Annual Report on Internal Audit Activities

Finance & Audit Committee Meeting

UNF UNIVERSITY *of* NORTH FLORIDA.

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Introduction

The prior fiscal year (2007 – 2008) was one that was met with tremendous transition and change. The Office of Internal Auditing experienced the exiting of the Audit Director and the hiring of an Interim Director. There was less than one week of transition/knowledge transfer time between the two parties, however, the Interim Director has 10+ years experience as an accountant and business consultant, including audit committee consulting, building new audit departments, and repairing ailing audit functions. Consequently, the Interim Director's first year was spent becoming familiar with (1) the University of North Florida as an organization of higher learning and (2) the Office of Internal Auditing (OIA).

Becoming familiar with the university involved identifying and evaluating current internal processes to determine if the current practices complied with the standards mandated by numerous governing bodies including United States Government Accountability Office (GOA), the Institute of Internal Auditors (IIA), the American Institute of Certified Public Accountants (AICPA), State of Florida statutes, and the Florida Board of Governors.

Unfortunately, there were several areas that were not in compliance with required standards specific to the profession of internal auditing.

As a result, during the 2008 fiscal year, we allocated a significant amount of administrative hours redefining internal process to (1) comply with internal auditing standards and general best practices and (2) ensure current processes are executed in the most efficient manner possible. We strongly believe that this was necessary, not only because the processes developed and/or reengineered are required, but also in order to build a foundation suitable for future departmental growth and longevity. This was the number one 2008 fiscal year priority, precluding any and all other types of audit activity.

Objective

This Annual Report on Internal Audit Activities presents summary level information concerning the University of North Florida's internal audit function. The objective of this report is to:

- Communicate the results of our Administrative, Internal Audit, Advisory Service, Investigation, and Follow Up efforts
     and through interpretation of these results
- Comment on the University of North Florida's internal control environment
- Evaluate the effectiveness and efficiency of the audit function

As mentioned previously, the department realized significant changes during the 2008 fiscal year. As a result, this report provides details regarding requirements and the changes implemented to meet these requirements. When discussing proposed and actual departmental changes, we use benchmarking statistics to:

(1) Provide the Finance and Audit Committee (FAC) with awareness of "best practices"

E X E C U T I V E   S U M M A R Y

(2) Provide evidence to substantiate actions taken by the Office of Internal Auditing (OIA)

(3) Illustrate how best practices compare with UNF practices.

Benchmarking statistics utilized in this document originate from a survey conducted of over 900 United States and international internal audit offices representing 13 industry groups with over 100 higher education representatives. The Global Audit Information Network (GAIN) survey is conducted annually by the Institute of Internal Auditors (IIA) in conjunction with other specific industry groups including the Association of College & University Auditors (ACUA). When benchmarking, it is important to consider the characteristics of other survey participants. Therefore, the following is a brief snapshot of some of the participants as follows:

Select Higher Education Participants	Select Government Participants
Board of Regents of the University System of Georgia University of Central Florida University of West Florida Florida Gulf Coast University Miami University Duke University UCLA Audit & Advisory Services University of Kentucky Pennsylvania State System of Higher Education	US Postal Service – OIG Federal Reserve Bank (all 12) Shands HealthCare Royal Canadian Mounted Police Atlantic Lottery Corporation
	Select Business Participants
	Dell, Office Depot, Honda North America, Oracle Corporation, Lockheed Martin, General Mills, PepsiCo, FedEx, IBM

Highlights

What follows is an extremely high level summary of the most notable <u>required</u> and newly developed processes along with best practice benchmarks. Additional items and greater detailed for items listed below are included within this annual report.

- Developed a formal risk assessment process (present in 85% of public education audit functions)
- Created and implemented a formal Quality Assurance & Improvement Program (QAIP) (present in 65% of public education audit functions)
  - Implemented internal ongoing reviews to support the QAIP (present in 75% of public education audit functions)
  - Developed and implemented <u>performance measurements</u> to assist in measuring departmental productivity and efficiency (present in 63% of public education audit functions)
- Created and implemented standard "dashboards" for Finance & Audit Committee Reporting that included updates on internal audits, investigations, follow up and advisory services (present in 77% of public education audit functions).
  - Provided the FAC with benchmark statistics to provide a comparison of UNF Internal Auditing practices with those general practiced by other organizations (present in 46% of public education audit functions)
  - Provided updates on fraud/whistleblower activity (present in 67% of audit functions)
- Developed a process to ensure an annual review and approval of the FAC charter (present in 74% of public education audit functions). The last review/approval occurred in 2005.
- Performed the first internal Information Technology audit in at least 5 years (85% of audit higher education audit functions have at least one resource solely dedicated to Information Technology auditing. UNF does not have a fully dedicated resource.)

EXECUTIVE SUMMARY

- Developed individual training plan for staff members to ensure maximum use of strengths and development of weaknesses (present in 65% of audit functions)

We also reengineered some processes to make them more efficient. This allowed us to streamline formerly time consuming tasks, and while we utilized significant resources reengineering processes, we will reap benefits from these efforts in sequent years by reducing time allocated to administrative tasks and increasing time allocated to direct audit activities.

Summary & Conclusion

As evidenced, a significant amount of fiscal year 2008 time was allocated to ensuring compliance with applicable federal, state and professional organizational standards. With all the changes previously mentioned, we were still able to complete a few audit engagements, investigations, advisory services and follow up activities. Below is the overall conclusion related to these items:

The Office of Internal Auditing continues to be a significant element of the university's overall internal control structure. Management is responsible for establishing internal controls to identify, manage and monitor risks.
During the year, we performed audit engagements, investigations and advisory services designed to evaluate management's risk mitigations techniques. As a whole and from a financial perspective, we did not identify any conditions that we believe to be "material deficiencies" in internal controls. Additionally, we are satisfied with the current level of remediation of outstanding audit issues and there are no instances in which we believe management accepted unreasonable levels of risks.

As mentioned previously, we did not identify material control weaknesses, however, there were opportunities to improve current risk mitigation processes. This was evidenced in the cashiering review and the information technology physical security and environmental controls review. We found that the current process did not adequately reduce the risk of loss due and/or misappropriation of assets. We are satisfied with the management action plans designed to address the concerns and the level of remediation performed prior to the end of the fiscal year.

Challenges

Standards require the annual disclosure of challenges facing the internal audit departments. Therefore, we summarize some challenges we face.

Keeping pace with a rapidly growing environment with the same or reduced resources will be a constant challenge. Turnover remains fairly stable, however, we are not fully staffed and are in the process of filling one open position. The Office of Internal Auditing is fully committed to being a value added contributor to the governance structure of the University of North Florida.

|es| Robert Berry – Interim Director of Audit

I N T R O D U C T I O N

The University of North Florida's Office of Internal Auditing strives to be a department that:

- Performs it function(s) in accordance with all applicable standards

- Provides a mechanism to evaluate the university's internal control environment

- Adds value to the university operations through the performance of internal audits, advisory services, investigations, etc

- Provides clear and accurate information (transparency) to executive management and stakeholders regarding the university's control environment

Consequently, we have created this Annual Report to provide reporting and accountability for activities within the Office of Internal Auditing during the 2007 – 2008 fiscal year.

The 2007 - 2008 fiscal year was one that was met with tremendous transition and change. The Office of Internal Auditing experienced the exiting of the Audit Director and the hiring of an Interim Director. There was less than one week of transition/knowledge transfer time between the two parties, however, the Interim Director has 10+ years experience as an accountant and business consultant, including audit committee consulting, building new audit departments, and repairing ailing audit functions. Consequently, the Interim Director's first year was spent becoming familiar with (1) the University of North Florida as an organization of higher learning and (2) the Office of Internal Auditing (OIA).

Becoming familiar with the university involved identifying and evaluating current internal processes to determine if the current practices complied with the standards mandated by numerous governing bodies including United States Government Accountability Office (GOA), the Institute of Internal Auditors (IIA), the American Institute of Certified Public Accountants (AICPA), Florida state statutes, and the Florida Board of Governors.

Unfortunately, there were several areas that were not in compliance with required standards specific to the profession of internal auditing.

As a result, during the 2008 fiscal year, we allocated a significant amount of administrative hours redefining internal process to (1) comply with internal auditing standards and general best practices and (2) ensure current processes are executed in the most efficient manner possible. We strongly believe that this was necessary, not only because the items are required, but also in order to build a foundation suitable for future departmental growth and longevity. This was the number one 2008 fiscal year priority, precluding any and all other types of audit activity as failure to remediate these items could severely impact the credibility of the department and/or any resulting conclusions from audit engagements.

This report not only provides accountability for OIA activities, but benchmarking statistics to

(1) Provide the FAC with awareness of "best practices",

(2) Provide evidence to substantiate departmental actions and

(3) Illustrate how globally accepted best practices compare with UNF practices.

Summary benchmark information is included in this document. Detailed information is included in a separate insert. The survey is part of the Global Auditing Information Network (GAIN) and is produced by the Institute of Internal Auditors (IIA). Data is as of December 31, 2007. Survey participant profiles are as follows:

- 902 Internal Audit Shops including
    - 156 Educational Institutions and Systems
    - 104 Public Education Institutions
    - 74 Government agencies
    - Approximately 13 industries

A D M I N I S T R A T I O N

During the 2007 – 2008 year, the Office of Internal Auditing allocated significant effort to necessary administrative tasks aimed at

(1) Ensuring the department complied with the standards of the various organizations that regulate audit activities and

(2) Streamlining any inefficient internal processes.

Developing these new processes utilized significant time administrative. As a result, administrative hours trended slightly higher than normal. However, we believe that the changes improve department operations by not only ensuring compliance with standards but also build a foundation for future growth.

Processes reengineered and/or newly created during the 2007 – 2008 fiscal year are listed below.

Figure 1 - Audit Department Foundation Building Activities

#	Required By Standard	Status[1]	Items
1.	Yes	**Complete	**Finance & Audit Committee Reporting (FAC)** Audit departments are required to provide formal updates to audit committees regarding the status of audit activities (audit engagements, investigations, advisory/consulting engagements), follow up activities, staff education and training, etc. We reviewed meeting agendas and minutes dating back as far as 2004 and noted that there were no full formally documented status updates and/or reporting for fiscal years 2004 through 2007. We introduced formal dashboard reporting during the 2008 fiscal year *(see Benchmark 1)*. The types of items now formally reported include the status of audit activities, complaint statistics, audit plan progression, etc. Benchmarking statistics disclose that a majority of survey participants also provide this type of information to their respective audit committees *(see Benchmark 2)*.
2.	Yes	**Complete	**Risk Assessment** In accordance with standards, we replaced the former semi formal risk assessment process with a formal process utilizing quantitative and qualitative characteristics to rate items in the audit universe. Audit Committees are required to have a high level understanding of the risk assessment methodology due to the fact that the audit plan, that audit committees approve, is a derivative of a larger assessment process. As a result, we explain the newly developed process when discussing the current year's audit plan. Benchmarking statistics disclose that over 88% of survey respondents have a formal risk assessment process *(see Benchmark 5)*.
3.	Yes	**Complete	**Information Technology Risk Assessment** Standards required that audit departments maintain a specific Information Technology Risk Assessment. The first IT risk assessment was performed during the 2007 – 2008 fiscal year.

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[1] *Improvement of an old process
** Newly developed process

#	Required By Standard	Status[1]	Items
4.	Yes	****Complete**	**Information Technology Proficiency** Standards require that audit departments either: • Have individuals on staff that are proficient in information technology concepts and best practices or • Obtain necessary technology proficiency via outside consultants. The newly hired Interim Director of Audit is IT proficient in a manner that would sufficiently meet this requirement. Therefore, shortly after joining the Office of Internal Auditing, he obtained the Certified Information System Auditor (CISA) designation. This is a rigorous exam that provides interested parties reasonable assurance that individuals have the knowledge necessary to conduct information technology audits. Benchmarking statistics disclose that over 93% of audit functions have resources that are solely dedicated to the performance of information technology audits *(see benchmark 15)*.
5.	Yes	***Complete**	**FAC Charter** Standards require an annual review of audit committee charters. This process is designed to ensure current charter language is accurate and relevant. The UNF FAC charter was last reviewed/approved in 2005. We developed a process to ensure this item is reviewed, updated as necessary and approved annually. Benchmarking statistics disclosed that over 73% of audit functions perform a review/approval at least annually *(see benchmark 3)*.
6.	Yes	***Complete**	**OIA Charter** Standards require an annual review of audit department charters. This process is designed to ensure current charter language is accurate and relevant. The UNF OIA charter was last reviewed/approved in 2005. We developed a process to ensure this item is reviewed, updated as necessary and approved annually. Benchmarking statistics disclosed that over 73% of audit functions perform a review/approval at least annually *(see benchmark 3)*.

#	Required By Standard	Status[1]	Items
7.	Yes	*Complete	**Audit Engagement Reporting** We redesigned the structure and content of audit reports/reporting. For example, we began rating observations so that FAC members and management can focus attention on items posing the most significant risk. Additionally, we begin adding opinions to the audits as whole. *See benchmark 20 for related statistics.*
8.	Yes	*Complete	**Improved Follow Up Process** Revamped the follow up process in manner that allows the department to utilize a tickler to follow up on individual items. This change makes the follow up process continuous and allows the department to follow up on items in a more timely fashion. Over 80% of survey respondents have a formal follow up process *(see benchmark 22).*
9.	Yes	*Complete	**Quality Assurance & Improvement Program (QAIP)** As required by standards, we developed and implemented a Quality Assurance & Improvement Program that includes internal performance metrics that can/will be used to evaluate the productivity and efficiency of the OIA. The OIA will periodically report performance metrics to the Finance & Audit Committee. *Over 60% of audit functions had the required program and formally reported results to the audit committee (see benchmark 23).*
10.	Yes	*Complete	**Time Reporting** Improved the time reporting process. Enhancements to the process allow the OIA to report project budget to actual comparisons to the Finance & Audit Committee periodically throughout the audit year. Historically, this type of FAC reporting occurred once per year.
11.	Yes	**Complete	**Client Satisfaction Survey** In effort to solicit continuous feedback from audit clients, we created and implemented a client satisfaction survey. The survey is 100% automated, distributed via the internet, and allows us to focus more on audit activities by not allocated time distributing, tallying and developing reports for survey results. 68% of audit functions utilize client satisfaction surveys to measure performance *(see benchmark 29).*

#	Required By Standard	Status[1]	Items
12.	Yes	*Complete	**Anonymous Fraud/Complaint Reporting Hotline** Fully automated the anonymous compliant process by creating a web based process that captures, analyzes and reports relevant information. Began reporting detailed activity to the FAC including the origination channel stratified by category. *Over 65% of audit functions report fraud activity to audit committees (see benchmark 2).*
13.	No	*Complete	**Redesigned Website** In response to the Quality Assurance Review (QAR), we redesigned our website to ensure it included relevant audit information and served as an information/marketing audit portal.
14.	Yes	**In Process	**Operations Manual** Updating the OIA operations manual to ensure includes standard department practices and methodologies. This ensures all personnel are aware of departmental expectations and are equipped with the tools to meet and/or exceed expectations.
15.	Yes	**In Process	**Department Specific Training** As required by standards, we developed department specific training designed to clearly and consistently communicate departmental policies, procedures and expectations.
16.	No	**Complete	**Professional Development Plan** We developed and implemented a Professional Development methodology designed to identify and capitalize on personnel strengths as well identify and improve upon personnel weaknesses. While not a specific requirement, this is a generally accepted best practice implemented in approximately 65% of audit departments *(see benchmark 18).*
17.	No	**Complete	Participated in the Global Audit Information Network Survey (GAIN). As a result, we will receive over $500 in benchmarking reports free of charge. This, in turn, will allow us to provide the FAC with benchmark statistics from a variety of audit functions including other universities of similar size.
18.	No	In Process	Recruiting to fill open position

#	Required By Standard	Status[1]	Items
19.	No	****Complete	Created an Office of Internal Auditing Checklist to ensure all required communications/functions (i.e. Finance & Audit Committee communications, internal reporting mechanism, etc) occur and can be monitored, tracked and reported.

QUALITY ASSURANCE & IMPROVEMENT PROGRAM

Numerous governing bodies mandate that audit departments provide stakeholders (i.e. audit committee, executive management, stockholder if applicable, etc) with a mechanism to measure the effectiveness and efficiency of the internal auditing activity. This is accomplished through the development and implementation of a Quality Assurance & Improvement Program (QAIP).

Many are aware of the fact that the UNF Office of Internal Auditing received an external quality review in December of 2006, however, this is only one small element of what is <u>required</u> under an effective Quality Assurance & Improvement Program. The following is a high level summary of the requirements:

- External Quality Assessment (one of two types conducted at least once every 5 years)
  - o Full External Review
  - o Self Assessment with Independent Validation
- Internal Assessment
  - o Ongoing Reviews Embedded in Operations
  - o Periodic Review/Performance Metrics
- Periodic Results Reporting To Stakeholders (i.e. executive management, audit committee, etc)

Benchmarking statistics for QAIP elements are at benchmark #23 – 30

UNF'S PATH TO QUALITY

The Quality Maturity Model is used to assist audit shops of varying sizes and skill sets in determining their current rank on a quality scale and how to progress from one level to the next. A high level summary of the various quality levels are presented below. A detailed representation can be view at **Figure 3 on page 8**.

Figure 2 - Path To Quality Overview

Quality Level	High Level Summary
Level 1 – Introductory	The audit department does not have a QAIP program. This is typically a fairly new audit function.
Level 2 – Emerging	There is a QAIP with <u>periodic</u> self assessments and internal quality assessments.
Level 3 – Established	There is a QAIP and an independent validation of the self assessment (SAIV) at least every 5 years.
Level 4 – Progressive	The QAIP is well defined and there is an external Quality Assurance Review (QAR) every 5 years.
Level 5 – Advance	The QAIP is fully integrated into daily operations, the external QAR occurs every 3 years and all staff members follow a rigorous continuing education program.

The following figure denotes the UNF Office of Internal Auditing's past, present and future Path to Quality. As evidenced, prior to the 2008 fiscal year, the department was level 1 on the quality scale. Process implemented during the 2008 fiscal year elevated the quality to level 2. We recommend that, at a minimum, the function strives to achieve quality level 4 by 2011.

Figure 3 - Detailed Quality Requirements

Level Requirements	Implementation Status			
Level 1 – Introductory				
Department has a written charter	Yes			
Department has a mission statement	Yes			
Organization has an audit committee with an audit charter	Yes			
Level 2 – Emerging				
Conducts periodic and/or ongoing self assessments		New 2008		
Head of Audit working towards CIA and other relevant certifications		New 2008		
Satisfaction surveys in use		Yes		
Results of self assessment reported to management and oversight board (i.e. audit committee)		New 2008		
Level 3 – Established				
Independent validation of self assessment (validator interviews audit committee and senior management)			Yes	
Department contains appropriate mix of professionals with varying skill sets and certifications			New 2008	
Performance metrics in place and utilized			2009 Goal	
Balanced Score approach utilized			2009 Goal	
Level 4 – Professional				
Head of Audit is a Certified Internal Auditor				New 2008
Independent external Quality Assurance Review				2011 Goal
Level 5 – Advanced				
Head of Audit is a C-level executive				2011 Goal
Performance metrics benchmarked against other organizations				2009 Goal
Active in the internal audit community (i.e. support local IIA chapter, write articles, perform speaking engagements, etc)				New 2008

Legend	
Yes	Items in place prior to the 2008 fiscal year.
New 2008	Items implemented during the 2008 fiscal year.
2009 Goal	Goals for future periods.

EXTERNAL ASSESSMENTS

There are two different types of external quality assessments that may be performed. This section explains the two types in more detail.

(1) Quality Assessment (QA) – Performed by 74% of audit functions

- A Quality Assessment is performed by an independent third party whose primary goal is to provide an objective, independent evaluation of the audit function.

- Essentially this is a full audit of an internal auditing function.

- This type of review provides the <u>highest</u> level of assurance regarding the effectiveness of an audit function.

(2) Self-Assessment with Independent Validation (SAIV) – Performed by 26% of audit functions

- The audit activity must complete a self assessment questionnaire

- An independent third party validates questions answered on the internal self assessment

- The "validator" substantiates <u>some</u> of the self assessment questions via an onsite visit and interviews with senior management and board members.

- This type of review provides the <u>lowest</u> level of assurance regarding the effectiveness and efficiency of operations.

- Completed at UNF in 2006.

INTERNAL ASSESSMENTS

Internal Assessments must:

- Include ongoing internal monitoring

- Include periodic a review of the audit function

- Have measurable results that are reported to the audit committee

To support the internal assessment requirement, we created a series of performance metrics that will be used to evaluate the effectiveness and efficiency of the audit department. The results will be reported to the audit committee periodically throughout the year and in each annual report. The performance metrics were finalized during the middle of the fiscal year. Therefore, the results presented in this report do not include items that may require an entire year's worth of activity to be accurate and all inclusive. All items will be reported beginning with the 2009 fiscal year.

In 1992, Robert Kaplan and David Norton published an approach to performance measurement called in the Balance Scorecard approach. This approach has since become the widely accepted "***best practice***" for setting performance measures and measuring actual performance. The ultimate goal is to provide a balanced representation of financial and operational measures. Therefore, the framework includes four perspectives:

- The Stakeholder

- The Customer/Audit Client

- Innovation, Learning & Growth

- Internal Processes

Balanced Scorecard Approach principles as they relate to the University of North Florida are presented in **Figure 4 above**.

Actual performance metrics are located at **Figure 5 on page 17.**

Figure 4 - Balanced Scorecard Approach
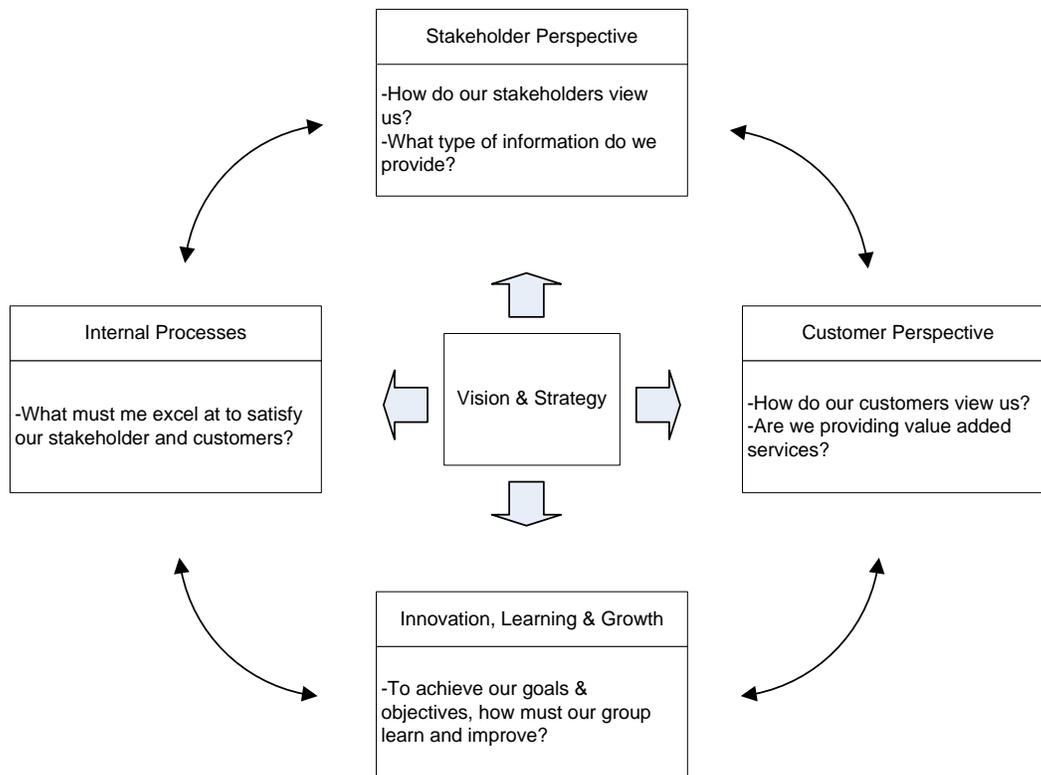
PERFORMANCE METRICS

Figure 5 - Audit Performance Metrics

#	Measurement Goal/Criteria	Goal	Results
	Personnel (Innovation, Learning & Growth) – *Present in 39% of audit functions*		
1.	Maintain acceptable percentage of non student staff members with college degrees	Between 70 – 80%	100%
2.	Maintain acceptable percentage of non student staff members with the Certified Internal Auditor (CIA) designation.	Between 60 – 70%	100%
3.	Maintain acceptable percentage of non student staff members with other job related certifications.	Between 50 – 80%	50%
4.	Obtain an acceptable number of professional development hours.	Between 40 – 60	100[2]
	Productivity (Internal Process Perspective) – *present in 71% of audit functions*		
	Maintain an acceptable "direct audit activity" utilization ratio (based on job function)		
5.	Staff Auditor	Between 70 – 80%	Not Reported
6.	Senior Auditor	Between 60 – 75%	Not Reported
7.	Director	Between 30 – 50%	Not Reported
8.	Complete individual audit engagements within an acceptable deviation of the budget (i.e. between 80% and 120% of budget).	Between 80 – 120%	Not Reported
9.	Complete an acceptable percentage of the audit plan.	Between 60 – 100%	Not Reported
	Reporting (Stakeholder Perspective) – *present in 60% of audit functions*		
10.	Maintain an average acceptable turnaround rate for presenting the draft report to management (i.e. time between audit exit conference and draft report presentation).	10 Days	3 days
11.	Provide the Finance & Audit Committee with periodic status updates.	Between 3 to 6 times/year	Not Reported
	Quality & Effectiveness (Customer Perspective)		
12.	To maintain satisfactory results on individual audit project client satisfaction surveys.	Between 70% - 100%	96%[3]
13.	To maintain satisfactory results on the overall audit department client satisfaction surveys.	Between 70% - 100%	Not Reported

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[2] The deviation above target is due the hiring of a new Interim Director of Audit during the year. It was deemed necessary and beneficial to attend several free university sponsored training courses on various technology applications utilized by UNF personnel.

[3] Refer to Appendix Item #1 for detailed description of survey criteria and results. Additionally, GAIN survey results disclosed that over 50% of the Educational Institutions performed customer surveys. Additionally, they encompassed many of the items queried by the UNF audit function.

A U D I T   I S S U E   S T A T U S

Following up on outstanding issues is a <u>required</u> essential element of the audit process. Approximately 88% of audit functions maintain a formal follow up process *(see benchmark 21)*. The OIA performs follow-up assessments on outstanding issues to determine if management has taken corrective action to address the risks associated with issues. Corrective action may include:

(1) Developing and implementing an action plan to address the risks

or

(2) Accepting the level of risk posed by the issue (i.e. low risk item, cost/reward, etc)

It is important to note that OIA's follow-up activities also include following up on issues generated by other agencies such as the Auditor General, external accountants, etc.

During the 2008 fiscal year, we followed up on and closed greater than 45 items, many of which were opened during the 2006 and 2007 fiscal years. Due to the number of aging items, we evaluated, redesigned and redeployed our internal follow up methodology to one that is more conducive to timely follow up.

This is another significant 2008 internal reengineering project that consumed considerable hours (i.e. original budget = 187 hours, actual hours = 254 hours)

Figure 6 - Audit Issue Status

Audit Issue Status	Critical	High	Moderate	Low	Unrated	Total
2006						
Open						0
Risk Accepted						0
In Process						0
Resolved						0
Closed			1		37	38
2007						
Open						0
Risk Accepted						0
In Process						0
Resolved						0
Closed					8	8
2008						
Open		1				1
Risk Accepted			1	1		2
In Process		3	4	1		8
Resolved						0
Closed			2			2
Total	0	4	8	2	45	59

Issue Risk Ratings – Legend			
Critical Risk	**High Risk**	**Moderate Risk**	**Low Risk**

WHISTLEBLOWER/COMPLAINT HOTLINE STATISTICS

The Office of Internal Auditing receives complaints from a variety of different sources including internal and external hotlines, anonymous email, written correspondence and referrals from other agencies.

Each complaint receives some degree of scrutiny to determine if there is sufficient cause to warrant an investigation. These investigations may result in formal reports with recommendations for improvements of internal controls, informal verbal recommendations, or transfers to other departments for resolution.

Various standards and regulations require reporting the nature and/or extent of complaints and whistleblower activity to executive management and/or the audit committee. The charts below delineate compliant history based on the medium in which the item was received and categorized by the functional area.

Figure 7 – Whistleblower/Complaint History By Method Received
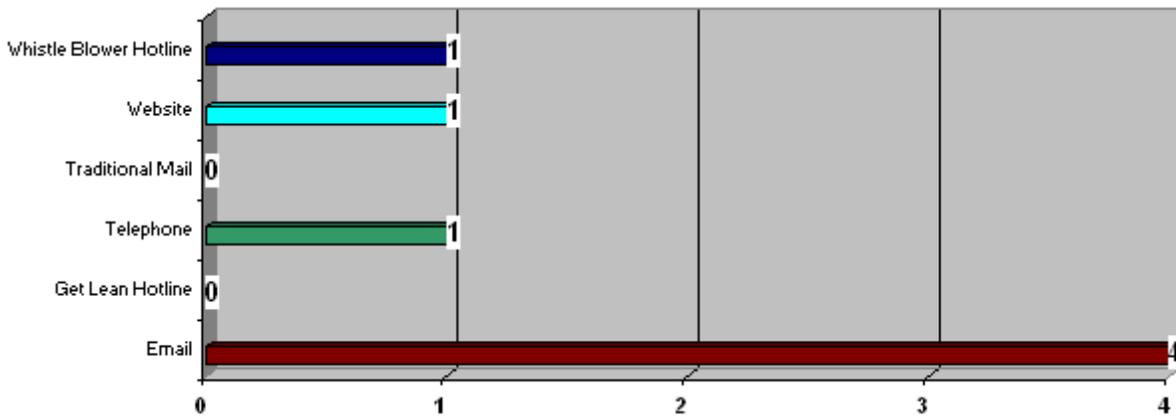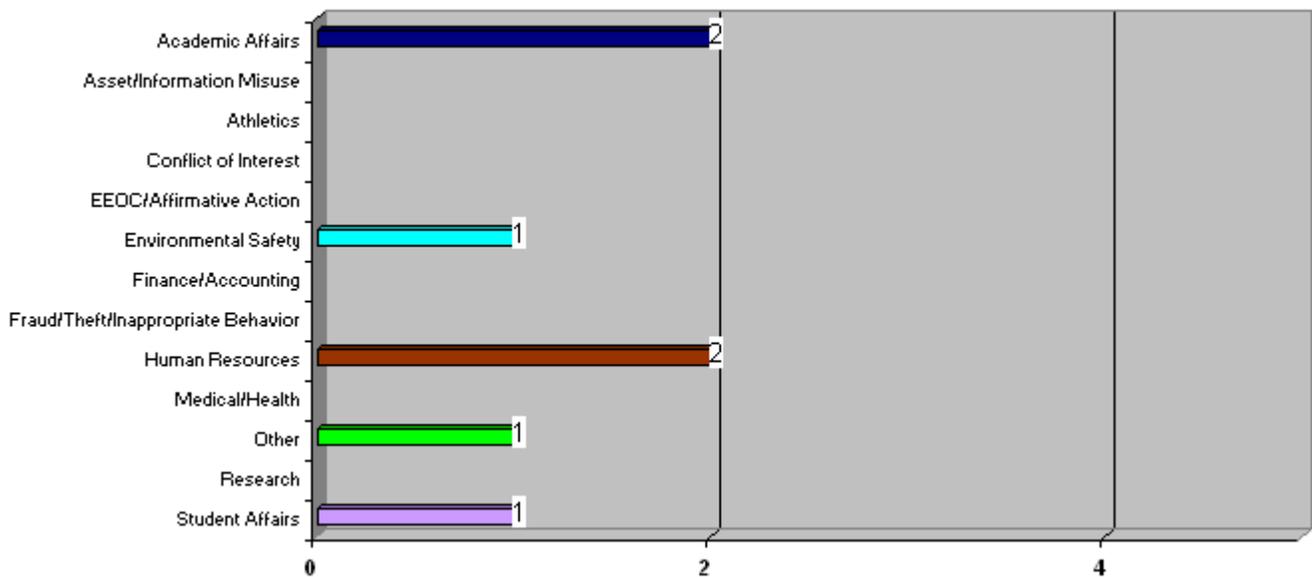

Figure 8 - Whistleblower/Complaint History by Functional Area[4]

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[4] Ethics Point (a leader in complaint hotline outsourcing) higher education categories were used a benchmark to develop UNF categories.

AUDIT PROGRAM ANALYSIS

RESOURCE AVAILABILITY & ALLOCATION

One key element in ensuring adequate audit coverage is the efficient use of resources. Therefore, the Office of Internal Auditing strives to allocate a majority of personnel hours to core services such as audits, investigations, management advisory services and follow up.

The allocation of audit resources is largely dependent on the:
- Nature and size of the audit/risk universe (areas that can be audited)
- Size of the internal audit department
- Background and proficiency level of the audit staff members

	Planned	Actual
Average Audits Per Auditor	4.81[a]	3.92[a]
Current Staff	1.5[b]	1.5
Target Audit Sub Total	**7.215**	**5.88**
% Audits Planned Actually Performed	78%[c]	N/A
Expected Audit Total	**5.63**	**5.88**

The University of North Florida's Office of Internal Auditing currently contains 2 personnel. One Internal Auditor whose time is 100% dedicated to direct assurance activities (i.e. audits, investigations, advisory services, etc) and one Interim Director with 50% of time allocated to direct activities. As a result, management and FAC members should expect the completion of between 5 and 7 full audit engagements per year with the optimal target equaling 6. We determined this number utilizing benchmarking statistics from over 900 audit functions including over 100 from the public education sector (see graph above). The OIA recently received authorization to increase the staff size by one. However, the addition of one person will not automatically equate to the completion of 4 additional audit engagements. Any increase in audit engagement is largely dependent on the skill level and experience of the individual hired.

The tables below summarize the Office of Internal Auditing's effort allocation based on the number of projects and total hours per effort category. These items must be viewed together in order to obtain an accurate picture of audit effort.
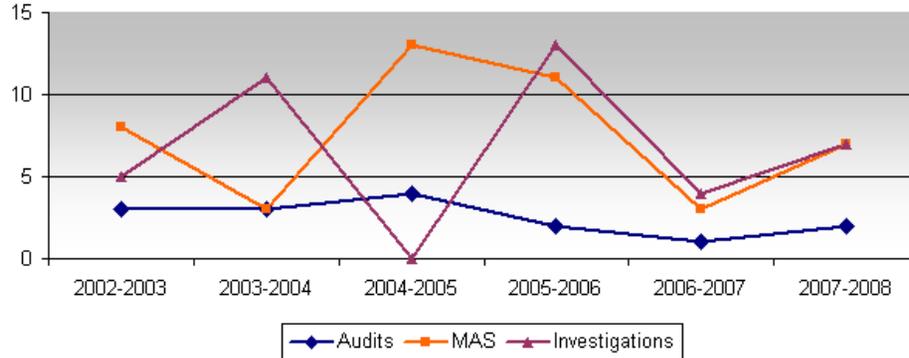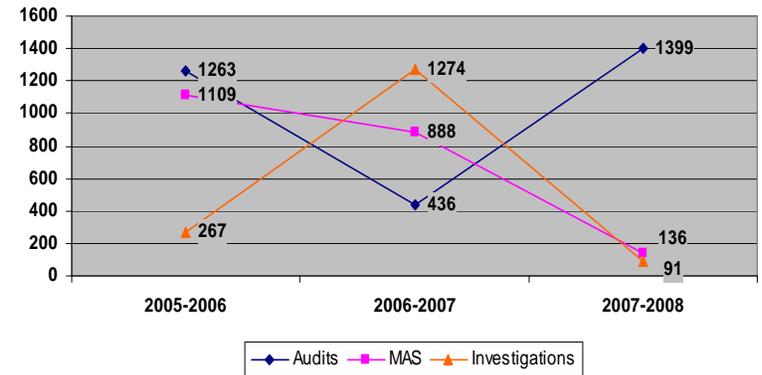
Figure 9 - Audit Trending – Number of Projects

Figure 10 - Audit Trending - Number of Hours

	Year						
	02-03	**03-04**	**04-05**	**05-06**	**06-07**	**5 Year Avg**	**07-08[5]**
Audits	3	3	4	2	1	**2.6**	2
MAS	8	3	13	11	3	**7.6**	9
Investigations	5	11	1	13	4	**6.8**	6
Total	**16**	**17**	**18**	**26**	**8**	**17**	**17**

	Year		
	2005-2006	**2006-2007**	**2007-2008**
Audits	1263	436	1399
MAS	1109	888	136
Investigations	267	1274	91
Total	**2639**	**2598**	**1626[6]**

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[5] 2007 – 2008 year marks the employment of the new Interim Director of Audit

[6] Number is low compared to prior years due to significant hours allocated to necessary administrative tasks to ensure the department complies with mandatory auditing standards. These hours will trend upward in subsequent years, however, it was necessary to devote time to administrative functions during the 2008 fiscal year.

INTERNAL AUDITS

While discussing the audit activity for the period between July 1, 2007 and June 30, 2008, it is important to bear in mind that the University of North Florida hired an Interim Director of on June 25, 2007 (exactly one week prior to the start of the new fiscal year that is the subject of this documentation). The 2008 fiscal year plan was essentially one that was carried forward from the prior fiscal. During the fiscal year, we continuously received additional information regarding several areas on the audit plan that required corresponding plan adjustments. The table below presents the original audit plan, project status and hours, additional commentary, and issues resulting form engagements.

Project #/Title	Status	Budgeted Hours	Actual Hours	Additional Information	Issues			
					Critical	*High*	*Moderate*	*Low*
Technology Physical & Environmental Security/ AUD 0708-02	Complete	300	318.5	The first internal technology audit performed at UNF least 5 years.	0	3	2	0
Cashier's Office	Complete	0	229.5	Carried forward from the prior fiscal year. The new Interim Director was not initially completely aware of the nature and scope of this engagement. However, it was an engagement related to the defalcation in the Cashier's Office.	1	0	0	0
Utilities Cost Allocation	Cancelled	240	868	Productivity concerns necessitated cancellation of this engagement	0	0	0	0
Accounts Receivable	Postponed To 2009	300	37.5	Conversations with relevant personnel disclosed that this entire process was changing as of June 2008. Therefore, postponing this engagement until after the redesign was the appropriate decision.	N/A	N/A	N/A	N/A
Florida Prepaid Program	Not Complete	230	0		N/A	N/A	N/A	N/A
Courtelis Funds Usage	Not Complete	300	8		N/A	N/A	N/A	N/A

Project #/Title	Status	Budgeted Hours	Actual Hours	Additional Information	Issues			
P Cards Process	Cancelled	335	14	Certain elements of this process were redesigned during the 2008 fiscal year. Additionally, the Controller's Office hired staff to perform P Card Audits. The OIA did not want to duplicate efforts and therefore did not perform this engagement. The redesigned processes were not known until the start of the new fiscal year.	N/A	N/A	N/A	N/A
Totals		**1,705**	**1,475.5**					

MANAGEMENT ADVISORY SERVICES/CONSULTING ENGAGEMENTS

There has been much discussion regarding the nature, extent and usage of advisory services. Essentially, there are two types of advisory services:

- Type I is essentially an audit engagement performed at a high level. As a result, the review is limited in scope and the time allocated to the engagement is typically shorter than a full audit engagement. Results may be disclosed in a formal report, informal memo or verbally. This technique is widely used in smaller audit functions in conjunction with full audit engagements in order to provide a wide range of audit coverage in larger organizations.

- Type II consists of providing consult to management on processes, procedure and/or policies due to expertise in a particular function. Procedures performed are typically agreed upon in advance and reporting varies but is typically a memo as the engagement may not necessarily include an assessment of a process.

Within most audit functions, Type I advisory services are oftentimes utilized to ensure appropriate audit coverage. The following details MAS projects during the 2008 fiscal year.

Project #/Title	Status	Actual Hours	Description	Type
MAS 0708-06/ One Stop MAS	Complete	1.5	This engagement involved discussing/reviewing the information system administration for a module of the Banner system utilized by One Stop. This was an extremely high level review in which discussion took place between the Interim Director of Audit and One Stop personnel	I
MAS 0708 - 02/ Parking MAS	Complete	2	This engagement involved a high level review of the reconciliation process related to the new parking self service terminals located throughout some campus parking lots.	I
MAS 0708-03/ PCI Compliance	Complete	23.5	Payment Card Industry (PCI) standards govern how organizations must handle credit card transactions. The related consortium has recently levied heavy fines and penalties to organizations in which there have been data leaks. UNF is currently contracting with a third party to perform a PCI review. The Interim Director is well versed in the PCI standards. Additionally, the results of this review can assist in developing and/or limiting the scope of current and future Information Technology audits performed by the OIA. As a result, it is essential that the OIA maintains an active role in this process.	I

Project #/Title	Status	Actual Hours	Description	Type
MAS 0708-04/ SACS Preparation	Complete	2	Required planning for SACS accreditation process.	II
MAS 0708 - 01/ Compliance Program Dev & Research	Complete	6	Preparation for audit committee presentation based on Board Of Governors pending regulation.	II
MAS 0708-05/ Legal - Compliance Monitoring	Complete	6.5		II
MAS 0708-07/ Academic Affairs - College of Health	Complete	9	Assisted with Dean retention voting process. Designed an automated system to facilitate the process with minimal impact to the audit department.	II
MAS 0708-08/ Dean Retention Vote - college of ed	Complete	3	Assisted with Dean retention voting process. Fewer hours resulted from the development of an automated process.	II
General Management Advisory Services	Complete	67.5		N/A
FAMU Task Force	Complete	29.5		
Total Actual		**150.5**		
Total Budget		**832.0**		

INVESTIGATIONS

Project #	Status	Actual Hours	Resolution
CAI 0708 – 01	Complete	2	Transferred
0	In Process	52	Full Investigation
CAI 0708 – 02	Complete	9	Transferred
CAI 0708 – 03	Complete	21	Full Investigation
CAI 0708 – 04	Complete	4	Transferred
CAI 0708 – 05	Complete	7.5	Transferred
CAI 0708 – 06	Complete	0	Preliminary Investigation Only
Total Actual		**95.5**	
Total Budget		**582**	

PEOPLE, PROFICIENCY & PROFESSIONAL DEVELOPMENT

This section of the annual report discusses

- Current departmental human resources
- The proficiency of those resources
- The professional development/continuing education efforts for the fiscal

People

The audit department currently contains 2 audit personnel and 1 support personnel as follows:

- An Interim Director responsible for managing the day to day operational/administrative tasks, planning, risk assessments, complaint/whistleblower hotline monitoring, formal communications, performing audit related engagements/projects, etc

Figure 11 - Audit Staff Statistics

People	FY08
Authorized Staff Level	3
Actual Staff Level	2
Percent Filled	67%

- An Auditor responsible for performing audit engagement/projects and other tasks as assigned.
- An Executive Assistant responsible for office administration.

The Office of Internal Auditing recently received authorization to obtain one additional team member. We are actively working to fill this open position.

Proficiency & Professional Development

The University of North Florida has numerous operational functions that span a multitude of industries and disciplines including:

- Education
- Healthcare
- Retail
- Information Technology Services
- Back Office Accounting

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 including:

o Certified Public Accountant (CPA)

o Certified Internal Auditor (CIA)

o Certified Information Systems Auditor (CISA)

o Certified Controls Specialist (CSS)

The following table illustrates how the UNF Office of Internal Auditing staff qualifications compare with other audit functions.

Professional Designation	UNF	Public Education	Outside of Public Education
Certified Internal Auditor (CIA)	100%	48%	34%
Information Systems Auditing	50%	24%	24%
Public Accounting (CPA, etc)	50%	58%	44%
Other Certifications	50%	28%	22%

Maintaining these certifications requires individuals to obtain a certain number of continuing education hours on an annual basis. The Office of Internal Auditing also strongly encourages continuous professional development. This ensures staff is adequately trained and allows us to keep abreast of current industry trends. Ultimately, this enables us to provide the best service possible to our clients.

O T H E R   M A N D A T O R Y   R E P O R T I N G

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 to the President's Office and the Finance & Audit Committee (FAC). Reporting to the FAC promotes the independence necessary to 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 during the 2007 – 2008 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 2007 – 2008 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. 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 2007 – 2008 fiscal year.

A P P E N D I X

(1) SATISFACTION SURVEY RESULT DETAILS

As discussed previously, the Office of Internal Auditing solicits feedback from clients after each engagement. The feedback is collected, analyzed, scored and reported utilizing a standard satisfaction survey form.

The grading criteria are:

- Based on 13 elements
- May be anonymous if participants choose
- Is limited to executive management, VPs, and department management.

Survey results for the 2007 – 2008 fiscal year are based on 6 responses. The table below provides additional details.

Attribute Rated	Attribute Average Score
*Audit purpose and scope clearly communicated to management	97%
*Management requests/concerns incorporated in audit.	97%
*Scope covered critical functions/risks.	93%
*Feedback to you on emerging issues during the audit	97%
*Accuracy of the audit issues	93%
*Duration of the audit	90%
*Clarity of the report	97%
*Usefulness in improving business processes and controls	97%
*Communication of results	97%
*Objectivity of the internal auditors	100%
*Professionalism of the auditors	97%
*Knowledge of your industry/organization/processes	97%
*Quality of relationship and rapport between audit and your department	100%
Total Average Score	**96%**