New Mexico State University
Office of Audit Services

Internal Quality Assessment Review
Project # 1207-310

May 02, 2012
EXECUTIVE SUMMARY

May 02, 2012

TO:          Dr. Barbara Couture, President
             Members of the Board of Regents

FROM:  The Office of Audit Services

SUBJECT: Internal Quality Assessment Review, Project # 1207-310

The Office of Audit Services has completed an internal quality assessment review (QAR) of the internal audit activity of New Mexico State University (NMSU) in preparation for validation by an independent assessor. The principle objective of the QAR was to assess the internal audit activity’s conformance to The IIA’s International Standards for the Professional Practice of Internal Auditing (Standards). The independent validation is anticipated to take place by the end of Fiscal Year 2012.

Overall, we concluded that the internal audit activity generally conforms to the IIA Standards and Code of Ethics. Generally conforms is the top rating and means that internal audit activities are judged to be in conformance with the Standards.

The four observations noted below are due to partial conformance with the Standards. Partial conformance means that although deficiencies were identified, they did not preclude the internal audit activity from performing its responsibilities in an acceptable manner.

- Standard 1200 – Proficiency and Due Professional Care
- Standard 2000 – Managing the Internal Audit Activity
- Standard 2100 – Nature of Work
- Standard 1300 – Quality Assurance and Improvement Program

The observations are listed in order of importance. The first three areas have a high impact on the improvement of the internal audit function, whereas the last area, although important, does not affect audit activities. Recommendations were provided to improve existing audit procedures and enhance the value, effectiveness and efficiency of internal audit activities.
We would like to extend our appreciation to the NMSU Audit Committee, Executive and Senior Management, and other NMSU staff for their assistance and cooperation during this review. We are available to answer any questions you may have regarding this report.

Viola M. Perea  
Senior Auditor

Walter R. Webster  
Assistant Director / Audit Manager

Ross Justus, CPA  
Chief Audit Executive

C: Dr. Wendy K. Wilkins, Executive Vice President and Provost  
Ms. Angela Throneberry, Senior Vice President for Administration and Finance
BACKGROUND

The IIA’s International Standards for the Professional Practice of Internal Auditing (Standards) require internal audit departments to develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity. The program should include both internal and external assessments designed to enable an evaluation of the internal audit activity’s conformance with the Definition of Internal Auditing and the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement. According to the Standards, the quality assurance and improvement program must include:

- Ongoing monitoring of the performance of the internal audit activity. This includes day-to-day supervision, review, and measurement of the internal audit activity;
- Periodic reviews to evaluate conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards; and,
- External assessments, conducted at least once every five years.

AUDIT SCOPE AND PURPOSE

As required by the Standards, an internal quality assessment review (QAR) was completed by the Office of Audit Services in preparation for validation by an independent assessor. We anticipate the validation to take place by the end of Fiscal Year 2012. The IIA Quality
Assessment Manual, Updated 6th Edition, was used to perform the review. The purpose of this report is to provide observations and recommendations for improvement based on the work performed by the internal audit (IA) activity during Fiscal Years 2010 and 2011. The principle objective of the QAR was to assess the IA activity’s conformance to the IIA’s Standards for the Professional Practice of Internal Auditing (Standards). Specific objectives were to:

- Assess the organization of the NMSU IA activity and evaluate whether its structure and responsibilities are best suited to serve the University;
- Assess whether IA activity’s planning process considered NMSU’s risk framework, control environment, and accountability processes, as well as strategic and technology plans and significant business activities to arrive at the annual and long-term plan;
- Evaluate the professional proficiency of the IA activity’s staff and appraise the development and assignment of staff in order to achieve the department’s mission/goals;
- Evaluate the annual Information Technology (IT) audit plan;
- Evaluate the annual audit plan and determine how the IA activity monitors plan accomplishments and how it adds value to the University;
- Evaluate internal audit work papers and determine conformance with the Standards and internal policies with respect to performance and documentation of engagements; and,
- Determine the implementation status of recommendations and corrective actions provided in the FY 2007 internal and external quality assessment reviews.

Review procedures included:

- Reviewing general departmental information, policies and procedures, and management practices for the department;
- Conducting interviews and/or surveys with Audit Committee members, Executive and Senior Management, the Chief Audit Executive (CAE) and Internal Audit staff, and various NMSU staff (audit customers);
- Reviewing a representative sample of audit work paper files; and,
- Identifying opportunities for improvement and providing recommendations that conform to the Standards and enhance the value, effectiveness and efficiency of audit activities.

**SUMMARY AND CONCLUSION**

Overall, we concluded that the Office of Audit Services at New Mexico State University generally conforms to the IIA’s Standards and Code of Ethics. A rating of “generally conforms” means that relevant structures, policies, and procedures, as well as processes by which they are applied, comply with the requirements of the IIA’s Standards and Code of Ethics in all material respects. The results of the QAR indicate that the majority of the IA activity’s practices and processes generally conform to the Standards. However, we noted four areas where partial conformance was determined. Although we identified some opportunities for improvement, the deficiencies did not preclude the IA activity from performing its responsibilities in an acceptable manner. The existence of opportunities for improvement or other successful practices do not reduce a generally conforms rating, as “general” does not require complete or perfect conformance.
OBSERVATIONS AND RECOMMENDATIONS

Observation #01 – Standard 1200 – Proficiency and Due Professional Care

Engagements must be performed with proficiency and due professional care. The IA activity collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities.

Condition: The IA activity collectively possesses sufficient knowledge and skills to effectively evaluate processes, risks, and fraud. However, they do not possess sufficient knowledge and skills needed to perform Information Technology (IT) related audits. Additional resources (external services) were not obtained to perform the scheduled IT audit work. This resulted in no IT audit work being performed for approximately one year.

Efforts have been made to address this issue. Internal auditors have attended some IT-related audit training, and in FY 2012, an IT Compliance Officer was hired by Information and Communication Technology (ICT) at NMSU. The expectation is that the IT Compliance Officer will work with the IA activity to address IT audit issues.

Recommendations: Although an IT Compliance Officer was hired by ICT, the IA activity should explore other options to address their IT audit needs. The IA activity should consider implementing a formal training program and continue to attend relevant IT-related training to improve the skills of the existing staff. The IA activity should also explore their options for hiring additional staff that already has IT audit expertise.

Management Response: I agree with the observation and related recommendations. NMSU is similar to other organizations, including other universities, which have a significant reliance on IT processes in the performance of their everyday duties. Having the ability to perform an independent assessment of IT risks, processes, and controls is increasingly more important to the internal audit function.

The coordination of assessment activities between the Office of Audit Services and the IT Compliance Officer is currently in process, which may provide a portion of the assurance necessary for the university IT functions. The results of this coordination as well as the availability of resources will determine the extent of needs for Audit Services to fulfill its requirement for performing the independent assessment of IT risk assessment and mitigation.

Observation #02 – Standard 2000 – Managing the Internal Audit Activity

The IA activity must be effectively managed to ensure it adds value to the organization. Policies and procedures must be established to guide the IA activity. Risk-based plans must be established to determine the priorities of the IA activity, consistent with the organization’s goals. The plan of engagements must be based on a documented risk assessment, undertaken at least annually, and audit resources must be appropriate, sufficient, and effectively deployed to achieve the approved plan. Internal auditors must determine appropriate and sufficient resources to achieve engagement objectives based on an evaluation of the nature and complexity of each
engagement, time constraints, and available resources. The IA activity should consider sharing information and coordinating activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimize duplication of efforts.

**Condition:** Standard 2000 consists of planning, resource management, policies and procedures, and coordination.

System-wide risk assessments are used to determine audit priorities and establish the annual audit plan. However, risk assessments are not performed or updated at least annually to support the development of each year’s audit plan. In addition, risk assessments are not performed for each project assignment to effectively develop audit objectives. Although audit plans and completed audit projects address high-risk areas identified by management, they do not necessarily tie directly to the University’s strategic goals and objectives. Steps are currently being taken to address these issues. In May 2011, the CAE implemented the Required Components of an Audit File, which includes project risk assessments. Also, an annual risk assessment has been scheduled for FY 2012.

A formal resource allocation process was not followed and time budgets were not consistently used to manage the audit process. A staffing analysis or needs assessment has not been prepared to clearly identify the overall audit resources needed to effectively and efficiently complete the approved audit plan. Currently, resource allocation is effectively managed by using a time budget, project assignment, and planning memo.

The IA activity has a documented audit policy manual. However, the manual is outdated and in need of improvement. The Audit Manager is currently in the process of reviewing and updating the Audit Manual.

Additionally, the IA activity has not coordinated audit efforts with other areas with oversight responsibilities because it is not a large factor in assessing audit needs. However, meetings have been held between the CAE and the IT Compliance Officer to discuss IT-related audit issues.

**Recommendations:** Efforts to remedy the observations noted above are already underway and should continue. Additional monitoring should be implemented to ensure timely completion. The IA activity should consider performing a staffing analysis or needs assessment to document the resources needed to achieve full completion of the annual audit plan. The results should be shared with the Audit Committee and Senior Management. The IA activity should also consider expanding their discussions with other areas that have oversight responsibilities to ensure proper audit coverage.

**Management Response:** *Risk Assessment:* I agree that procedures are needed to annually review the university risks and compare these risks to the audit plan. As a relatively small internal audit department, we cannot reasonably audit all high risk areas identified through a risk assessment. As such, our expectation is that a risk assessment provides a roadmap of audits for a multi-year period. Updating the risk assessment through risk surveys and/or other methods is reasonable for the annual process. The Audit Committee has expressed a desire to be involved in the risk assessment process, which is currently being developed.
**Project Level Risk Assessment:** In regards to project level risk assessments, I agree that they have not been documented on each project. In many instances, either our risks/objectives are generally understood or are so undefined that they may only be clear once testing takes place in the area. Using the “Required Components of the Audit File” checklist, we will be documenting either the risk assessment or the justification for not performing one during planning.

**Resource Allocation:** As mentioned above, my expectation is that we would not be able to audit each of the areas deemed high risk in a given year, and thus would have audit plans that cover multiple years. In response to this, I have developed a timeline that lists those projects that can reasonably be expected to be completed, along with a general idea of assignment. Fiscal year 2012 was the first attempt at developing this timeline and I plan to improve and expand on this in the coming years.

**Audit Manual:** Audit Services adopted the current audit manual in FY 2009, which represented the first documented policies and procedures for the department in at least 10 years. Since adoption, the office has experienced significant personnel turnover, including at the CAE level. These changes resulted in small changes in the audit approach that have not yet been updated in the manual. As indicated above, the manual is in the process of being updated.

**Coordinated Audit Efforts:** There have been minimal opportunities to coordinate audit efforts with the various compliance officers at the university. The IT Compliance Officer presents the opportunity for collaboration that can be mutually beneficial. Discussions have started with this position and Audit Services to maximize the efforts toward IT risk identification and mitigation.

**Observation #03 – Standard 2100 – Nature of Work**

The internal audit (IA) activity must evaluate and contribute to the improvement of governance, risk management, and control processes using a systematic and disciplined approach. The IA activity must assess and make appropriate recommendations for improving the governance process in its accomplishment of promoting appropriate ethics and values, ensuring effective organizational performance management and accountability, communicating risk and control information to appropriate areas, and coordinating activities of and communicating information among the board, external/internal auditors, and management. The IA activity must assess whether the IT governance of the organization sustains and supports the organization’s strategies and objectives. The IA activity must assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement. The IA activity must evaluate the adequacy and effectiveness of controls and contribute to the improvement of the risk management processes relating to the organization’s governance, operations, and information systems.

**Condition:** Standard 2100 includes governance, risk management, and control. In relation to these three areas, the IA activity’s responsibilities include:

- Assessing and making recommendations to improve governance processes related to promoting ethics and values and ensuring effective organizational performance;
• Evaluating the effectiveness and contributing to the improvement of risk management processes; and,

• Assisting the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.

Although efforts are made to assess governance, risk management, and control processes in general, the IA activity does not necessarily perform activities to specifically measure achievement of the University’s overall strategic goals and objectives.

IT-related governance, risk management, and control processes have not been reviewed by the IA activity for approximately one year due to the lack of staff with sufficient IT-related knowledge and audit skills.

Additionally, the Audit Committee was not clear about the current role of the CAE in regards to governance processes.

**Recommendations:** The CAE should discuss and clarify the role of the IA activity as it relates to the University’s overall governance, risk management and control processes with the Audit Committee and Senior Management. After such discussions, opportunities to assess achievement of the University’s strategic goals and objectives should be incorporated into the annual audit plan, as appropriate. The IA activity should also explore their options to hire additional audit staff with IT audit expertise while continuing to attend relevant IT audit training to improve the IT skills of the current audit staff.

**Management Response:** While I don’t feel that performing specific assessments of the university’s achievement of its goals is an effective use of our limited resources, I do feel that Audit Services’ activities should be compared to the goals and high-level conclusions can be made as to whether appropriate progress is being made. Comparing our audit plan to the President’s goals will assist in this objective. The coordination of assessment activities between the Office of Audit Services and the IT Compliance Officer is currently in process, which may provide a portion of the assurance necessary for the university IT functions. The results of this coordination as well as the availability of resources will determine the extent of needs for Audit Services to fulfill its requirement for performing the independent assessment of IT risk assessment and mitigation. I will continue to include and emphasize to the Audit Committee our role in the overall university’s governance process.

**Observation #04 – Standard 1300 – Quality Assurance and Improvement Program**

The Chief Audit Executive (CAE) must develop and maintain a quality assurance and improvement program (QAIP) that covers all aspects of the IA activity. The QAIP must include both internal and external assessments. Internal assessments must include ongoing monitoring of the performance of the IA activity and periodic reviews performed through self-assessment or by other persons within the organization with sufficient knowledge of internal audit practices. External assessments must be conducted at least once every five years.
**Condition:** The IA activity does not follow a formalized quality assessment process for ongoing and periodic reviews. Although audit work papers for individual audits are reviewed by audit management, internal reviews to assess conformance with the Standards and the Code of Ethics are not performed on a per-audit basis or more frequently than every five years. Client surveys, employee performance reviews, and other performance indicators were not used to monitor and measure the quality, value-added, and effectiveness of the IA activity’s performance.

**Recommendations:** The IA activity should implement a standardized process to assess the quality of audit reports and conformance to the Standards on a more frequent basis. Use of client surveys, employee performance reviews, and other methods used to measure performance should be incorporated into the QAIP.

**Management Response:** Although the forms have been developed for surveys, project-level performance reviews, and project level budgets, these have not been used consistently. The use of the required components checklist should improve the consistency of these activities. At this time, no annual QAR review is planned.
### ACTION PLAN

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| **Obs #1**
Standard 1200 – Proficiency and Due Professional Care
Audit Services staff do not possess sufficient knowledge and skills needed to perform Information Technology (IT) related audits. | Explore other options to address IT audit needs.
- Implement a formal training program;
- Attend relevant IT-related training;
- Hire staff with IT audit expertise. | Ross Justus, Chief Audit Executive (CAE) | 6/30/2013 |
| **Obs #2**
Standard 2000 – Managing the Internal Audit Activity
Risk assessments are not performed system-wide on an annual basis or for each project assigned. Audit plans do not necessarily tie directly to the University’s strategic goals and objectives. A formal resource allocation process is not followed. The Audit Manual is outdated. Audit efforts are not coordinated with other areas with oversight responsibilities. | • Continue efforts, currently underway, to remedy the observation. Periodically review the status of these efforts to ensure timely completion.
• Perform a staffing analysis or needs assessment to document the resources needed to achieve full completion of the annual audit plan.
• Open discussions with other areas with oversight responsibilities to ensure proper audit coverage. | Ross Justus, (CAE) | 6/30/2013 |
| **Obs #3**
Standard 2100 – Nature of Work
Audit activities to measure achievement of University strategic goals and objectives are not performed. IT related governance, risk management, and control processes have not been performed for approximately one year. The Audit Committee is not clear about the current role of the CAE in regards to governance processes. | • Discuss and clarify the role of Audit Services with the Audit Committee and Senior Management.
• As appropriate, incorporate opportunities to measure achievement of the University’s goals and objectives into the annual audit plan.
• Explore options to hire additional audit staff with IT audit expertise and continue attending relevant IT audit training. | Ross Justus, (CAE) | 6/30/2013 |

**Note:** Audit Services will conduct a follow-up in the future to determine the status of corrective actions taken on these findings.
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<td>Obs #4 Standard 1300 – Quality Assurance and Improvement Program</td>
<td>• Implement a standardized process to assess the quality of audit reports and conformance to the Standards. Utilize client surveys, employee performance reviews, and other methods to measure performance.</td>
<td>Ross Justus, (CAE)</td>
<td>6/30/2013</td>
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