have a significant negative impact on the internal audit activity's effectiveness and its potential to add value to the organization. These may also represent significant opportunities for improvement, including actions by senior management or the board.