UNIVERSITY OF HOUSTON SYSTEM

INTERNAL AUDIT REPORT

UNIVERSITY OF HOUSTON SYSTEM

INTERNAL ASSESSMENT OF INTERNAL AUDITING

REPORT NO. AR2018-14

UNIVERSITY OF HOUSTON SYSTEM
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MEMORANDUM

TO: Roger F. Welder
Chair, Audit and Compliance Committee

Dr. Renu Khator
Chancellor/President, UHS/UH

FROM: Don F. Guyton
Chief Audit Executive

DATE: February 20, 2018

SUBJ: Internal Audit Report – UHS Internal Assessment of Internal Auditing

The Internal Auditing Department performed an internal assessment in accordance with the *International Standards for the Professional Practice of Internal Auditing* (*Standards*), promulgated by the Institute of Internal Auditors (IIA). This report is summarized as follows:

Executive Summary:

The reviewer concluded that the internal audit activities at the University of Houston System Internal Auditing Department generally conforms to the IIA's *Standards* and the Code of Ethics. This opinion means that the Internal Auditing Department has a charter, policies, and processes that are judged to be in conformance with the IIA's *Standards* and the Code of Ethics. The report contains suggestions for improvements and potential enhancements that will augment the value, efficiency, and effectiveness of the internal audit activities provided by the University of Houston System Internal Auditing Department.

This audit report is scheduled to be included in the agenda materials for the March 8, 2018 meeting of the Audit and Compliance Committee of the Board of Regents. Please let me know if you have any questions.

Attachment

UNIVERSITY OF HOUSTON SYSTEM
INTERNAL AUDITING DEPARTMENT

INTERNAL ASSESSMENT OF INTERNAL AUDITING

BACKGROUND:

The *International Standards for the Professional Practice of Internal Auditing* (*Standards*), promulgated by the Institute for Internal Auditors (IIA), require internal audit departments to develop and maintain a quality assurance and improvement program that helps ensure that the internal audit activity is in conformance with the *Standards* and the Code of Ethics; helps ensure the quality and credibility of their work; and assists the internal auditing activity in adding value and improving the organization's operations. According to the *Standards*, a comprehensive quality assurance and improvement program includes the following elements:

- Ongoing monitoring of the performance of the internal audit activity.
- Periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of internal audit practices.
- External assessments of the internal audit activity by a qualified, independent assessment team from outside the organization at least once every five years.

Internal and external assessments of the University of Houston System Internal Auditing Department (IAD) are conducted approximately every three years, in accordance with the Texas Internal Auditing Act. The IIA published the *Quality Assessment Manual* to provide guidelines for these assessments. The internal assessment is part of a useful self-assessment process in preparation for the external review.

OBJECTIVE:

The objective of the review was to determine whether the IAD was in compliance with the *Standards* and the Code of Ethics established by the IIA.

SCOPE OF WORK:

The IIA *Quality Assessment Manual for the Internal Auditing Activity* was used in performing this review. This report represents the results of the internal assessment conducted between January and February 2018 for work performed during the period of September 2016 through November 2017.

The scope of the review consisted of the following elements:

- Reviewing general information, policies and procedures, and management practices of the IAD.
- Discussions with the IAD management.
- Reviewing a representative sample of work papers of audit projects completed during the period under review.

CONCLUSION:

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" is the top rating and means that the IAD has a charter, policies, and processes that are judged to be in conformance with the *Standards* and the Code of Ethics; however, opportunities for improvement may exist. "Partially Conforms" means deficiencies in practice are noted that are judged to deviate from the *Standards* and the Code of Ethics, but these deficiencies did not preclude the IAD from performing its responsibilities in an acceptable manner. "Does Not Conform" means deficiencies in practice were found that were considered so significant as to seriously impair or prohibit the IAD in carrying out its responsibilities.

Based on the work outlined above, in my opinion, the internal audit activities at the University of Houston System Internal Auditing Department generally conforms to the IIA's *Standards* and the Code of Ethics.

Appendix A lists opportunities for improvements and potential enhancements that will augment the value, efficiency, and effectiveness of the internal audit activities provided by the University of Houston System Internal Auditing Department.

Brandee O'Neal, CIA
Senior Auditor
February 15, 2018

APPENDIX A

OPPORTUNITIES FOR IMPROVEMENT

COSO: Internal Control – Integrated Framework (Standard 2100)

> *2100 – The internal audit activity must evaluate and contribute to the improvement of the organization's governance, risk management, and control processes using a systematic, disciplined, and risk-based approach. Internal audit creditability and value are enhanced when auditors are proactive and their evaluations offer new insights and consider future impact.*
>
> *2130 – The internal audit activity must assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.*
>
> *2130.A1 – The internal audit activity must evaluate the adequacy and effectiveness of controls in responding to risks within the organization's governance, operations, and information systems regarding the:*
>
> - *Achievement of the organization's strategic objectives.*
> - *Reliability and integrity of financial and operational information.*
> - *Effectiveness and efficiency of operations and programs.*
> - *Safeguarding of assets.*
> - *Compliance with laws, regulations, policies, procedures, and contracts.*

In May 2013, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) published a new version of their *Internal Control – Integrated Framework.* This framework introduces principles to follow for each component of the framework along with other changes. IAD Policy A-11 COSO: Internal Control – Integrated Framework provides the department with the Integrated Framework Executive Summary as a guide. When preparing the Annual Audit Plan and Risk Assessment, the CAE and Executive Director are mindful of the components of the Integrated Framework prescribed in the *COSO Internal Control Executive Summary*. Also, during the planning of each audit engagement, auditors are mindful of the components of the Integrated Framework prescribed in the *COSO Internal Control Executive Summary* but do not formally document this. Since the publishing of this framework, the department has not formalized a method to implement the new principles identified within *COSO's Internal Control – Integrated Framework.*

Recommendation: Management should formalize a method to implement COSO's Integrated Framework principles into audit engagement documentation.

Management's Response: We will formalize a method to implement COSO's Integrated Framework and principles into audit engagements to include templates/checklists to

help ensure the Integrated Framework and principles are present and operating as intended. We expect to have this implemented by August 31, 2018.

Computer Assisted Audit Tools (Standard 1200 – Proficiency and Due Professional Care)

> *1210.A3 – Internal Auditors must have sufficient knowledge of key information technology risks and controls and available technology-based audit techniques to perform their assigned work. However, not all internal auditors are expected to have the expertise of an internal auditor whose primary responsibility is information technology auditing.*
>
> *1220.A2 - In exercising due professional care internal auditors must consider the use of technology-based audit and other data analysis techniques.*

In addition to compliance with the Standards, the use of computer assisted audit tools are considered successful practices and can be a powerful tool. Data analytics can be used in the evaluation of large data sets for discovery of anomalies, fraud prevention, trend analysis, and compliance with policies. The department currently has two licenses for IDEA, a data analysis software, and has met previous goals of using the software on data sets. The department also encourages auditors without IDEA licenses to discuss with the auditors who have licenses to determine if IDEA can be used to enhance testing on individual audits.

Currently, the IAD uses IDEA to perform p-card testing for prohibited transactions on all departmental reviews, System-wide. Additionally, IDEA has been used to perform testing on journal entries, financial aid and scholarship information, food and entertainment charged to restricted accounts, and other unallowable expense testing. While testing has been employed on a limited number of University or System-wide data sets, most testing performed has been audit specific and not employed on larger data sets encompassing System-wide information.

Recommendation: Management should increase the use of data analysis tools and techniques on University or System-wide data sets. In addition, management should consider consulting with colleagues to determine value-added data analytic projects that have been performed that may add value to the services provided by the University of Houston System Internal Auditing Department.

Management's Response: We plan to increase the use of data analysis tools on University or System-wide data sets. We will inquire of our colleagues at other institutions about successful data analysis value-added projects. We expect to begin the analysis of these new data sets by January 1, 2019.

University of Houston System
Internal Auditing Department

UHS Internal Assessment of Internal Auditing - AR2018-14
Action Plan

Est. Compl. Date	Responsibility for Action Name/Title	Action To Be Taken
Risk Level: High Medium Low		
August 31, 2018	Don Guyton Chief Audit Executive	Formalize a method to implement COSO's Integrated Framework.
January 1, 2019	Don Guyton Chief Audit Executive	Increase the use of data analysis tools on University or System-wide data sets.

Note: Supporting documentation for actions implemented or updated management's responses for actions partially or not implemented should be furnished to the Internal Auditing Department by the estimated completion date.