



HONKAMP KRUEGER & CO, P.C.

CPAs & Business Consultants

Quality Assessment Report

For

Regent's Universities

Internal Audit Department

January 10, 2013

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Executive Summary

Introduction

At the request of the Iowa Board of Regents' Chief Audit Executive (CAE), Honkamp Krueger & Co. P.C. (HK) has completed a Quality Assessment of the Internal Audit Department (IAD). This is the University of Iowa internal audit department's second Quality Assessment Review (QAR), with the first conducted in 2007 as a self-assessment with independent validation which resulted in a "generally conforms" rating. This is also Iowa State University internal audit department's second QAR, with the first conducted in 2004 as a self-assessment with independent validation as well which had a conclusion of "generally conforms" rating. This is the first QAR for the University of Northern Iowa. We appreciate the opportunity to present the engagement results in the narrative which follows.

There are five major institutions under the guidance of the Board of Regents. The University of Iowa has been in existence for more than 150 years and is the state's largest higher education institution employing approximately 14,000 full time employees serving almost 31,000 students annually. The University of Iowa Health Services Center provides quality health education while the University of Iowa Hospitals and Clinics provides quality care to well over 900,000 patients annually. Iowa State University has also been in existence for over 150 years, with a staff of over 14,000 full time employees servicing over 31,000 students annually. Finally, the University of Northern Iowa was founded over 130 years ago and has a staff of over 1,700 full time employees servicing over 13,000 students annually.

The University of Iowa's audit department dates back to 1960 whereby the department of one audit professional was in place until 1980. The department merged with the University of Iowa Hospital and Clinic's internal audit function in 2001, and with the Iowa State University and Northern Iowa University internal audit departments in 2005. Each institution's internal audit function maintained their offices and campus structure, but now report to a single Director located at the University of Iowa. The Director reports to the Board of Regents. The entire audit organization staff size now stands at 18.

The HK Solution

Internal Audit acted to confirm its conformance with The Institute of Internal Auditors (IIA) *Standard* 1312 by hiring HK to perform an External Quality Assessment (QA). Specifically, The IIA *Standard* states that all internal audit activities are required to conduct an external assessment every five years in order to provide assurance that the activity is in conformity with The IIA *Standards* and the Code of Ethics.

HK utilized proven methodology to execute this QA. As a first step, the IAD completed advanced preparation material and gathered other pertinent data which provided HK detailed information about the organization and the internal audit function. Also, surveys were sent to a representative sample of the University of Iowa, Iowa State University, and University of Northern Iowa management team along with the entire staff of the IAD. The completed surveys were returned directly to HK. The HK team compared the survey results to historical national data available. A summary of the results and accompanying comments (without identifying the individual survey respondents) has been furnished to the CAE.

Interviews were conducted with the IAD staff and the following senior executives and the Audit Committee Chair:

Name	Institution	Title
Miles Lackey	Iowa State University	Chief of Staff
Sharron Quisenberry	Iowa State University	Vice President for Research and Economic Development
Jim Davis	Iowa State University	Chief Information Officer
Warren Madden	Iowa State University	Vice President for Business and Finance
Tom Hill	Iowa State University	Vice President for Student Affairs
Ben Allen	University of Northern Iowa	President
Michael Hager	University of Northern Iowa	Vice President for Administration and Financial Services
Michael Licari	University of Northern Iowa	Associate Provost for Academic Affairs and Dean of the Graduate College
Gloria Gibson	University of Northern Iowa	Executive Vice President and Provost
Terry Hogan	University of Northern Iowa	Vice President for Student Affairs
Sally Mason	University of Iowa	President
Cheryl Reardon	University of Iowa	Assistant Vice President for Research
Tom Rocklin	University of Iowa	Vice President for Student Life
Lee Carmen	University of Iowa	Associate Vice President for Information Systems, UI Health Care
Dr. Jean Robillard	University of Iowa	Vice President for Medical Affairs
Douglas True	University of Iowa	Senior Vice President for Finance
P. Barry Butler	University of Iowa	Executive Vice President and Provost
Gary Barta	University of Iowa	Director of Athletics
Ken Kates	University of Iowa	Chief Executive Officer – University of Iowa Hospitals & Clinics and Associate Vice President – University of Iowa Health Care
Debbie Thoman	University of Iowa	Assistant Vice President for Compliance, Accreditation, and University of Iowa Privacy Officer
Robert Donley	Iowa Board of Regents	Executive Director
Jack Evans	Iowa Board of Regents	Board Member and Chair of the Audit/Compliance and Investment Committee

In addition, the HK team reviewed the IAD's risk assessment and audit planning processes, audit tools and methodologies (including information technology), engagement management and staff development processes, and a sample of internal audit work papers and reports.

Comments

We found numerous positive aspects about the IAD and the work it performs. As evidenced by interviews, surveys, document reviews, and observations, the IAD currently uses “Innovative Practices” in its audit operations and administration. Some of the more notable positive aspects and practices include:

- Internal audit activity perceived as professional and credible
- Audit reports perceived as fair, concise and timely
- CAE perceived as providing factual, unbiased reporting to the Board of Regents
- Consensus that management has sufficient input in annual plan development and that individual engagement issues are communicated to them in a timely “no surprises” manner
- Well educated and credentialed staff
- Professional certifications are encouraged
- Successful implementation of an automated audit management system
- Good cycle time on getting reports issued
- Internal Audit offsite leadership meetings
- Independent reporting line of the CAE to the Board of Regents
- Audit department maintains websites and brochures
- Preparation and utilization of a common audit manual
- Assistant director attending senior management meetings at hospital

Conformity Rating

The IIA QA framework provides a system for rating conformity to the *International Standards for the Professional Practice of Internal Auditing* (*Standards*), which consists of three categories: generally conforms, partially conforms, and does not conform. The framework describes these categories as follows:

- “Generally Conforms” (GC) means that an internal audit activity has a charter, policies, and processes that are judged to be in accordance with the *Standards* in all material respects, but some opportunities for improvement may exist.
- “Partially Conforms” (PC) means that practices were noted that are judged to deviate from the *Standards*, but they did not preclude the internal audit activity from performing its responsibilities in an acceptable manner.
- “Does Not Conform” (DNC) means that deficiencies in practices were 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.

The IIA *Standards* are divided into two primary subsets: Attribute Standards and Performance Standards. **The QA team rates the Regent Universities’ Internal Audit Department as “Generally Conforming” to the Attribute Standards, Performance Standards and the Code of Ethics. Overall, Regent Universities’ Internal Audit Department “Generally Conforms” to the *International Standards for the Professional Practice of Internal Auditing*.**

Opportunities and Innovative Practice Suggestions - Summary

Opportunities and innovative practice suggestions that we believe will enhance conformity with the *Standards* and further improve the effectiveness of Internal Audit are summarized below.

Opportunities to Improve Conformity with IIA Standards

- 1. Obtain IT audit resources** to more fully assess the IT control environment.
(*Standard 1210.A3 – Proficiency and Standard 2200 – Engagement Planning*)
- 2. Require formal consideration of fraud** in engagement planning.
(*Standard 2210.A2 – Engagement Objectives*)

Innovative Practice Suggestions for Consideration by Internal Audit

- 1. Annually review, update and obtain approval for the IA Charter.** (*Standard 1000 – Purpose, Authority and Responsibility*)
- 2. Consider creating a competency model** including specific audit skill requirements necessary to meet the current and future needs of the organization. (*Standard 1210 – Proficiency*)
- 3. Enhance the current Quality Assurance & Improvement Program (QA&IP) using IIA's Practice Guides** by applying the concepts focused on stakeholder satisfaction, key departmental processes, staff capabilities, on-going technological innovations, and IIA *Standards* conformance. (*Standard 1300 – Quality Assurance & Improvement Program, Standard 1310 – Requirements of the Quality Assurance & Improvement Program, & Standard 1311 – Internal Assessments*)
- 4. Establish an annual certification for staff** regarding their responsibility to conduct work in accordance with professional standards, including the Code of Ethics. (*Standard 2000 – Managing the Internal Audit Activity*)
- 5. Develop a comprehensive risk ranked audit universe.** (*Standard 2010 – Planning*)
- 6. Consider performing a staff analysis** to determine resource requirements in conjunction with the annual risk assessment.
(*Standard 2030 – Resource Management*)
- 7. Include rationale for assigning staff** to an engagement in the work papers. (*Standard 2230 – Engagement Resource Allocation*)

Innovative Practice Suggestions for Audit Committee and Senior Management Consideration

1. **Develop and implement a Board of Regents Audit Committee Charter** with language to support a strong functional reporting relationship between the Audit Committee and the CAE. (Innovative Practice)
2. **Enhance the stature and position of Internal Audit** by ensuring a consistent reporting relationship between the CAE and all three university presidents. (Innovative Practice)

Additional detail about the previously listed opportunities and innovative practices is provided in the Report Detail section that follows this Executive Summary. Thank you again for the opportunity to provide you with our quality assessment services.

Respectfully,



Kent Sewright
Team Leader – Quality Assessment Services

Carl Balderson
Team Member – Senior Director of Quality Assessment Services

Report Detail

Opportunities to Improve Conformity with IIA Standards

Observation	Recommendation	Internal Audit Response
<p>1. Information Technology Audit Resources</p> <ul style="list-style-type: none"> • <i>Standard 1210.A3 (Proficiency)</i> Internal auditors must have sufficient knowledge of key information technology risks and controls and available technology-based audit techniques to perform their assigned work. However, not all internal auditors are expected to have the expertise of an internal auditor whose primary responsibility is information technology auditing. • <i>Standard 2200 (Engagement Planning)</i> Internal auditors must develop and document a plan for each engagement, including the engagement’s objectives, scope, timing, and resource allocations. <p>One of the highest categories of risk to any organization is the highly complex area of information technology. As a result internal audit activities always face the difficult challenge of identifying, assessing, and considering how to effectively allocate the correct amount of its limited resources to this very important area of their annual audit plan.</p> <p>While members of IAD have been trained on various topics related to auditing of Information Technology, the department does not have an Information Technology expert on staff to support Iowa State University and the University of Northern Iowa. In our experience, a department of the size of the Iowa Regents IAD would have a minimum of at least one full time equivalent (FTE) Information Technology professional on staff to support IT audit work for these universities.</p>	<p>IAD should move towards applying a higher percentage of its limited audit resources specifically to assessing the IT control environment. Considering the size of the group, we recommend that at a minimum, one FTE dedicated to supporting IT audit topics for Iowa State University and the University of Northern Iowa would more closely align overall resource usage to that of other professional internal audit activities.</p>	<p>As part of the annual risk assessment processes an emphasis will be placed on developing an IT audit universe with the goal of having that universe fully defined over the next several years. Critical risk factors requiring immediate audit review will be evaluated and additional training for current staff or possibly outsourcing to an IT audit firm may be considered.</p> <p>Cross-training between the IT auditors and CISA's at the University of Iowa can take place during all-staff meetings as we are trying to improve all of our auditor's IT skills.</p>

Opportunities to Improve Conformity with IIA Standards

Observation	Recommendation	Internal Audit Response
<p>2. Formal consideration of fraud in engagement planning</p> <ul style="list-style-type: none"> • <i>Standard 2210.A2 (Engagement Objectives)</i> Internal auditors must consider the probability of significant errors, fraud, noncompliance, and other exposures when developing the engagement objectives. <p>Fraud can be very detrimental to any organization, and therefore should be considered a critical element within any engagement planning process. Lack of consideration of the potential for fraud may result in significant risk(s) not included as part of the engagement risk assessment process. The engagement planning documents completed by internal audit typically do not address the risk of fraud and the subsequent impact the risk has on the scope of the engagement.</p>	<p>IAD should develop a formal policy within the IA manual, requiring auditors to evaluate the potential of fraud within the engagement planning process. This analysis should be documented within the work papers.</p>	<p>We will incorporate a fraud questionnaire in our planning check list within Auto Audit to ensure our auditors consider fraud for the process or unit under review.</p>

Innovative Practice Suggestions for the Internal Audit Department Consideration

Observation	Recommendation	Internal Audit Response
<p>1. Annually review, update, and obtain approval of the IA Charter</p> <ul style="list-style-type: none"> <i>Standard 1000 (Purpose, Authority, and Responsibility)</i> The CAE must periodically review the internal audit charter and present it to senior management and the board for approval. <p>The IA Charter was last approved by the State Board of Regents on October 31, 2007.</p>	<p>The IA Charter should be reviewed annually and presented to the Audit Committee for approval. The IA Manual should be revised to reflect that the IA Charter is to be reviewed by IAD and approved by the Audit Committee on an annual basis.</p>	<p>We will plan to get formal approval each August when we receive approval for the annual audit plan.</p>
<p>2. Internal Audit Competency Model</p> <ul style="list-style-type: none"> <i>Standard 1210 (Proficiency)</i> The internal audit activity collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities. <p>IAD demonstrated that individual position competency levels are considered in its short and long range planning efforts as position descriptions were provided for our review. A formalized, departmental level Competency Model has, however, not been prepared.</p> <p>An articulated up-to-date departmental level model helps ensure that all necessary skills, required to accomplish its mission, have been identified and that IAD management is continuously considering steps to ensure that those skills are available or are being developed. Most internal audit activities need skill-sets in the disciplines of finance, accounting, auditing, project management and IT to properly accomplish their mission and business objectives. Where appropriate, these skill-sets are also typically recognized by other areas of an organization as valuable for future personnel development and rotation.</p>	<p>The CAE should consider developing a departmental level Competency Model to clearly articulate the skill-sets and professional knowledge required to adequately carry out the group's mission and satisfy the expectations of its stakeholders.</p>	<p>As noted in the observation, Internal Audit does consider different skill sets of its staff members and we actively recruit for diversity to ensure a broader base of knowledge of experience and expertise among the staff. At the University of Iowa where we have the largest staff, we have significantly improved our IT expertise and are attempting to improve it at Iowa State University as well.</p> <p>We'll investigate some competency models for consideration to ensure we articulate the skillsets and professional knowledge required to meet our audit responsibilities.</p>

Innovative Practice Suggestions for the Internal Audit Department Consideration

Observation	Recommendation	Internal Audit Response
<p>3. Consider using the IIA’s Practice Guides to enhance the QA&IP.</p> <ul style="list-style-type: none"> • <i>Standard 1300 (QA&IP)</i> The CAE must develop and maintain a quality assurance and improvement program (QA&IP) that covers all aspects of the internal audit activity. • <i>Standard 1310 (Requirements of the QA&IP)</i> The QA&IP must include both internal and external assessments. • <i>Standard 1311 (Internal Assessments)</i> Internal assessments must include ongoing monitoring of the performance of the internal audit activity; and periodic reviews performed through self-assessment or by other persons within the organization with sufficient knowledge of internal audit practices. <p>IAD meets the requirements as they relate to external assessments, and meets some of the requirements relating to internal assessments. A key element of the QA&IP program currently not being performed is periodic review through self-assessment. The IIA has issued two Practice Guides to assist CAEs who are developing QA&IPs:</p> <ul style="list-style-type: none"> • "Measuring Internal Audit Effectiveness" and, • "Quality Assurance and Improvement Program" <p>The Practice Guides provide a framework that includes general concepts such as stakeholder satisfaction, key audit processes, audit staff capabilities, technological innovation, and IIA <i>Standards</i> conformance to create a robust, right-sized QA&IP program, including follow through reporting, to meet the specific needs of an internal audit activity.</p>	<p>IAD should enhance the QA&IP by considering the techniques outlined in the IIA Practice Guides. The resulting program should be tailored to fit the situation, involve all members of IAD, and help provide assurance that IAD is following its own policies and procedures, while meeting the expectations of senior management and the Audit Committee as it maintains general conformity with The IIA <i>Standards</i> and Code of Ethics.</p> <p>Components of the QA&IP should consider key audit processes, staff capabilities, technological innovation, and IIA <i>Standards</i>, while bringing focus on managing and improving all IAD processes.</p>	<p>We will develop a formal QA/IP program and we will review the referenced IIA Practice Guides and incorporate that material into our QA processes.</p>

Innovative Practice Suggestions for the Internal Audit Department Consideration

Observation	Recommendation	Internal Audit Response
<p>4. Annual Certification</p> <ul style="list-style-type: none"> • <i>Standard 2000</i> (Managing the Internal Audit Activity) The CAE must effectively manage the internal audit activity to ensure it adds value to the organization. <p>The IIA developed the <i>Standards</i> and the Code of Ethics as a means to guide the profession on the principles that are to be followed to ensure the activity is adding value to the organization. It is therefore important to periodically remind Internal Audit staff of their responsibilities to conduct their work in accordance with the professional standards. The department requires staff to complete an annual confidentiality agreement and supports professional training, but does not have a formal process in place to ensure the professional standards, including the code of ethics, are periodically reviewed.</p>	<p>Establish an annual certification process whereby IAD staff would be reminded of and be required to assert their responsibility to conduct work in accordance with professional standards, including the Code of Ethics.</p>	<p>We will initiate an annual certification as recommended and will do it at the same time as our annual conflict of interest statement.</p>

Innovative Practice Suggestions for the Internal Audit Department Consideration

Observation	Recommendation	Internal Audit Response
<p>5. Develop a comprehensive risk ranked audit universe</p> <ul style="list-style-type: none"> • <i>Standard 2010 (Planning)</i> The CAE must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organization's goals. <p>IAD demonstrated <i>Standards</i> conformity with its established annual risk assessment and planning process, giving adequate consideration to specific key risk factors and management input on the risks facing the organization on an ongoing basis. Obtaining this input is a recognized innovative practice used by best-in-class audit shops. Our executive Interviews clearly pointed out that management is appreciative of the opportunity to provide input and believes it adds value to the process.</p> <p>Although IAD approach is innovative and includes reporting of historical four-year plan information, we believe an opportunity for improvement exists with the development of a comprehensive audit universe. A separate risk assessment of the audit universe will provide a ranking of the auditable units which can be used to supplement and enhance the current annual risk assessment and planning process. Development of a comprehensive risk ranked audit universe helps to ensure a complete understanding, assessment and prioritization of audit effort, consideration and utilization of resources in preparation of the annual plan. The audit universe should include consideration of IT and Construction Projects, which are deemed to be areas of high risk and value to the organization, and the special schools. This detailed analysis showing the entire risk assessed audit universe is often a part of the information provided to senior management and the AC to support their oversight responsibility of approving the final annual audit plan.</p>	<p>The CAE should consider developing an annual audit plan presentation based on a risk assessed and ranked audit universe. To assure the Committee has the opportunity to provide complete oversight, we suggest this presentation include not only the auditable units that have been suggested for the current plan, but also those areas that have been excluded due to resource constraints or other factors.</p>	<p>We currently consider all aspects of each University for inclusion in our annual risk universe.</p> <p>Due to our limitations of expertise in relation to the risk related to Construction Projects we are in the process of obtaining assistance by contracting with industry specialists on a construction audit of the UIHC Children's Hospital.</p> <p>We will more formally document our risk universe through our annual risk assessment process. Each year we will build on the risk universe so that over time a comprehensive model is created. Because our Universities are so large and complex it will take several years to complete this task. We will use our Big 10 peers as resources to identify models that may work for high education audit shops.</p>

Innovative Practice Suggestions for the Internal Audit Department Consideration

Observation	Recommendation	Internal Audit Response
<p>6. Staffing Analysis</p> <ul style="list-style-type: none"> • <i>Standard 2030</i> (Resource Management) The CAE must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan. <p>The process of determining staffing levels for IAD is one of best judgment. IAD has not performed a staffing analysis based on the annual risk assessment. The lack of a staffing analysis may limit senior management and the Audit Committee's ability to make a judgment on resource adequacy.</p> <p>Best-in-class audit departments determine appropriate staffing levels by performing an analysis based on a comprehensive risk based audit universe and their current coverage of the risks. This approach provides senior management and oversight committees a basis for making more informed judgments on the reasonability of existing staffing levels.</p>	<p>The CAE should consider performing a staffing analysis based on the risk assessment of the audit universe and present the results to senior management and the Audit Committee to help validate the current level of staffing resources. The analysis can clearly demonstrate audit areas (risks) that are intentionally excluded from or delayed in the proposed audit plans because of resource limitations. Such data will afford both senior management and the Audit Committee the opportunity to enhance their oversight of IAD.</p>	<p>We have conducted some staffing analysis in the past but need to redo it as it is outdated. Our past assessment compared the number of staff to industry standards. At UNI we've added a full-time staff member which doubled our staff and it put us in a favorable comparison to other institutions of its size. At The University of Iowa we've added at least one staff auditor and one new IT Audit position to improve the ratio of auditors to peers. At Iowa State University we recently received approval to hire an Auditor and are hopeful we can get someone who has IT experience. That recruitment is underway.</p> <p>Completing a new staffing analysis will be beneficial to ensure we have adequate resources to meet our internal audit responsibilities.</p>

Innovative Practice Suggestions for the Internal Audit Department Consideration

Observation	Recommendation	Internal Audit Response
<p>7. Staff Assignments</p> <ul style="list-style-type: none"> • <i>Standard 2230</i> (Engagement Resource Allocation) Internal auditors must determine appropriate and sufficient resources to achieve engagement objectives based on an evaluation of the nature and complexity of each engagement, time constraints, and available resources. <p>IAD has not formalized the resource allocation process and does not document the rationale for assigning auditors to an engagement. When determining the appropriateness and sufficiency of resources, management should consider:</p> <ul style="list-style-type: none"> • Number of auditors and their experience level • Knowledge, skills and other competencies of the auditors • Availability of subject matter experts where additional knowledge and competencies are required • Training needs of internal auditors in order to support meeting the department's developmental needs and/or goals 	<p>The CAE should establish a written policy in the IAD Manual requiring that the rationale for assigning auditors to an engagement be documented in the planning section of the work papers.</p>	<p>We currently make assignments to audit projects based on the auditor's skills, expertise, educational background and complexity or subject matter of the audit. However, we have not documented the decision process as recommended by the QAR Team. We will include the assignments in the individual audit work paper sets.</p>

Innovative Practice Suggestions for Audit Committee and Senior Management Consideration

Observation	Recommendation	Audit Committee & Senior Management Response
<p>1. Develop and implement a Board of Regents Audit Committee Charter</p> <p>The responsibilities of the Board of Regents Audit Committee are addressed in sections of the Board of Regents Policy. The responsibilities are not detailed to the level that is typically observed with stand alone audit committee charters. In addition, the policy does not clearly outline the Audit Committee's functional reporting relationship with the CAE who is a direct report.</p>	<p>To strengthen governance over IAD and make clear their responsibilities, the Audit Committee should consider developing a charter which outlines their responsibilities, including the functional reporting relationship between the committee and the CAE. This charter should be approved by the full Board of Regents. Going forward, the charter should be reviewed annually, with updates made only as needed.</p>	<p>Board Policy 7.09 addresses these areas in considerable detail so a separate Charter could be duplicative. However, we understand the issue with more detail and the reporting relationship so we'll either modify the Board Policy at the next opportunity or will develop a Committee Charter.</p>
<p>2. Consider implementing a consistent reporting relationship between the CAE and the three university presidents.</p> <p>Inconsistency was noted with the means in which the CAE interacts with the three university presidents. The CAE has regular periodic meetings with both the president of the University of Iowa and the University of Northern Iowa.</p> <p>For Iowa State University, there is significantly less interaction between the CAE and the president. There is not a regular meeting in place, and the president has delegated the responsibility of meeting with the CAE to the Chief of Staff.</p> <p>Inconsistency with how the CAE interacts with the various presidents could create confusion and send the wrong message throughout the various universities.</p>	<p>To enhance the stature and position of internal audit throughout the three universities, it is recommended that a consistent reporting relationship be established.</p>	<p>We agree that a consistent reporting relationship at all 3 Institutions would enhance the stature and position of Internal Audit.</p>