UT DALLAS
Office of Audit & Compliance

THE UNIVERSITY OF TEXAS AT DALLAS
800 West Campbell Rd., ROC 32, RICHARDSON, TEXAS 75080 (972) 883-2233 fax (972) 883-6864

June 15, 2012

Mr. Don Guyton, Chief Audit Executive, The University of Houston System
Energy Research Park
5000 Gulf Freeway, Bldg. 3, Room 281
Houston, TX 77204-0930

Dear Don,

We have completed a Quality Assurance Review of The University of Houston System internal audit program. The review was conducted May 14-16, 2012, and covered fiscal years 2010-2012. The Texas Internal Auditing Act requires that these peer reviews be conducted every three years as promulgated by generally accepted government auditing standards. The principal objectives of the quality assessment were:

- To assess the audit department's conformity to The Institute of Internal Auditors' (IIA) *International Standards for the Professional Practice of Internal Auditing* and *Code of Ethics.*
- To evaluate the audit department's effectiveness in carrying out its mission as defined it its charter.
- To identify opportunities to enhance internal audit management and work processes, as well as its value to the University of Houston System.

The objectives were achieved following the steps outlined in the *Quality Assessment Manual, Sixth Edition,* published by the IIA. We interviewed selected members of management, the President/Chancellor, the Chair of the Audit and Compliance Committee, and members of the internal audit staff and management; examined the internal quality assurance review performed by the audit department; reviewed selected working papers; sent surveys for feedback to selected audit customers and staff; and evaluated the department's policies, procedures, and other documents as deemed necessary.

In our opinion, The University of Houston System internal audit department complied with the Standards in all material respects during the period under review.

We appreciate the cooperation and assistance provided to us throughout the course of our review by members of The University of Houston System community.

Sincerely,

Toni Messer
The University of Texas at Dallas

Sabrina Hearn
The University of Alabama System

Brian Mikell
The University of Florida

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AUDIT – H84

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Mr. Don Guyton, Chief Audit Executive
The University of Houston System
Energy Research Park
5000 Gulf Freeway, Bldg. 3, Room 281
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Dear Don,

We have completed a Quality Assurance Review of The University of Houston System internal audit program. On behalf of the Quality Assurance Review team, it is a pleasure to transmit our accompanying final report. We hope that the report is useful in your efforts to continually improve what is already an outstanding internal audit program.

One characteristic of a sound professional organization is its interest in continuous improvement. While the primary objective of the Quality Assurance Review was to provide reasonable assurance that the internal auditing program at The University of Houston System complied with The Institute of Internal Auditors' (IIA) *International Standards for the Professional Practice of Internal Auditing* and *Code of Ethics* as well as the Texas Internal Auditing Act, we hope that the suggestions contained herein serve as a catalyst for continued enhancement and development of the internal audit department.

Please extend to all involved our appreciation for their hospitality and the many courtesies extended to us during our visit. Best wishes for continued success.

Sincerely,

Toni Messer
The University of Texas at Dallas

Executive Summary

As requested by the chief audit executive (CAE), we have completed a Quality Assurance Review of The University of Houston System internal audit program. The principal objectives of the quality assessment were:

- To assess the audit department's conformity to The Institute of Internal Auditors' (IIA) *International Standards for the Professional Practice of Internal Auditing* and *Code of Ethics*.
- To evaluate the audit department's effectiveness in carrying out its mission as defined it its charter.
- To identify opportunities to enhance internal audit management and work processes, as well as its value to the University of Houston System.

The objectives were achieved following the steps outlined in the *Quality Assessment Manual, Sixth Edition,* published by the IIA. We interviewed selected members of management, the President/Chancellor, the Chair of the Audit and Compliance Committee, and members of the internal audit staff and management; examined the internal quality assurance review performed by the audit department; reviewed selected working papers; and evaluated the department's policies, procedures, and other documents as deemed necessary.

Opinion as to Conformance to the *Standards*

In our opinion, The University of Houston System internal audit department generally conforms to the Standards in all material respects during the period under review.

The rating system that was used for expressing an opinion for this review provides for three levels of conformance: generally conforms, partially conforms, and does not conform. "Generally Conforms" means that Internal Audit has policies, procedures, and a charter that were judged to be in accordance with the *Standards*; however, opportunities for improvement may exist. "Partially Conforms" means deficiencies, while they might impair, did not prohibit Internal Audit from carrying out its responsibilities. "Does Not Conform" means deficiencies in practice were found that were considered so significant as to seriously impair or prohibit the department in carrying out its responsibilities.

Scope and Methodology

The IIA's *Standards* requires that internal audit functions obtain external quality assurance reviews to assess conformance with standards and to appraise the quality of their operations. A periodic external quality assessment, or peer review, of the internal audit function is an essential part of a comprehensive quality assurance program. The Texas Internal Auditing Act requires that these peer reviews be conducted every three years as promulgated by generally accepted government auditing standards.

The review was conducted May 14-16, 2012, and covered fiscal years 2010-2012. The work performed during the review generally followed the steps outlined in the *Quality Assessment Manual, Sixth Edition* published by The IIA in 2009, and the January 2009 edition of the *Standards*, including:

- Review, verification, and evaluation of the information prepared by the audit department to help us gain an understanding of the University and of audit operations.
- Review and evaluation of surveys to customers of the audit department and audit staff.
- Interviews with the CAE, members of the staff, the audit and compliance committee chair, the President/Chancellor, and key administrators at the University who are responsible for some of the more significant areas subject to audit.
- Review and evaluation of six sets of audit working papers.
- Review of the department's policies and procedures, annual risk assessment, annual audit plan, and other relevant documents.

The peer review team met with the CAE throughout the course of the review, including an exit conference on May 16, 2012. We shared experiences, approaches, and other insights to consider further in enhancing the work of the internal audit department.

Observations, Recommendations and Best Practices

All members of management interviewed were complimentary of the department and its interaction with audit clients throughout the University. We observed a number of practices that demonstrate outstanding commitment and professionalism. These best practices include the following:

Best Practices

Governance

- The Chief Audit Executive reports to the Chair of the Audit and Compliance Committee. He promotes effective governance by holding status meetings not only with the Chair, but also with key managers throughout the System, including the President/Chancellor, regarding internal audit operations.

Customer Rapport

- Surveys sent to internal audit customers both by the external review team and by the department and interviews held with key managers indicated high customer satisfaction with the internal audit department.

Staff Expertise

- Staff members possess a high degree of knowledge, skills, and abilities, including 80% with certifications, and an average of over 15 years of audit experience. The CAE and the Assistant Director both have over 26 years of audit experience.

Use of Student Interns

- Plans are underway to work with the University's College of Business Internal Auditing Education Partnership Program to use internal auditing students as interns in the department. This will help enhance the department's resources as well as provide an excellent resource for students to gain valuable internal audit experience.

Monitoring Progress of Audit Recommendations

- The department does a good job monitoring the progress of audit recommendations by providing the Audit and Compliance Committee with color-coded reports based on levels of risk for each recommendation, listing the estimated completion date, responsible person for action, and action to be taken.

Consequently, the following observations and recommendations should be considered opportunities for improvement, intended to build on the foundation already in place in the internal auditing department.

Observations and Recommendations

We concur with the recommendations contained in the department's internal quality assurance review report regarding implementing additional TeamMate Audit Management System modules (the department's electronic working paper system), improving the quality assurance process, enhancing engagement planning procedures, and better utilizing computer assisted audit tools.

The following are our comments related to general observations/best practices and specific individual standards that comprise each of the sections of the *Standards* listed above. Other recommendations for enhancement were discussed verbally with the CAE for his consideration but are not contained in the following observations.

Standard 2010 – Planning
The chief audit executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organization's goals.

Observation:

Technology is an integral part of the university's operations and activities. In preparing the risk assessment for the annual internal audit plan, a detailed information technology (IT) risk assessment is not currently being utilized.

Currently, IT activities are audited during some departmental audits, the state-mandated Texas Administration Code 202 (TAC 202) audits, and during integrated audits (e.g., the financial aid audits). While this does provide limited IT coverage, identifying IT risks and controls as part of the overall risk assessment process, including identifying the IT audit universe, should be performed to ensure an effective audit plan is prepared and IT risks receive adequate coverage. The IIA's Global Technology Audit Plan (GTAG) 11, *Developing the IT Audit Plan*, is an excellent resource to follow in developing a more formalized IT audit plan.

The department hired an IT Auditor in 2010 with over 18 years of experience in higher education internal auditing, ten of which are in the IT audit field. This IT Auditor also possesses a certification in information systems auditing (CISA). Currently, the IT Auditor's skills are not being fully utilized. Neither he nor others in the department attend the various IT committee meetings held on campus to discuss IT initiatives, applications, security, etc.

Given the size of the university, the department should consider assigning the IT Auditor the responsibility of preparing the detailed IT risk assessment, conducting more IT audits, and attending various IT committee meetings. Also, consideration should be given to hiring a staff auditor with more technical skills and assigning this auditor to assist with the IT Auditor's assignments.

Recommendation: An IT risk assessment should be prepared as part of the annual audit plan risk assessment process. IT audits should be performed based on this risk assessment. Staff resources should be allocated and the need for additional resources should be identified to ensure the most effective application of the staff members' knowledge, skills, and abilities.

Management's Response: *An Information Technology (IT) risk assessment project has been included in the Audit Plan for Fiscal Year 2013. The IT risk assessment will identify the IT audit universe and IT risks and controls to complement the overall risk assessment for the fiscal year 2014 audit plan.*

Currently, knowledge transfer of IT skills to the audit staff is in process. This will allow the IT auditor to focus on IT specific risks and controls as identified in the IT risk assessment, participate in IT committee meetings, and continue to support the audit staff and department.

CONCLUSION

We appreciate the cooperation and assistance provided to us throughout the course of our review by the members of the Internal Auditing department and management at The University of Houston.

Sincerely,

Toni Messer, CPA, CIA, CRMA
Team Leader
Executive Director of Audit and Compliance
The University of Texas at Dallas

Team Members

Sabrina Hearn, CPA, CIA, CMA, CHFP
General Auditor
The University of Alabama System

Brian D. Mikell, CPA
Chief Audit Executive
The University of Florida

Appendix 1: Compliance with Auditing Standards

The following table contains our analysis of how Internal Audit activities conform to each section of the *Standards*.

Standard Type and Description	Opinion
Attribute Standards:	
1000 – Purpose, Authority, and Responsibility	Generally Conforms
1100 – Independence and Objectivity	Generally Conforms
1200 – Proficiency and Due Professional Care	Generally Conforms
1300 – Quality Assurance and Improvement Program	Generally Conforms
Performance Standards:	
2000 – Managing the Internal Audit Activity	Generally Conforms
2100 – Nature of Work	Generally Conforms
2200 – Engagement Planning	Generally Conforms
2300 – Performing the Engagement	Generally Conforms
2400 – Communicating Results	Generally Conforms
2500 – Monitoring Progress	Generally Conforms
2600 – Management's Acceptance of Risks	Generally Conforms
The Institute of Internal Auditors Code of Ethics	Generally Conforms

Appendix 2: Review Team Composition

Sabrina Hearn, CPA, CIA, CMA, CHFP, General Auditor for The University of Alabama System

In her capacity as General Auditor, Sabrina oversees the internal audit operations at The University of Alabama (UA), the University of Alabama at Birmingham (UAB), the University of Alabama in Huntsville (UAH) and the UAB Health System (UABHS). She coordinates external audit activities on behalf of the Audit Committee of the Board of Trustees. Ms. Hearn joined the UAS audit team in 1998. She recently served as the Director for Internal Audit for UAB and UABHS. Prior to joining the UAS audit team, Sabrina had twenty years of experience in financial management in the public accounting, healthcare, manufacturing, construction and scrap metals recycling industries. Sabrina earned her BS degree from UA and her MBA from UAB and holds numerous professional certifications and memberships.

Toni Messer, CPA, CIA, CRMA, Executive Director of Audit and Compliance at The University of Texas at Dallas (UTD)

Toni worked for the Texas State Auditor's Office. She received her BBA degree in Accounting from Texas A&M University. She has over 25 years of experience auditing institutions of higher education. Toni is currently the Association of College and University Auditors (ACUA) President and has also been a board member, the Professional Education Chair, and the Annual Conference Director. Toni is active with the Dallas Institute of Internal Auditors (IIA) on the board and on the certifications committee. She has worked with the UTD Internal Auditing Education Partnership (IAEP) Program since 2003 by giving presentations to students, mentoring them, and providing them with experience working on actual audits. She is also a member of the UTD School of Management IAEP Advisory Board. Honors include the ACUA Excellence in Service Award and the Dallas Chapter of the IIA Aaron Saylor's Award for Outstanding Contribution to the Chapter. She has been performing quality assurance reviews on higher education institutions for over 15 years.

Brian Mikell, CPA, is the Chief Audit Executive for the Office of Audit and Compliance Review at the University of Florida

Brian has been with the university and the Office of Audit and Compliance Review since April 2004, serving as CAE since February 2009. Prior to joining UF, Brian was employed by the Florida Auditor General's Office for 22 years where he served in various positions, including the Audit Coordinator supervising the financial statement, federal and operational audits of UF. As Chief Audit Executive, Brian administers the activities of the university's internal auditing office, which serves as a central point for activities that promote accountability, integrity and efficiency for the University of Florida. Brian is a Certified Public Accountant and has a Bachelor's degree in Accounting from the University of Florida. Brian is a member of the North Central Florida Chapter of Institute of Internal Auditors, currently serving as treasurer. He is also a member of the Association of College and University Auditors.