

# Annual Report on Internal Audit Activities

Finance & Audit Committee Meeting



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## Executive Summary

The 2008 – 2009 Office of Internal Auditing (OIA) Annual Report provides a summary activities for the year and presents quantitative and qualitative data for benchmarking the effectiveness and efficiency of operations.

During the year, we performed audit engagements, investigations and advisory services designed to evaluate management’s risk mitigations techniques. Engagement results have been reported to the appropriate levels of management and the Board. Management progression on the remediation of outstanding audit issues is reasonable and there are no instances in which we believe management has accepted unreasonable levels of risks.

Highlights for the 2009 fiscal year are as follows:

- Completed a significant portion of the audit plan
- Increased staff size by one during the last week of the fiscal year, thus achieving 100% capacity
- Provided coverage for approximately 30% of high risk process areas
- Began developing a project tracking and follow up system
- Added the Certified Compliance & Ethics Professional designation to the list of staff qualifications
- Coordinated extensively with external auditors to identify coverage areas and avoid overlap

The Office of Internal Auditing hopes to continue providing value added services to the university community.

Robert Berry  
Director of Audit

**INTRODUCTION**

The University of North Florida’s (UNF) Office of Internal Auditing (OIA) helps the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluating and/or improving the effectiveness of risk management, internal control, and governance processes. The OIA performs many valuable functions including:

- Operational, technology and financial audits
- Compliance audits
- Process efficiency reviews
- Whistleblower intake and investigation

We report the results of these activities to appropriate stakeholders including university management and the Board. Office of Internal Auditing’s activities are governed by standards promulgated by the Institute of Internal Auditors (IIA), known as the International Professional Practices Framework (IPPF). Unless specified otherwise, all activities are in accordance with applicable standards. This report summarizes OIA activities as of the fiscal year ended June 30, 2009.

**AUDIT PROGRAM ANALYSIS**

The OIA is required to periodically report its activities to management and the Board. Most of this reporting is best accomplished through the IIA required Quality Assurance and Improvement Program (QAIP). The QAIP must include both internal and external assessments.

The internal assessment must include audit performance monitoring. Therefore, we have developed goals and objectives with specific performance measurements. The external assessment must be performed by an independent party at least once every five years.

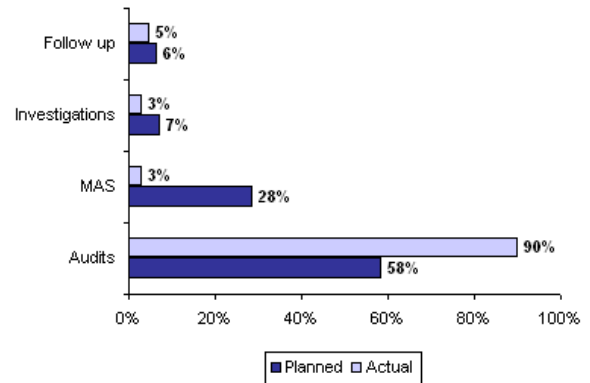
This section of the annual report highlights some Office of Internal Auditing efforts followed by a summary of all performance measurements and results.

**Effort Allocation**

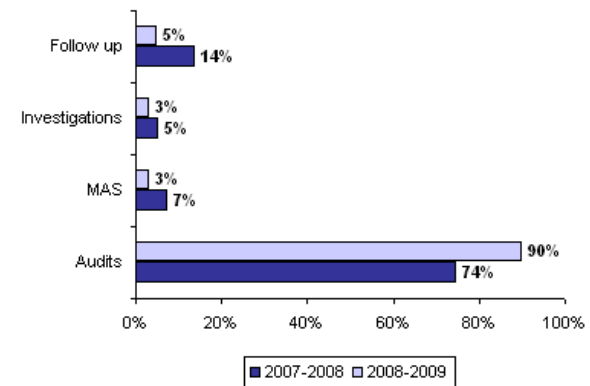
In general, the OIA performs the following types of activities: Internal Audits, Management Advisory Services, Investigations and Follow Up on outstanding issues. Ideally, a majority of the time allocation should be in the Internal Audit category. As evidenced in [Figure 1](#) the OIA allocated

approximately 90% of available hours to the completion of internal audits. This is higher than budgeted and primarily attributed to better efficiency in the completion of Management Advisory Services and Investigations.

**Figure 1 - 2009 Actual to Budget Allocation**



**Figure 2 - Allocation Comparison Year Over Year**



**Coverage**

The Office of Internal Auditing strives to provide audit coverage to areas posing the greatest risk to the university. The level of coverage in any given year is subject to resource availability. The OIA continuously coordinates with other audit functions to ensure adequate coverage and to avoid duplication. The combined efforts of internal and external audit functions provided coverage for almost 30% of high risk functions and processes.

**Figure 3 - Risk Coverage**

	2009	2010	2011
High Risk Coverage	28%	30%	22%

**People, Proficiency and Professional Development**

The University of North Florida has numerous operational functions that span a multitude of industries and disciplines. Therefore, it is essential that the makeup of the audit department contains a group of professionals with diverse backgrounds and experiences that will allow personnel to quickly adapt to the university’s environment. As a result, the staff maintains a wide range of certifications/professional designations and degrees as detailed below:

**Figure 4 - Staff Qualifications & Background**

Undergraduate Degrees	2
Graduate Degrees (in process)	2
CPA – Certified Public Accountant	1
CIA – Certified Internal Auditor	2
CISA – Certified Information System Auditor	1
CCEP – Certified Compliance & Ethics Professional	1
CCA – Certified Controls Specialist	1

Maintaining these certifications requires individuals to obtain a specific number of continuing education hours on an annual basis. Additionally, the Office of Internal Auditing strongly encourages continuous professional development. This ensures staff is adequately trained and allows us to keep abreast of current industry trends. Ultimately, professional development enables us to provide the best service possible to our clients. Each employee must complete at least 40 hours of continuing education/professional development per year. The table below summarizes staffing and training for the 2009 fiscal year.

**Figure 5 - 2009 Staffing and Training**

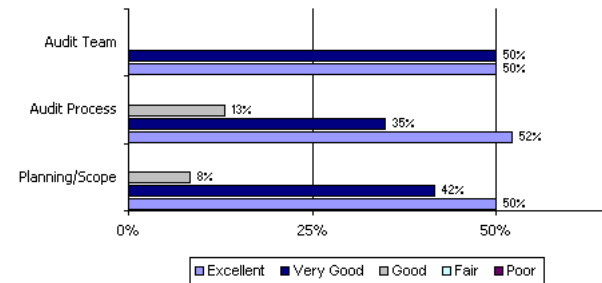
	FY 2009	
	Planned	Actual
<b>Authorized Staff</b>	3	3
<b>Actual Staff</b>		2
<b>% Filled</b>	100%	67%
<b>Avg Training Hours/Auditor</b>	40	50

**Client Satisfaction Survey Results**

The Office of Internal Auditing requests feedback from clients at the conclusion of engagements. This is done in an effort to ensure high quality services that meet or exceed client expectations. The survey is comprised of approximately 13 questions designed

to provide feedback on audit scoping, the audit process, and the audit team. Survey results indicate that clients are satisfied with our services. As illustrated in [Figure 6](#), all survey results fall within the Excellent, Very Good or Good rating categories.

**Figure 6 - Client Satisfaction Survey Results**



**Key Performance Measurements**

In accordance with the Institute of Internal Auditors (IIA) Quality Assurance & Improvement Program (QAIP) requirements, the Office of Internal Auditing developed performance measurements designed to evaluate the effectiveness and efficiency of the auditing functions. Items measured include:

- Staff Qualification
- Productivity
- Professional Development
- Engagement/Project Management
- Stakeholder Reporting Frequency
- Client Satisfaction

[Figure 7](#) on page 3 summarizes performance measurements, targets and actual performance. As evidenced, a majority of the goals are being met. Engagement management and report turnaround time requires some improvement. It is important to note that goals for these processes are measured on a project basis and the targets were met more often than not.

Figure 7 - Key Performance Measurement Summary

#	Measurement Goal/Criteria	Target Range	Specific Target	Actual Performance
<b>Personnel</b>				
1.	Non Student staff with college degrees	70% to 100%	75%	100%
2.	Non Student staff w/Certified Internal Auditor	60% to 100%	50%	100%
3.	Non Student staff with other certifications	50% to 100%	50%	50%
4.	Professional development hours/employee	40 to 60 hours	40 hours	50
<b>Productivity</b>				
5.	Staff Auditor – direct utilization ratio	70% to 80%	75%	N/A
6.	Senior Auditor – direct utilization ratio	65% to 80%	70%	64%
7.	Director – direct utilization ratio	20% to 50%	30%	47%
8.	Manage engagements with 20% of budget	N/A	20% var	3 of 5 engagements
<b>Reporting/Communications</b>				
9.	Report turnaround time	5 to 15 days	10 Days	3 of 5 engagements
10.	Finance & Audit Committee communications	4 to 6/year	4 time/year	4 updates
<b>Quality &amp; Effectiveness</b>				
11.	Client satisfaction survey results	65% to 100%	70%	100%

## Legend

On Target	Caution	Needs Improvement
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## AUDIT REPORT SUMMARIES

The following information profiles major internal audit engagements completed during the fiscal year.

### Network Operations – Routers & Firewalls

A network is a collection of computers and devices connected to each other. The network allows computers to communicate with each other and share resources and information.

The scope of this engagement was limited specifically network routers. Routers are network devices tasked with routing and forwarding information and can be used to grant or deny specific types of activity.

The primary objectives of this audit were to assess whether internal controls provide reasonable assurance that:

- Policies clearly delineate duties, responsibilities and acceptable configuration and security standards
- Devices are physically secured in manner to prevent/detect unauthorized access.
- Software is configured in a manner that adequately protects the network from unauthorized access and/or use.
- Sufficient relevant information is logged and maintained in a manner that facilitates investigation of suspected unauthorized behavior.

### Osprey 1 Card

Beginning Fall semester 2008, the University of North Florida (UNF) began providing the Osprey 1 Card to all members of the campus community. The Osprey 1Card is UNF's official photo identification card and much, much more. The card allow holders to access specific areas (i.e. fitness center), check out library books, manage meal plans, etc. The card also serves as a "prepaid debit" card that allows cardholders to make purchases at both on and off campus approved merchant locations (i.e. Applebee's, CVS, Tropical Smoothie, etc). It is designed to eliminate the need to carry cash.

Osprey 1 Card features and functionality are available to every student, faculty and staff member. Therefore, this new initiative can potentially impact greater than 16,000 individuals. In addition to the convenient features, the Osprey 1 Card also has revenue generating potential.

The scope of the engagement was to review the "customer experience" and to provide timely feedback to management regarding the processes and the internal control environment. As mentioned previously, the initiative adds tremendous value to the university's brand. Therefore, it is pertinent that the initial customer experience is one that encourages continued use. The scope did not include reviewing backend processes such as the information technology, third party provider relationships, accounting/booking etc. These aspects will be included in the 2009 – 2010 fiscal year audit plan.

The primary objectives of this audit were to assess whether internal controls and processes provide reasonable assurance that:

- Participants are able to easily sign up for an account utilizing the online sign up function
- Cardholders can fund accounts utilizing a debit/credit card
- Funds are applied to accounts accurately and in a timely fashion
- Cardholders are able to utilize the Osprey 1 Card at advertised on campus locations
- Merchants are able to process transactions utilizing the Osprey 1 Card effectively and efficiently
- Merchants charge appropriate amounts based on list price and/or contractual agreements (i.e. students discounts, etc)

### Bank Reconciliations

The Treasurer's Office and the Controller's Office each share the responsibility for ensuring bank reconciliations are accurate, complete and timely. This is an essential function as it provides reasonable assurance that cash and cash equivalents are adequately safeguarded. The units maintain approximately 20 bank accounts/sub accounts that map to approximately 15 general ledger accounts with balances oftentimes exceeding \$4 million.

The primary objectives of this audit were to assess whether internal controls and processes provide reasonable assurance that:

- All bank activity that requires reconciliation is identified.
- Balances per bank are agreed with balances per general ledger.
- Outstanding items are appropriately identified.
- Outstanding items receive adequately follow up/disposition.

### **Ticket Box Office**

The Ticket Box Office (TBO) provides ticketing services such as ticket sales (in person, telephone and online), ticket delivery, and cash & credit card collection for sponsors utilizing university venues to sponsor events.

The scope of the audit was to review the ticketing processes, cash/credit/debit collections, and information security. The primary objectives of this audit were to assess whether internal controls and processes provide reasonable assurance that:

- Tickets are sold in accordance with relevant policies, rules, laws and contractual agreements.
- Funds are collected, deposited and reported accurately.
- Sensitive customer information is appropriately secured in accordance with applicable laws, rules, regulations, etc.
- Operational processes are conducted in a manner that is effective and efficient.

### **MANAGEMENT ADVISORY SERVICES**

The Office of Internal Auditing is committed to providing clients with management advisory services involving internal controls, efficient operations, generally accepted best practices, etc. Advisory Services can consist of limited reviews, process reviews, post audit assistance, training, etc. The results of these engagements may provide management with critical information necessary in the decision making process. Also, the results may be communicated verbally, through informal memos or via formal reports. The following information profiles major management advisory services conducted during the fiscal year.

#### **Parking Services**

Parking & Transportation Services is dedicated to providing professional parking and shuttle services for UNF students, faculty, staff, visitors and guests. This unit provides the ability to purchase daily passes via drive up windows or walk up locations in its main facility. During the 2009 fiscal year, the Office of Internal Auditing provided consultative/advisory services to Parking & Transportation regarding sound internal controls for adequately safeguarding cash/cash equivalents.

#### **Financial Aid**

UNF's Office of Internal Auditing maintains continuous contact with several universities in and outside of the state of Florida. During the 2009 fiscal year, many of these universities communicated that recent Department of Education (DOE) audits resulted in the return of federal financial aid dollars. The primary issue involved student withdrawals and calculating the amount of funds due the university (or returned to the government) when students do not attend the full term. The Office of Internal Auditing discussed this issue and UNF's underlying processes with Financial Aid personnel. It was determined that UNF can reasonably estimate student attendance in a manner that should satisfy DOE requirements.

#### **Golf Complex**

The GolfPlex is a golf facility on the University of North Florida campus containing a lighted driving range, putting greens, 4 full size golf holes, professional instruction, high tech fitting and club repair facilities. UNF owns the land and facility equipment. McCumber Golf is a third party services provider that manages facility day to day operations. UNF and McCumber Golf are currently in talks to renegotiate the contractual agreement.

**INVESTIGATIONS**

The Office of Internal Auditing (OIA) receives complaints and allegations of fiscal improprieties. Depending on the nature of the item, complaints and allegations may result in full investigations conducted either by the OIA or another business unit better suited to handle the item. Occasionally there is not enough evidence to warrant a full investigation. Under these circumstances the investigation concludes at the preliminary assessment phase.

During the 2009 fiscal year, the Office of Internal Auditing received 6 complaints. One complaint warranted a full investigation. However, the results did not yield any significant issues. [Figure 8](#) and [Figure 9](#) provide complaint activity statistics including the source and disposition of complaints.

**Figure 8 - Complaint Activity by Source**

Source	# Received	% of Total
Internet	4	67%
Telephone	0	0
Email	2	33%
Traditional Mail	0	0
Other	0	0
<b>Total</b>	<b>6</b>	<b>100%</b>

**Figure 9 - Complaint Disposition**

Source	# Received	% of Total
Preliminary Assessment Only	3	50%
Full Investigation	1	17%
Referred to Another Unit	2	33%
<b>Total</b>	<b>6</b>	<b>100%</b>

**OUTSTANDING ISSUES & FOLLOW UP**

The Institute of Internal Auditor’s (IIA) International Standards for the Professional Practice of Internal Auditing (the Standards) require internal auditor to determine if management has taken appropriate action regarding issues disclosed in audit reports. UNF’s Office of Internal Auditing follows up on issues originated by the department as well as those originated by outside agencies (i.e. federal & state auditors, external auditors, etc).

Audit reports typically include any issues or concerns noted during the audit engagement. Management is required to respond to issues and develop detailed action plans to address concerns. A target completion date for issue remediation is also required. Audit and management coordinate to rate issues based on risk and potential and/or actual impact. The OIA follows up on outstanding items throughout the year based on management’s target completion dates.

The following graph ([Figure 10](#)) provides an update on outstanding issues stratified by rating and status. As evidenced, management has effectively addressed over 75% of outstanding issues.

**Figure 10 - Outstanding Issues Status<sup>1</sup>**

	Audit Issue Status				Unrated	Total
	Critical	High	Moderate	Low		
Open					8	8
Risk Accepted			1	2		3
In Process		2	3			5
Resolved		2	1			3
Closed	1	4	5	3		13
<b>Total</b>	<b>1</b>	<b>8</b>	<b>10</b>	<b>5</b>	<b>8</b>	<b>32</b>
% Closed	100%	50%	56%	100%		62%
% Closed or Resolved	100%	75%	67%	100%		76%

<sup>1</sup> Open – Issues in which actions plans have not been implemented.  
 Risk Accepted – Issues in which management has decided to continue the current process.  
 In Process – Issues in which the action plan is currently being implemented.  
 Resolved – Management has informed the OIA that issues have been resolved (no or little independent verification)  
 Closed – Issues have been resolved and the OIA has independently verified the closed status.



**OTHER MANDATORY REPORTING**

As mentioned previously, the Office of Internal Auditing's activities are governed by standards promulgated by the Institute of Internal Auditors (IIA), known as the International Professional Practices Framework (IPPF). This section of the annual report provides

**Organizational Independence**

As required by standard, the Office of Internal Auditing (OIA) must confirm to the board, at least annually, the organizational independence of the internal audit activity. UNF's OIA reports administratively to the President's Office and functionally to the Finance & Audit Committee (FAC). Reporting to the FAC promotes the independence necessary for the OIA to adequately perform its job function.

**Impairments to Independence or Objectivity**

If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed. There were no impairments to independence or objectivity for any engagements performed during the 2008 – 2009 fiscal year.

**Disclosure of Nonconformance**

Occasionally circumstances require the completion of projects/engagements in a manner that is not consistent with applicable standards. When this occurs, the OIA must disclose the nonconformance and the impact to senior management and the board. During the 2008 – 2009 fiscal year, there were no instances in which projects were performed in a manner that did not comply with applicable standards.

**Resolution of Management's Acceptance of Risks**

Each audit engagement can potentially produce items that may pose risks to university operations. Some items will require management's attention while others may be situations in which management decides to accept the risk associated with continuing the current practice. This is normal in limited circumstances and is often due to cost/benefit constraints. The OIA is required to disclose (to senior management and the board) any situations in which it is believed university personnel has accepted a level of residual risk that may not adequately reduce/mitigate the risk of loss. There have been no such instances during the 2008 – 2009 fiscal year.

**2009 – PROJECT SUMMARY**

Project Type	Title
Internal Audit	IT Network - Routers
Internal Audit	Ticket Box Office
Internal Audit	Bank Reconciliation
Internal Audit	Construction Operations
Internal Audit	Osprey 1 Card
MAS	Financial Aid
MAS	Parking Services
MAS	Treasurer's Office
MAS	P Card Transactions
MAS	Red Flag Rule
MAS	Whistleblower Policy
MAS	Golf Complex