

**Report on the Results  
of the Independent Validation of the  
Quality Assessment Review (QAR) of Portland State  
University Internal Audit Program  
June 2019**

***Reviewers:***

Richard Cordova, CPA

Marion L. Candrea, CIA, CFE

Submitted to: Mr. David Terry, CPA, CIA, CFE  
Director of Internal Audit  
Portland State University



**INTERNAL AUDIT**  
UNIVERSITY *of* WASHINGTON

August 9, 2019

Mr. David Terry, Director of Internal Audit  
Portland State University  
RMNC  
1600 SW 4<sup>th</sup> Avenue  
Portland, OR 97201

Dear Mr. Terry:

We have completed an Independent Validation of the Self-Assessment Quality Assessment Review (QAR) of Portland State University Internal Audit Program as required every five years by the Institute of Internal Auditors *International Standards for the Professional Practice of Internal Auditing (Standards)*. The objectives of the QAR were to:

1. Assess conformance with the IIA *Standards*;
2. Assess the effectiveness and efficiency of the Internal Audit activity in providing services to the Board of Trustees and management of Portland State University; and
3. Identify opportunities for improving the Internal Audit Program at Portland State University.

Overall, it is our opinion that **Portland State University Internal Audit Office generally conforms to the IIA *Standards***, the highest rating available. We noted four opportunities for improvement that could enhance the efficiency and effectiveness of the Internal Audit program. These are described in this report.

Sincerely,

Richard Cordova, CPA  
Executive Director  
Internal Audit  
University of Washington  
Seattle WA

Marion L. Candrea, CIA, CFE  
Manager – Audit & Advisory Services  
Audit & Advisory Services  
Rutgers, The State University of New Jersey  
Piscataway, NJ

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## Executive Summary

An Independent Review Team made up of professionals from the University of Washington and Rutgers, The State University of New Jersey conducted an independent validation of the Quality Assessment Review self-assessment of Portland State University (PSU) Internal Audit Office. The work was conducted in accordance with the requirements of the *International Standards for the Professional Practice of Internal Auditing* (the Standards).

The PSU Internal Audit Office utilized—and the independent review team assessed the organization using—the Institute of Internal Auditors (IIA) Quality Assessment Manual, 2017 Edition. The primary purpose of a Quality Assessment Review is to determine the internal audit function’s conformance with the Standards and GAGAS.

The PSU Internal Audit Office was determined to **Generally Conform** to IIA *Standards*, which is considered the highest rating available. We noted certain strengths within the Internal Audit Office which we feel compelled to acknowledge:

- **Demonstrated Quality in all Aspects of Audit Process**
- **Senior Management Support and Interaction**
- **Governance and Relationship to Executive & Audit Committee Chair**
- **Outsourced Expertise, as necessary**

Additionally, during the course of our work, we identified a few opportunities for improvement within the PSU Internal Audit Office:

- **Align Executive & Audit Committee Charter with Internal Audit Charter**
- **Continue to Expand Outreach and Communication to University Stakeholders**
- **Consider Future Resource Planning**
- **Complete the External QAR to comply with IIA Standard 1300**

Each of these opportunities are further enumerated within this report along with PSU Internal Auditing’s management response.

Overall, we want to thank the Portland State University for their hospitality, professionalism, and commitment to maintaining a quality and high-performing Internal Audit function.

## Background and Scope

### *Background*

Portland State University (PSU), a four-year public research university, provides more than 27,000 students an educational experience that is committed to the mission of diversity, equity, and inclusion. On July 1, 2014, PSU began operating under its own independent governing board following state university governance reform legislation in Oregon. Mr. David Terry was hired in October 2014 and was charged with establishing PSU's first Internal Audit Office (IAO). IAO conducts independent and objective reviews of university operations and procedures and reports findings and recommendations to the Executive and Audit Committee (E&A) of the PSU Board of Trustees along with the President and senior leadership.

### **PSU Internal Audit Office**

Organizationally, the Internal Audit Office reports functionally to the Executive and Audit Committee and administratively to the Interim President. The Internal Audit Office consists of two professionals: the Director of Internal Audit, who is a Certified Public Accountant, Certified Internal Auditor, and a Certified Fraud Examiner; and a Senior Auditor, who is a Certified Internal Auditor with over a decade worth of experience working at the university in various capacities.

PSU IAO is a valued member of the industry of internal auditing in higher education and participates in a number of collaborative peer groups. PSU is an active member in the Association of College and University Auditors (ACUA) and the Pacific Northwest Higher Education Internal Audit group. The Director is a frequent presenter at conferences and is proactive in staying connected with his peers across the country to consult with and share ideas on relevant key risks within the industry.

### **IIA Standards – Validation of a Self-Assessment**

This Validation of the QAR Self-Assessment of PSU's IAO was performed in accordance with The Institute of Internal Auditors (IIA) *International Standards for the Professional Practice of Internal Auditing* (the Standards) utilizing the IIA's Quality Assessment Manual, 2017 Edition. The primary purpose of a Quality Assessment is to determine the internal audit function's conformance with the Standards. There are three possible outcomes of the QAR: the internal audit program generally conforms, partially conforms, or does not conform with the Standards.

### **Conformance with IIA Standards**

Generally Conforms means that IAO has a charter, policies and processes that are judged to meet the spirit and intent of the IIA *Standards* with some potential opportunities for improvement.

Partially Conforms means deficiencies in practice are noted that are judged to deviate from the spirit and intent of IIA *Standards*, but these deficiencies did not preclude IA from performing its responsibilities in an acceptable manner.

Does Not Conform means deficiencies in practice are judged to be so significant as to seriously impair or preclude IAO from performing adequately in all or in significant areas of its responsibilities.

## ***Scope***

We conducted the validation of the Self-Assessment during the month of June 2019. PSU IAO supplied the review team with the materials noted below in early May and we then conducted on-site procedures from June 3 - 6, 2019.

## **Engagement Methodology**

Our procedures included review of the following documents:

- Internal Audit Charter and other background/organizational materials regarding PSU and the internal audit program
- The charter for the PSU Executive and Audit Committee
- QAR advanced preparation materials providing background on the internal auditing program and practices
- The annual audit plan and risk assessment process
- Selected internal audit project workpapers and reports
- Staff training histories
- Audit follow-up practices and reporting

The on-site procedures included:

- Interview with the current PSU Board of Trustee and former Chair of the Executive and Audit Committee
- Interview with the PSU Interim President
- Interviews with PSU Senior Management and audit clients
- Interviews with PSU Internal Audit Office staff
- Review of workpapers for selected completed projects (both audits and investigations)
- Analysis of the information reviewed and an assessment of compliance with the *Standards*
- Attendance and participation at PSU May Board of Trustees, Executive and Audit Committee Meeting

## Opinion of Independent Review Team

Overall, **the PSU Internal Audit Office was judged to Generally Conform to IIA Standards, the highest rating available.** While improvement opportunities remain in various areas, they did not preclude this assessment. We concluded the following individual standards Generally Conform to the IIA Standards:

- 1000—Purpose, Authority and Responsibility
- 1100—Independence and Objectivity
- 1200—Proficiency and Due Professional Care
- 2000—Managing the Internal Audit Activity
- 2100—Nature of Work
- 2200—Engagement Planning
- 2300—Performing the Engagement
- 2400—Communicating Results
- 2500—Monitoring Progress
- 2600—Communicating the Acceptance of Risks

The following standard Partially Conforms to the IIA Standards:

- 1300—Quality Assurance and Improvement Program

See *Appendix A* for a complete assessment of each standard along with the sub-standards in each section.

## Strengths, Opportunities for Improvement, and Management Response

### PSU Internal Audit Program Strengths

➤ **Demonstrated Quality in all Aspects of Audit Process**—We interviewed selected PSU personnel that had been audited by PSU IAO, some of which were responsible for complex and heavily regulated audit areas (e.g., financial aid and international students). Each audit client we spoke with was equally impressed with and grateful for the research, preparation, and due diligence that the IAO team did prior to beginning the audit. The level of quality that the team puts into their audits was also evidenced by the meticulous nature of the project work papers.

➤ **Senior Management Support and Interaction**—Interviews conducted conveyed a high level of support for the IAO from PSU senior management and the President. The IAO is well respected and seen as collaborative; and management feels comfortable seeking their opinion regarding problematic situations. It was a shared belief among all persons interviewed that one of the most positive outcomes of the higher education restructuring that occurred in 2014 was the formation of an on-site audit department at PSU.

➤ **Governance and Relationship to Executive & Audit Committee Chair**—The Director of Internal Audit reports functionally to the Chairperson of the Executive & Audit Committee. Upon speaking with the former Chair and current Board member, we learned that the Director has direct access and an open line of communication with the Chair. Although neither Board meetings nor Executive Sessions are private, the former Chair felt that David was still able to provide the Board the level of information necessary for them to gain assurance on how risks are being addressed by the IAO. The former Chair also expressed a tremendous amount of confidence in the current Director.

➤ **Outsourced Expertise, as necessary**—Review of supporting documentation identified that IAO has outsourced work to firms when projects have required specific levels of expertise for which the current audit team may not have experience and which outside expertise is straightforward to obtain. For example, we reviewed the contract between IAO and Fort Hill Associates, LLC for construction audit work.



## **Opportunities for Improvement—Internal Audit Office**

### **Align Executive & Audit Committee Charter with Internal Audit Charter**

Review of the Executive and Audit Committee Charter identified missing elements of the *Standards* mandatory guidance that is included in the Internal Audit Charter. The E&A Committee Charter should be revised to include the following:

- E&A will approve the IAO Charter on an annual basis
- E&A will approve the IAO budget on an annual basis
- E&A will approve—or have input into—the hiring, remuneration, and removal of the Director of Internal Audit

A best practice is also to have the E&A provide input into the Director of Internal Audit’s annual performance evaluation.

### **❖ INTERNAL AUDITING DEPARTMENT’S RESPONSE:**

The Director of Internal Audit (Director) generally agrees with this recommendation. The Director will work with the Executive & Audit Committee along with PSU’s General Counsel & Board Secretary to take steps to update the Executive & Audit Committee Charter to better align to the Internal Audit Charter and related IIA standards. The update to the charter is estimated to be submitted for approval to the Executive and Audit Committee during fiscal year 2020.

### **Continue to Expand Outreach and Communication to University Stakeholders**

Interviews conducted with PSU personnel during the QAR revealed that opportunities exist for the PSU IAO to further educate the university community on the role of internal audit and what services it can provide. For example, when discussing the nature of advisory services versus audit services to at least two of the personnel selected to participate in this review, they were unaware that IAO could provide assistance on new initiatives, guidance on specific questions, or other engagements considered to be more consultative.

In addition, although the Director of Internal Audit is meeting regularly with key administrative personal at both the management and senior management levels, he may not have this same level of interaction with academic leadership. The former E&A Committee Chair supported the action of Mr. Terry having more exposure to the Deans at the schools.

We believe there is an opportunity for the IAO to create awareness university-wide on the ways that an internal audit function can provide assurance services and also be utilized as a trusted advisor. The IAO should consider developing a communication plan to spread this message, and make these non-audit services more prominent on its website.

**❖ INTERNAL AUDITING DEPARTMENT'S RESPONSE:**

The Director of Internal Audit (Director) generally agrees with this recommendation. The Director will take steps to implement disclosures about the advisory services that PSU Internal Audit can perform for university stakeholders within the following audit workpapers and steps in our planned audits:

- 1) Audit Engagement Letters;
- 2) Customer Service Feedback Surveys; and
- 3) Entrance and Exit Conference Meeting Agendas.

The Director estimates that the updates to these audit workpapers will be fully implemented by June 30, 2020.

**Consider Future Resource Planning**

It is our understanding that the Director of Internal Audit has performed benchmarking exercises with comparable schools to determine if he has the appropriate resources required to effectively manage the risks associated with an institution of PSU's size. Although the current staff size of two full-time equivalents (FTE) seems to be sufficient, the university is growing in both size and complexity. The Director should consider the long-term strategy of the department for potential growth, specifically with consideration given to areas of expertise that may be required, such as information technology.

On a more short-term matter, the Director will be without his only Senior Auditor for a period of at least a two to six months, while she is out on leave. The Director may want to use this gap in personnel as an opportunity to create the long-term personnel strategy of his department.

**❖ INTERNAL AUDITING DEPARTMENT'S RESPONSE:**

The Director of Internal Audit (Director) generally agrees with this recommendation; however, the Director believes that the decision to invest additional budgetary funds into the Internal Audit Office resides primarily with PSU leadership coupled with the Board of Trustees providing governance oversight. The Director will take steps to document a long-term staffing and resource plan for the PSU Internal Audit Office. This long-term plan is estimated to be documented by June 30, 2020.

**Complete the External QAR to comply with IIA Standard 1300**

PSU IAO reports use language related to performing the audit in alignment with the *Standards* despite not undergoing an external QAR. Having just been established in October 2014, PSU's internal audit function is still within the five-year requirement period for completing an external assessment as defined by IIA *Standard 1300*. This report will fulfill the requirement of the *Standard*, but until complete we will assess as partially conforms.

**❖ INTERNAL AUDITING DEPARTMENT'S RESPONSE:**

The Director of Internal Audit (Director) generally agrees with this recommendation. The Director is planning to have the QAR external review report issued to the Executive and Audit Committee of PSU on or before the scheduled September 24, 2019 committee meeting. The issuance of the QAR report in September will bring PSU Internal Audit into alignment to IIA Standard 1300 as PSU Internal Audit was established in October of 2014 and the QAR review will have been completed within the required 5 year timeframe.

## Appendices

### Appendix A

Summary of Conformance Evaluation with The IIA’s *International Standards for the Professional Practice of Internal Auditing (Standards)* and rating definitions – see rating definitions on page 18.

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

Attribute Standards (1000 through 1300)		GC	PC	DNC
1300	Quality Assurance and Improvement Program		√	
1310	Requirements of the Quality Assurance and Improvement Program	√		
1311	Internal Assessments	√		
1312	External Assessments		√	
1320	Reporting on the Quality Assurance and Improvement Program		√	
1321	Use of “Conforms with the <i>International Standards for the Professional Practice of Internal Auditing</i> ”		√	
1322	Disclosure of Nonconformance	√		

Performance Standards (2000 through 2600)		GC	PC	DNC
2000	Managing the Internal Audit Activity	√		
2010	Planning	√		
2020	Communication and Approval	√		
2030	Resource Management	√		
2040	Policies and Procedures	√		
2050	Coordination and Reliance	√		
2060	Reporting to Senior Management and the Board	√		
2070	External Service Provider and Organizational Responsibility for Internal Auditing	NA		
2100	Nature of Work	√		
2110	Governance	√		
2120	Risk Management	√		

Performance Standards (2000 through 2600)		GC	PC	DNC
2130	Control	√		
2200	Engagement Planning	√		
2201	Planning Considerations	√		
2210	Engagement Objectives	√		
2220	Engagement Scope	√		
2230	Engagement Resource Allocation	√		
2240	Engagement Work Program	√		
2300	Performing the Engagement	√		
2310	Identifying Information	√		
2320	Analysis and Evaluation	√		
2330	Documenting Information	√		
2340	Engagement Supervision	√		
2400	Communicating Results	√		
2410	Criteria for Communicating	√		
2420	Quality of Communications	√		
2421	Errors and Omissions	√		
2430	Use of “Conducted in Conformance with the <i>International Standards for the Professional Practice of Internal Auditing</i> ”		√	
2431	Engagement Disclosure of Nonconformance	N/A		
2440	Disseminating Results	√		
2450	Overall Opinions	N/A		

Performance Standards (2000 through 2600)		GC	PC	DNC
2500	Monitoring Progress	√		
2600	Communicating the Acceptance of Risks	√		

Code of Ethics		GC	PC	DNC
	Code of Ethics	√		

## 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 has not 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 B**

Interviews Conducted:

### ***Executive and Audit Committee***

Peter Nickerson, Board Member and Former Executive and Audit Committee Chair

### ***Senior PSU Management***

Stephen Percy, Interim President

Jason Abbott, Interim Controller

Erica Bestpitch, Board Member and Director of the Women's Resource Center

Amanda Bierbrauer, Student Financial Services, Director

Ramon Diaz, Employee and Labor Relations, Director

Donald Forsythe, University Treasurer

Erica Geller, Student Conduct Investigator, Office of the Dean of Student Life

Susan Jeffords, University Provost

Christina Luther, Office of International Affairs, Director of Student and Scholar Services

Sean McKay, Chief Information Systems Officer

Kevin Reynolds, Vice President of Finance and Administration

Cynthia Starke, General Counsel and Board Secretary

Ron Witczak, Office of International Affairs, Executive Director

### ***UHS Internal Auditing Department***

David Terry, Director of Internal Audit

Christine Croskey, Senior Auditor