

# Status of Response to Report of Internal Investigation

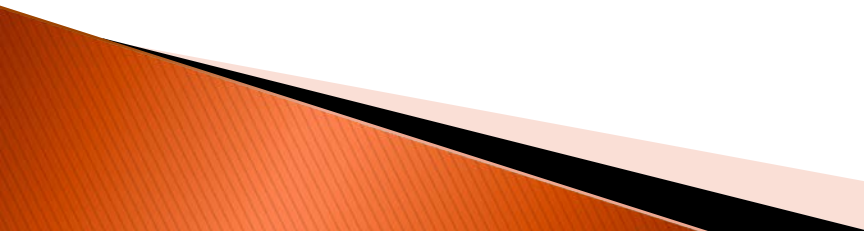
OIGC Complaint  
#2011-023 and #2011-024

As a result of a whistle-blower allegation that the Division of Audit & Compliance did not follow professional standards governing performance of internal auditing services, the University contracted with the firm of Sniffen & Spellman, PA, to investigate the allegations.

Sniffen & Spellman conducted an investigation and issued a report dated November 9, 2011.

The investigation concluded the following:

- ▶ The Division presented 15 audit or review reports to the BOT audit committee in the form of “executive summaries”, when, at the time the reports were submitted, no final report had been prepared
- ▶ Thirteen of the fifteen reports were also submitted to the BOG in the form of “executive summaries”

- ▶ The Division did not have a mandatory quality assurance and improvement plan in place as required by the Institute of Internal Auditors
  - ▶ The Division misrepresented to the BOT audit committee that audit reports were to be prepared in accordance with audit standards
  - ▶ The Division failed to conduct an adequate risk assessment as a basis for its 2011–12 audit plan
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- ▶ Of the 15 audit or review reports submitted to the BOT audit committee, 12 either had substantive work performed after the date of submission or did not exhibit sufficient work to support the reported conclusions

- ▶ As a result of the deficiencies noted by the investigation, the BOG recommended, on November 17, 2011, that the University implement a corrective action plan to include the following:

# ACTION #1

Authorize the investigation of the whistleblower's allegation that the Division of Audit and Compliance failed to objectively investigate complaints of misconduct or violations presented to it by employees or other individuals that would include a determination whether applicable professional standards were adhered to and sufficient documentation was developed to support findings and conclusions

# Response

The BOT engaged Ernst & Young, an independent firm, to investigate whether the investigations conducted by the Division were done objectively, whether applicable professional standards were adhered to, and whether sufficient documentation was developed to support findings and conclusions. The work is in process and is expected to be completed by the end of June 2012.



# ACTION #2

Approve the development of a new audit plan that is based upon a systematic risk assessment of all university auditable units and conducted in adherence to all applicable professional standards

# Response

The University contracted with Accretive Solutions, a professional firm specializing in enterprise risk management, to perform:

- ▶ A university-wide risk assessment to identify key high risk areas within the University
- ▶ A gap analysis to identify where the Division's policies and procedures were not meeting audit standards

The risk assessment performed by Accretive Solutions identified key high-risk areas within the University. The Division of Audit and Compliance used the risk assessment in establishing the audit topics and objectives included in the audit plan for the 2012-13 fiscal year. The audit plan was reviewed and approved by the Audit Committee and Board of Trustees at its June meeting.

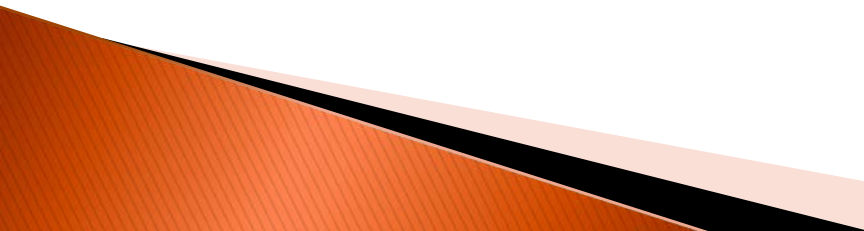
# ACTION #3

Direct that new audits of the fifteen departments or organizational units identified in the Report of Internal Investigation be conducted that adhere to all applicable professional standards

# Response

The investigation identified 15 audits/reviews conducted by the Division that did not meet audit standards as described previously. All 15 audits/reviews were evaluated to determine the benefit from re-performing the work.

Our evaluation disclosed that 7 would not be re-performed based on the following:

- ▶ The reported findings and conclusions for 5 were substantiated in the work papers prepared by the Division, although the documented work may have been performed after the report was issued or deficient in some way that did not affect the conclusion.
  - ▶ Two of the topics have been recently reviewed without findings, or are under review, by other independent parties.
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The University issued an invitation to negotiate to retain an outside firm to re-perform the work for the remaining 8 audits.

- ▶ Responses were received from 11 firms and 6 were interviewed
- ▶ Ernst & Young was retained to re-perform the 8 audits

- ▶ The work is in process and a report is to be released by the end of June 2012



# ACTION #4


Include a comprehensive self-assessment of the University Board of Trustees' operating procedures that is focused upon the processes by which the Audit Committee provides oversight of the University's Division of Audit and Compliance

# Response

The self-assessment activity resulted in the following:

- ▶ Audit charters for both the Division and the audit committee were revised to align the charters with the model charters of the Institute of Internal Auditors
- ▶ A report on audit committee practices and trends was provided to audit committee members for information and review
- ▶ Training is to be provided to the audit committee

Topics that may be included in the training are:

- ▶ Review of responsibilities established in the charter and the actions that should be taken to meet those responsibilities
  - ▶ Understanding financial statements
  - ▶ Review of laws and regulations under which the University operates
  - ▶ Understanding risk management processes
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# ACTION #5

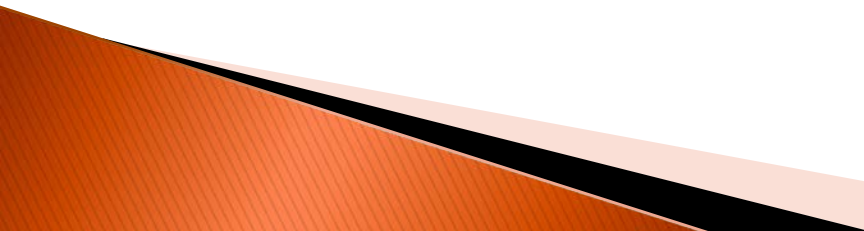
Direct that an external assessment of the Division of Audit and Compliance's quality assurance and improvement program be conducted within the next 12 months

# Response

The gap analysis performed by Accretive Solutions evaluated the Division's activities to identify areas that need to be addressed in order for the Division to pass a quality assessment review. Based upon the gaps identified and corrective actions recommended, the Division is developing a quality assurance and improvement program that covers all aspects of the internal audit activity.

The following steps are being taken to establish a quality assurance and improvement program

- ▶ Review and revise operating policies and procedures. An operating manual has been prepared and is in use.
  - ▶ Develop checklists and standard work paper formats. This is in process
  - ▶ Provide training. This is ongoing
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- ▶ Ensure that all work is adequately reviewed for compliance with audit standards
    - A review process has been established and all work is reviewed by someone other than the one doing the work
  - ▶ Establish an internal assessment process to include:
    - Ongoing monitoring of the internal audit activity
    - Periodic reviews are to be performed through self-assessment or by others with sufficient knowledge of internal audit practices
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An external assessment is to be performed by December 2013. We believe this time frame is necessary to give sufficient time for corrective actions to be implemented and work to be performed under the new policies and procedures before having the external assessment performed.



Given the documented noncompliance with professional standards as disclosed by the investigation, the audit committee believes external assessments should be done every 3 years to provide closer oversight of the Division's operations. Audit standards require the assessment to be done every 5 years.

# Conclusion

The University recognizes the benefit of an effective internal audit function. By implementing the corrective action plan, the University has taken positive steps to provide assurance that the internal audit activities operate in an appropriate manner.

Questions?