

**Final Report on Full External Assessment of the
Office of Internal Audit
Board of Regents – State of Iowa**

January 12, 2023

Quality Assessment Peer Review Team

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EXECUTIVE SUMMARY

The *International Standards for the Professional Practice of Internal Auditing* requires that an external quality assessment (QA) of an internal audit activity must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization. The qualified assessor or assessment team must demonstrate competence in both the professional practice of internal auditing and the QA process. The QA

can be accomplished through a full external assessment or a self-assessment with independent validation.

The chief audit executive (CAE) discussed the form and frequency of the QA with the board. Upon consultation and agreement by the board, the Internal Audit office selected a group of peer audit colleagues from institutions within the B10 Academic Alliance to serve as a qualified, independent external assessment team.

The Office of Internal Audit (“IA”) department for the Board of Regents of the State of Iowa have responsibility for evaluating internal controls at the University of Iowa, Iowa State University, and the University of Northern Iowa. As of 2021 all IA staff are employees of the Board of Regents office. For fiscal year 2023 the audit plan was based on 15 available auditors, which includes 2 planned hires.

Opinion as to Conformance with the *Standards* and Code of Ethics

It is our overall opinion that IA generally conforms with the *Standards* and the Code of Ethics. A detailed list of conformance with individual standards and the Code of Ethics is shown in appendix A.

The IIA’s *Quality Assessment Manual for the Internal Audit Activity* suggests a scale of three rankings when opining on the internal audit activity: “Generally Conforms,” “Partially Conforms,” and “Does Not Conform.” The ranking of “Generally Conforms” means that an internal audit activity has a charter, policies, and processes that are judged to be in conformance with the *Standards* and the Code of Ethics. “Partially Conforms” means that deficiencies in practice are noted and are judged to deviate from the *Standards* and the Code of Ethics; however, these deficiencies did not preclude the internal audit activity from performing its responsibilities in an acceptable manner. “Does Not Conform” means that deficiencies in practice are judged to deviate from the *Standards* and the Code of Ethics, and are significant enough to seriously impair or preclude the internal audit activity from performing adequately in all or in significant areas of its responsibilities. A detailed description of conformance criteria can be found in attachment A.

Objectives, Scope, and Methodology

Objectives

- The principle objective of the QA was to assess IA's conformance with the *Standards* and the Code of Ethics.
- The assessment team also evaluated IA's effectiveness in carrying out its mission (as set forth in the internal audit charter and expressed in the expectations of the Board of Regents of the State of Iowa, along with the senior management of the University of Iowa, Iowa State University, and University of Northern Iowa); identified successful internal audit practices demonstrated by IA; and identified opportunities for continuous improvement to enhance the efficiency and effectiveness of the infrastructure, processes, and the value to their stakeholders.

Scope

- The scope of the QA included IA, as set forth in the internal audit charter and approved by the board, which defines the purpose, authority, and responsibility of IA.
- The QA was concluded on November 30, 2022 and provides senior management and the board with information about IA as of that date.
- The *Standards* and the Code of Ethics in place and effective as of 2017 were the basis for the QA.

Methodology

- IA provided requested information in a detailed planning document checklist and answered questions related to internal audit governance, staff, management, and process.
- The assessment team held a preliminary meeting with IA to discuss the status of preparation of planning materials, identification of key stakeholders to be interviewed during the primary phase of the review, and finalization of

logistics related to the QA.

- To accomplish the objectives, the assessment team reviewed information prepared by IA at the team's request; conducted interviews with selected key stakeholders, including the audit committee chair, senior executives of all three university clients, and IA management and staff; reviewed a sample of audit projects and associated workpapers and reports; reviewed survey data received from IA management and staff; and prepared diagnostic tools consistent with the methodology established for a QA in the Quality Assessment Manual for the Internal Audit Activity.

Observation Distinctions

The IA environment is well structured and progressive, the *Standards* are understood, the Code of Ethics is being applied, and management endeavors to provide useful audit tools and implement appropriate practices. Consequently, comments and recommendations are intended to build on this foundation already in place in the IA.

Observations are divided into three categories:

- **Successful Internal Audit Practices** – Areas where IA is operating in a particularly effective or efficient manner when compared to other internal audit activities. The identification of these items is intended to provide IA stakeholders with a view on things IA is doing in a leading practice manner when compared to other internal audit activities.
- **Gaps to Conformance with the *Standards* or the Code of Ethics** – Areas identified during the QA where the assessment team has concluded that IA is operating in a manner that falls short of achieving one or more major objectives, with the *Standards* or the Code of Ethics that results in an opinion for an individual standard of “partially conforms” or “does not conform.” These items will include recommendations offered by the external assessment team for actions to be implemented for achieving “generally in conformance” with the standard and will include an IA response and an action plan to address the gap.

- **Opportunities for Continuous Improvement** – Observations of opportunities to enhance the efficiency or effectiveness of IA’s infrastructure of processes. These items do not indicate a lack of conformance with the *Standards* or the Code of Ethics, but rather offer suggestions on how to better align with criteria defined in the *Standards* or the Code of Ethics. They may also be operational ideas based on the experiences of the external assessment team from working with other internal audit activities.

SUCCESSFUL INTERNAL AUDIT PRACTICES

1. Standard 1100 – Independence and Objectivity

- a. The relationship and support received from the Audit Committee is particularly strong.
- b. The CAE has ongoing and appropriate interactions with the Board of Regents and the Audit Committee chair.
- c. The CAE regularly reports to the full Board on the status of the audit plan and how available resources are impacting the plan.
- d. Annually, all IA staff review the IIA Code of Ethics and complete an employee independence questionnaire to document any potential conflicts of interest.

2. Standard 1200 – Proficiency and Due Professional Care

- a. Numerous interviewees commended the audit team for their focus on communication with senior leadership. IA staff in non-management positions have, in some cases, direct lines of communication with senior leadership at the campuses they primarily support.
- b. Staff are well-regarded and there is generally a positive sense of value in the IA activity.
- c. The use of strategic partners ensures that IA has connections with key members of the university community. This also provides IA staff opportunities to network, develop an area of expertise, and further their

professional development.

- d. Auditors regularly consider the use of data analytics in their engagement planning.

GAPS TO CONFORMANCE WITH THE STANDARDS OR THE CODE OF ETHICS

1. Standard 1300 – Quality Assurance and Improvement Program

a. The QAIP program is required to incorporate ongoing monitoring, internal assessments, and external assessments. While the office has thorough processes in place for ongoing monitoring of the audit activity and routinely meets the external assessment review cycle, there is no process to perform periodic self-assessments to evaluate conformance with the IIA Standards and Code of Ethics nor share that information with the Board.

We recommend that the CAE engage with the Audit Committee and Senior Management to set the optimal frequency of their periodic internal assessment, areas of focus, and expected method of communication back to the Audit Committee.

b. While the CAE discussed the external review with the Audit committee, documentation that demonstrates that it occurred is not available. The Audit Committee's involvement is necessary to ensure their comfort with the qualification and independence of the external assessment team.

We recommend that the CAE ensures that the Audit Committee is engaged in the selection of the external assessment team, to the level the Committee feels is appropriate, and that the discussion be documented and retained.

IA Response and Action Plan: To improve our compliance with Standard 1300, the CAE will continue the rigorous review of our audits and ensure that an external assessment is completed every five years. To further improve our compliance with this standard and move our ranking from partially com-

plies to generally complies, the CAE will implement periodic internal self-assessments, further involve the Executive Director for the Board Office and/or Audit Committee chair in approval of the external peer review team and periodically report to the board progress made in the Quality Assurance Improvement Plan.

OPPORTUNITIES FOR CONTINUOUS IMPROVEMENT

1. Standard 1010 – Recognizing Mandatory Guidance in the Internal Audit Charter – While the elements of the Standards, Core Principles, and other required components of the charter are documented, their mandatory nature is not explicitly stated. At the time of the next charter update, consider specifying that these elements are mandatory.

2. Standard 1110 – Organizational Independence
 - a. The Audit and Compliance Committee of the Board of Regents does not have a defined or documented audit charter. This is an optimum place to formally document the committee’s oversight for the Internal Audit activity, including:
 - Approval of the internal audit charter
 - Approval of the audit plan
 - Approval of internal audit budget and resources
 - The Committee’s involvement in evaluating the Chief Audit Officer
 - b. The performance evaluation of the Chief Audit Officer does not include key performance indicators specifically tied to the internal audit activity.

3. Standard 1210 – Proficiency
 - a. Given the difficulty in attracting candidates (not unique to this IA activity but a current struggle within the profession overall), consider revising job descriptions to expand the field of candidates. Limiting to related field and requiring certain certifications may disqualify otherwise capable candidates. For example, Auditor III requires three years of audit experience, however non-direct audit experience (such as roles in information security, risk management, etc.) may be appropriate. Auditor II/III job descriptions require a

business degree, without wording for applicable education and experience.

b. While IA has 4 Certified Information System Auditors, only 1 is outside the management team. IA should continue to recruit for open positions and where appropriate work to increase the information technology knowledge of their existing staff. Alternatively, it may be necessary to consider other avenues to help fill the IT gap, such as by co-sourcing or out-sourcing to external firms, or by increasing the IT staff headcount.

c. Consider requiring management-specific annual training for the management team to help them be optimal leaders for their staff.

4. Standard 2020 – Communication and Approval

a. The CAE should discuss with the Board and senior management the criteria that would characterize a significant interim change to the audit plan and the protocol for communicating such change.

5. Standard 2030 – Resource Management

a. Auditor down-time during a project is a normal and common occurrence, both at Iowa and within the audit departments of each member of the evaluation team. Evaluate individual auditor workload and capacity to take on additional projects instead of primarily assigning one engagement at a time. Re-evaluate departmental tasks that need to be completed and consider which can be delegated during auditor down-time.

6. Standard 2040 – Policies and Procedures

a. Consider a regular review cycle for the audit manual and note the most recently revised date on the document.

7. Standard 2201 – Planning Considerations

a. Consider a more specific conversation at the onset of an engagement to

explain the audit process and the reason for the audit. This better establishes expectations with the audit client.

b. Consider clarifying when an audit observation is tied to compliance versus an operational best practice.

c. Consider incorporating a more regular discussion on IA's ability to provide consulting services to senior management.

APPENDIX A – EVALUATION SUMMARY

	GC	PC	DNC
Overall Evaluation	X		

Attribute Standards (1000 through 1300)		GC	PC	DNC
1000	Purpose, Authority, and Responsibility	X		
1010	Recognizing Mandatory Guidance in the Internal Audit Charter	X		
1100	Independence and Objectivity	X		
1110	Organizational Independence	X		
1111	Direct Interaction with the Board	X		
1112	Chief Audit Executive Roles Beyond Internal Auditing	N/A ¹		
1120	Individual Objectivity	X		
1130	Impairment to Independence or Objectivity	X		
1200	Proficiency and Due Professional Care	X		
1210	Proficiency	X		
1220	Due Professional Care	X		
1230	Continuing Professional Development	X		
1300	Quality Assurance and Improvement Program		X	

¹ The Chief Audit Executive has no roles beyond internal auditing.

1310	Requirements of the Quality Assurance and Improvement Program		X	
1311	Internal Assessments		X	
1312	External Assessments	X		
1320	Reporting on the Quality Assurance and Improvement Program		X	
1321	Use of “Conforms with the <i>International Standards for the Professional Practice of Internal Auditing</i> ”		X	
1322	Disclosure of Nonconformance	X		

Performance Standards (2000 through 2600)		GC	PC	DNC
2000	Managing the Internal Audit Activity	X		
2010	Planning	X		
2020	Communication and Approval	X		
2030	Resource Management	X		
2040	Policies and Procedures	X		
2050	Coordination and Reliance	X		
2060	Reporting to Senior Management and the Board	X		
2070	External Service Provider and Organizational Responsibility for Internal Auditing	N/A ²		

² There is no external service provider with responsibility for internal auditing. Any third party brought on to perform auditing work is done under the direction of IA.

2100	Nature of Work	X		
2110	Governance	X		
2120	Risk Management	X		
2130	Control	X		
2200	Engagement Planning	X		
2201	Planning Considerations	X		
2210	Engagement Objectives	X		
2220	Engagement Scope	X		
2230	Engagement Resource Allocation	X		
2240	Engagement Work Program	X		
2300	Performing the Engagement	X		
2310	Identifying Information	X		
2320	Analysis and Evaluation	X		
2330	Documenting Information	X		
2340	Engagement Supervision	X		
2400	Communicating Results	X		
2410	Criteria for Communicating	X		
2420	Quality of Communications	X		

2421	Errors and Omissions	N/A ³		
2430	Use of “Conducted in Conformance with the <i>International Standards for the Professional Practice of Internal Auditing</i> ”	N/A ⁴		
2431	Engagement Disclosure of Nonconformance	N/A ⁵		
2440	Disseminating Results	X		
2450	Overall Opinions	N/A ⁶		
2500	Monitoring Progress	X		
2600	Communicating the Acceptance of Risks	X		

Code of Ethics		GC	PC	DNC
	Code of Ethics	X		

³ IA has not had a situation where a key communication was issued with a material error or omission.

⁴ IA does not (and is not required to) include this line in the communication of their results of an engagement.

⁵ IA has not had a situation where nonconformance with the IIA Standards impacted an engagement.

⁶ IA does not (and is not required to) issue overall opinions on each audit engagement.

APPENDIX B - RATING DEFINITIONS

GC – “Generally Conforms” means that the assessor or the assessment team has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual standard or elements of the Code of Ethics in all material respects. For the sections and major categories, this means that there is general conformity to a majority of the individual Standard or element of the Code of Ethics and at least partial conformity to the others within the section/category. There may be significant opportunities for improvement, but these should not represent situations where the activity has not implemented the *Standards* or the Code of Ethics, and has not applied them effectively or achieved their stated objectives. As indicated above, general conformance does not require complete or perfect conformance, the ideal situation, or successful practice, etc.

PC – “Partially Conforms” means that the assessor or assessment team has concluded that the activity is making good-faith efforts to comply with the requirements of the individual standard or elements of the Code of Ethics or a section or major category, but falls short of achieving some major objectives. These will usually represent significant opportunities for improvement in effectively applying the *Standards* or the Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the internal audit activity and may result in recommendations to senior management or the board of the organization.

DNC – “Does Not Conform” means that the assessor or assessment team has concluded that the internal audit activity is not aware of, is not making good-faith efforts to comply with, or is failing to achieve many or all of the objectives of the individual standard or element of the Code of Ethics or a section or major category. These deficiencies will usually have a significantly negative impact on the internal audit activity’s effectiveness and its potential to add value to the organization. These may also represent significant opportunities for improvement, including actions by senior management or the board.

APPENDIX C – INTERVIEWEE LISTING

Board of Regents, State of Iowa

Mark Braun, Executive Director

Nancy Dunkel, Chair, Audit and Compliance Committee

University of Iowa

Gary Barta, Athletics Director

Steve Fleagle, Chief Information Officer

Sarah Hansen, Vice President for Student Life

Terry Johnson, Chief Financial Officer and Treasurer

Kevin Kregel, Executive Vice President and Provost

Rod Lehnertz, Senior VP for Finance and Operations

Carroll Reasoner, General Counsel (Retired)

Martin Scholtz, Vice President for Research and Economic Development

Barbara Wilson, President

University of Iowa Hospitals & Clinics

Mark Henrichs, Associate VP for Finance and Chief Financial Officer

Brooks Jackson, Vice President for Medical Affairs

Iowa State University

Kristin Constant, CIO

Pam Elliott Cain, Senior VP, Operations and Finance (Retired)

Rich Tenor, Chief Information Security Officer

Jonathan Wickert, Senior VP and Provost

Wendy Wintersteen, President

University of Northern Iowa

Ken Connelly, IT Security Officer

Michael Hager, Senior Vice President of Finance and Operations

Jose Herrera, Provost and Executive Vice President

Marty Mark, CIO

Mark Nook, President

Internal Audit Staff

Julie Appleget, IT Auditor

Kip Druecker, Audit Manager

Deb Johnston, Chief Audit Officer

Logan Moeller, Auditor

James Pitcher, Audit Manager
Josh Randall, Auditor
Lindsey Schmidt, Auditor
Chad Sharp, Assistant Director
Lydia Weinand, Auditor

APPENDIX D – ASSESSMENT TEAM

Assessment Team Lead: Lisa M Beymer

Chief Audit Officer – Indiana University

- CIA: Certified Internal Auditor
- CISA: Certified Information Systems Auditor
- CFE: Certified Fraud Examiner
- MBA: Master of Business Administration

Travis Schenck

Internal Audit Associate Director – Penn State University

- CIA: Certified Internal Auditor
- CPA: Certified Public Accountant

John Snedeker

Audit Manager – The Ohio State University

- CISA: Certified Information Systems Auditor
- CISSP: Certified Information Systems Security Professional
- CDPSE: Certified Data Privacy Solutions Engineer
- MA: Masters of Arts in Public Policy and Administration

Jennifer Vitale

Audit Associate Director – University of Michigan

- CIA: Certified Internal Auditor
- CCSA: Certification in Control Self-Assessments
- CFE: Certified Fraud Examiner