

**QUALITY ASSESSMENT REPORT**

**of**

**THE COLLEGE OF WILLIAM AND MARY  
AND RICHARD BLAND COLLEGE  
INTERNAL AUDIT ACTIVITY**

**performed by**

**DOMINION AUDIT SERVICES**

**January 23, 2007**

**QUALITY ASSESSMENT OF  
THE INTERNAL AUDIT ACTIVITY  
OF  
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AND RICHARD BLAND COLLEGE**

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## EXECUTIVE SUMMARY

In accordance with guidelines set forth by The Institute of Internal Auditors (IIA), we have completed a quality assessment (QA) of the Office of Internal Audit (OIA) of the College of William and Mary (College). The principal objectives of the QA were to assess OIA activity's conformity to The IIA's *International Standards for the Professional Practice of Internal Auditing (Standards)*, to evaluate OIA activity's effectiveness in carrying out its mission (as set forth in its charter and expressed in the expectations of W&M management), and to identify opportunities to enhance its management and work processes, as well as its value to the College, based on our review and comparison to worldwide best practices.

The College is located in Williamsburg, Virginia, is the second oldest institution of higher learning in the United States, and it was established in 1693 by British royal charter. It is moderate in size, and its predominantly residential undergraduate program is integrated with selected graduate and professional programs in five faculties — Arts and Sciences, Business, Education, Law, and Marine Science. Teaching, research, and public service are all integral parts of the mission of the College. Richard Bland College of The College of William and Mary in Virginia was founded in 1960. This Junior College of the Commonwealth of Virginia offers a traditional curriculum in the liberal arts and sciences leading to the associate degree, and other programs appropriate to a junior college.

As part of the preparation for the QA, the OIA prepared a self-assessment with detailed documentation about William and Mary and Richard Bland. The QA team sent out surveys to a representative sample of College executives. A summary of the survey results and accompanying comments (without identifying the individual survey respondents) have been furnished to the OIA. Our on-site review consisted of personal interviews with College executive administrators and OIA staff. We also reviewed the OIA's risk assessment and audit planning processes, audit tools and methodologies, engagement and staff management processes, and a representative sample of OIA's working papers and reports.

It is evident from our interviews and survey that the Chief Audit Executive (CAE) and his staff have earned the support and confidence of senior management, the Audit Committee, and the College's external auditor. Professionalism in the staff is encouraged through emphasis on significant training for each auditor and involvement in professional organizations. The CAE is responsive to management concerns, as shown by his efforts to perform management-requested audits. The CAE is also mindful of the needs of the College, as shown by the use of a shared resource with Information Technology: a Security Engineer/Auditor with an expertise in IT and the authority of the OIA. Our comments and recommendations are intended to build on the foundations already in place in the OIA activity.

## OPINION AND RECOMMENDATIONS

The IIA provides a system of rating the level of compliance with the *International Standards for the Professional Practice of Internal Auditing (Standards)*, which consists of three categories: “Generally Conforms”, “Partially Conforms”, and “Does Not Conform”. The highest (best) level of compliance is “Generally Conforms.” A rating of “Generally Conforms” means that an internal audit activity has policies, procedures and activities judged to be in accordance with the *Standards*; however, there may be opportunities for improvement.

As of January 1, 2002, the *Standards* were revised and divided into two major categories: *Attribute* and *Performance Standards*.

It is our opinion that the OIA “Generally Conforms” to the *Attribute Standards* and the *Performance Standards*. The OIA also “Generally Conforms” to the Code of Ethics, which is a part of the IIA “Professional Practices Framework”. Thus, our overall evaluation is that the OIA “Generally Conforms” with the IIA Standards. There are always opportunities for improvement, however, where conformance to specific *Standards* could be enhanced.

Opportunities for improvement in audit procedures and activities to enhance compliance with the *Standards* and to capitalize on incorporation of best practices are listed below, with details in the main body of our report.

## ISSUES SPECIFIC TO THE INTERNAL AUDIT ACTIVITY

- 1. Improve Audit Engagement Planning** by performing an annual risk assessment of all auditable units (*Standard 2010.A1*)
- 2. Expand and update OIA activity’s audit risk assessment model** to include fraud considerations, and by performing an entity-wide fraud risk assessment. (*Practice Advisory 1210.A2-1*)
- 3. Apply consistent risk criteria** to both established audit units as well as audits requested by management (*Standards 2010.C1*)
- 4. Update and expand policies and procedures** to help guide the internal audit activity (*Standards 2040*)
- 5. Implement a more formal internal quality assessment program.** Expand the current quality assessment processes to include ongoing and periodic internal assessments (*Standard 1311*)
- 6. Reconsider OIA activity resources, staffing sources, and skills mix** in light of these recommendations.

The above recommendations are addressed in more detail in the **Observations and Recommendations** section of this report.

We appreciate this opportunity to be of service to the College of William and Mary. We will be pleased to respond to further questions concerning this report and to furnish any desired information.

A handwritten signature in black ink, appearing to read "Billy F. Warf". The signature is fluid and cursive, with the first name "Billy" being the most prominent.

Billy F. Warf, CPA  
Vice President and General Auditor

**Team Members:**

Don R. Dame, CIA, CFE, Audit Director

David B. Mann, CIA, CFE, Auditor

January 23, 2007

# **OBSERVATIONS AND RECOMMENDATIONS**

## **ISSUES SPECIFIC TO THE INTERNAL AUDIT ACTIVITY**

### **1. Improve Audit Engagement Planning**

The CAE considers the relative risk associated with each audit area in the audit universe when developing the annual audit plan. Each auditable unit is evaluated for risk at the beginning of the engagement and at its conclusion. All risk analysis results are kept in a single database to allow for comparison among audit units. The OIA also follows the *Standards* relating to audit planning by considering the input of senior administration.

The OIA conducted a risk assessment of each unit in the audit universe in 2005. There has been no subsequent evaluation of individual unit risk except those for which engagements have been performed.

#### **Recommendation**

We recommend that the OIA plan of engagements should be based on a risk assessment undertaken at least annually as required by *Standard 2010.A1*.

#### **Audit Management's Response**

Agree. We will conduct a full risk assessment before the end of calendar year 2007.

### **2. Expand and Update OIA Activity's Audit Risk Assessment Model**

The OIA assesses risk for College accounts using a model that applies a risk score to each of 13 categories. These categories include such factors as: complexity of operations, level of access to sensitive information, and impact of inaccurate information on the College's goals. Each category is weighted based on relative impact, and the aggregate score is the overall risk rating for the account.

*Standard 1210.A2* states that an internal auditor should have sufficient knowledge to identify the indicators of fraud, but is not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud. *Practice Advisories 1210.A2-1* and *1210.A2-2* further emphasize the auditor's responsibilities relating to fraud risk assessment.

#### **Recommendation**

We recommend that the OIA identify and assess fraud-related risks, including the assessing the potential for fraudulent financial reporting, asset misappropriations, improper receipts and expenditures, or financial misconduct by management and others.

We recommend that due consideration of fraud be included in the existing risk assessment model, and that a periodic entity-wide fraud risk assessment be performed.

### **Audit Management's Response**

Agree. We will complete during calendar year 2007.

### **3. Apply Consistent Risk Criteria**

Approximately one-third of the 2005, 2006, and 2007 annual audit plans is set aside for reviews to be performed at the request of management. These reviews may or may not have been requested at the time of audit plan development. During an interview, the CAE stated that he does not perform a risk assessment before agreeing to perform the engagement, and that, to date, no reviews requested by management have been turned down.

The CAE's willingness to perform management-requested audits shows a commitment to supporting the College's operations and goals at every level. However, we feel that accepting these engagements without proper consideration of their relative risk could potentially put off other, higher-risk engagements included in the annual audit plan.

### **Recommendation**

We recommend that, in accordance with *Standard 2010.C1*, the CAE apply the OIA risk model to management-requested engagements, and that the OIA accept these engagements in consideration of the risk relative to the approved audit plan.

### **Audit Management's Response**

Agree. We have already implemented this recommendation.

### **4. Update and expand policies and procedures**

The OIA does not rely upon written policies and procedures for guidance. While the core OIA staff has extensive experience and training in the field of auditing, the new shared-resource security engineer/auditor does not. The chief audit executive currently manages the internal audit activity through daily supervision and communication, which has proven effective for an experienced staff that has had no department turnover in the past 10 years. The OIA has a Policies and Procedures document last revised July 1997, but it does not use this document for its ongoing operations.

## **Recommendation**

We recommend that the CAE develop current written policies and procedures, in accordance with *Standards 2040*. The CAE should also reference the guidance in *Practice Advisory 2040-1*, giving consideration to the size and complexity of the internal audit activity. The July 1997 policies that the OIA has may be an appropriate starting point for developing current, relevant policies and procedures.

## **Audit Management's Response**

Agree. We will update our policies and procedures before the end of calendar year 2007.

## **5. Implement a more formal internal quality assessment program**

The OIA follows the *Standards* relating to professional quality as evidenced by this review, but they have not set up a formalized internal quality assessment program as required by *Standards 1300* and *1310*.

An internal quality assurance program does not have to be complex. Some key control areas, such as audit customer surveys and audit cycle time, can be used as part of the overall quality program. Many of the pieces of a quality assurance program are in place, such as cross-reviews of audit reports, but a policy framework is needed to put a structure around the tasks.

## **Recommendation**

Develop a standardized approach for assessing the quality of the IA Activity performance and include it in the Administrative Manual. The internal quality assessment process should include: ongoing reviews of the activity's performance and periodic reviews performed through self-assessment or by other qualified persons in the organization. Conclusions should be developed as to the quality of performance and appropriate improvements implemented. Results should be reported as suggested in *Practice Advisory 1311-1*.

## **Audit Management's Response**

Agree. We will implement a quality assurance program and include in our policies and procedures before the end of calendar year 2007.

## **6. Reconsider IA activity resources, staffing sources, and skills mix**

We discussed with the CAE the nature of the existing staff, and the variations among the classifications of employees. Among the staff of three Senior Auditors, one is a 12-month employee, one is a 10-month employee, and one is a 9-month employee. This results in one month during the year that there is only one auditor on staff in addition to the CAE.

The CAE performed a staffing analysis in June 2006 to identify options should the existing staff prove insufficient to complete the audit plan. The options offered included hiring graduate students, increasing partial-year staff to full-year, and hiring an additional full-time auditor. The results of this analysis were presented to the Audit Committee.

### **Recommendation**

We recommend that the IA Activity, in conjunction with other appropriate College offices, create an internship program for summer months when the staffing level is not 100%. This program would allow the OIA to ensure that there is sufficient staffing on hand at all times, as well as provide an excellent opportunity for an undergraduate student to gain first-hand experience in the auditing profession.

### **Audit Management's Response**

Agree. We will work with senior management and the Auditor of Public Accounts to develop a program within the boundaries of the Commonwealth's and College's policies. Implementation date to be determined.