

**2012-2013 ANNUAL
INTERNAL AUDIT REPORT**

VALENCIA COLLEGE

2012-2013 Annual Audit Report

Compliance & Auditing Department
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June 2013

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Executive Summary

Each year, the Valencia College District Board of Trustees (Board) and Senior Administration allocate resources to the Compliance and Auditing Department that are to be used in the effective and efficient execution of audit, advisory, and investigative services.

During the 2012-2013 fiscal period, the department was staffed with one seasoned professional with sufficient experience, credentials and continuing education to effectively execute the duties and responsibilities of the internal audit activity.

In summary, the department utilized 2012-2013 resources as follows:

- Completed one in-depth audit engagement.
- Completed one full extensive investigation, one preliminary investigation, and assisted other College officials in an investigation related to improper activities.
- Completed one follow up on outstanding audit issues.
- Completed a periodic internal self- assessment, as required for the Quality Assurance and Improvement Program.
- Completed 57 hours of continuing professional education.
- Achieved the vast majority of performance measurement goals.

Overall, the Compliance and Auditing Department had a successful year during the 2012-2013 fiscal period.

Introduction

The Compliance and Auditing Department assists the Board by providing services designed to evaluate the organization's risk and related internal control activities. The role of the internal audit function and its responsibilities are detailed in the Compliance and Auditing Charter, approved by the Board in September 2012. The charter is provided in Appendix A.

This is the Compliance and Auditing Department's Annual Report to the Board and Senior Administration for the 2012-2013 fiscal period. The report provides details of activities and engagements performed during the year, financial resources, time allocation, and professional development.

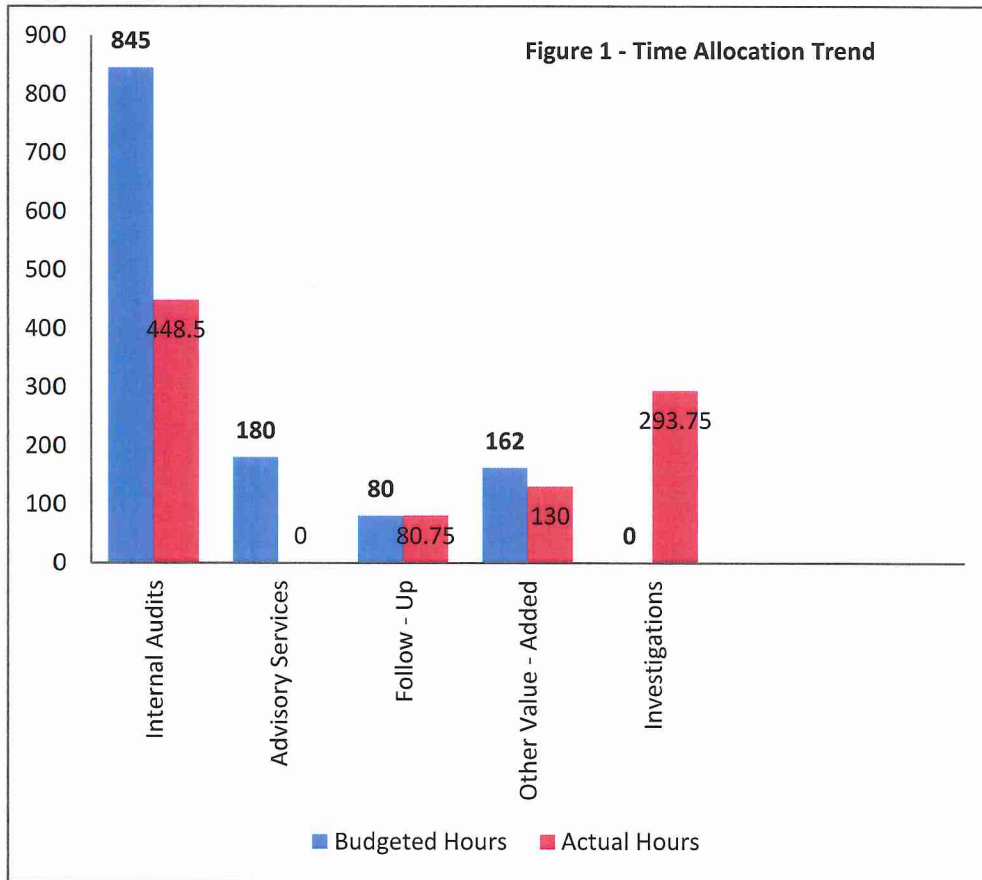
Audit Plan Status

The Compliance and Auditing Department completed 4 engagements during the 2012-2013 fiscal period. This included an audit of Lab Fees, a Follow Up Review of the Work Order Process Audit, an investigation pertaining to International Student Records/SEVP Certification, and a validation of bookstore inventory for the 2011-2012 fiscal period. One engagement, an audit of the College's Competitive Solicitation Processes, was still in progress at the close of the current audit plan. This engagement will be completed in the upcoming fiscal period. This leaves two engagements that did not receive some level of audit coverage during this fiscal period, Student Activity Funds and Emergency Preparedness – Risk Coverage. Due to the inherent risk related to these areas, the engagements are being rolled over for coverage in the 2013-2014 audit plan, pending Board approval. The status of the audit plan for the 2012-2013 fiscal period is provided in Appendix B.

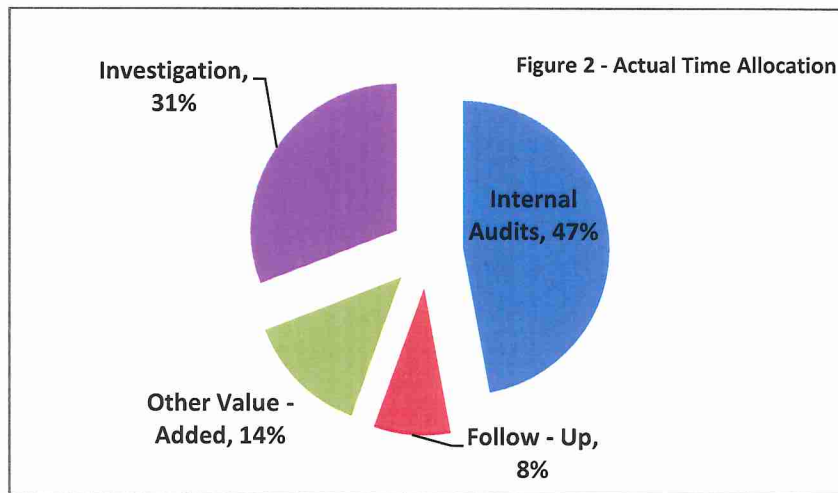
Time Allocation

The 2013 fiscal period began with 1,267 **direct** audit hours. Accordingly, budgeted hours were allocated to the following engagement types displayed in Figure 1 – Time Allocation Trend. As indicated in Figure 1, the main focus of the audit plan was audit engagements. Actual hours dedicated to performing the various projects within the audit plan totaled approximately 957 and were less than budgeted.

Administrative duties and the development of the FY2014 risk-based audit plan consumed a significant number of hours, more than budgeted. Hours budgeted for administrative duties and the development of the FY2014 risk-based audit plan were not included in direct audit hours. Time spent on administrative duties included (but not limited to), involvement in the College Operations Council, involvement in the Internal Audit Advisory Committee, performing ad hoc work that benefits the institution, such as reviewing the annual financial statements prior to submission, performing unannounced cash counts, responding to departmental and process inquiries, participating in a focus user group, and continuously reviewing literature, regulatory requirements, statutory requirements, rules and other pertinent information to remain current in the profession of internal auditing and higher education.

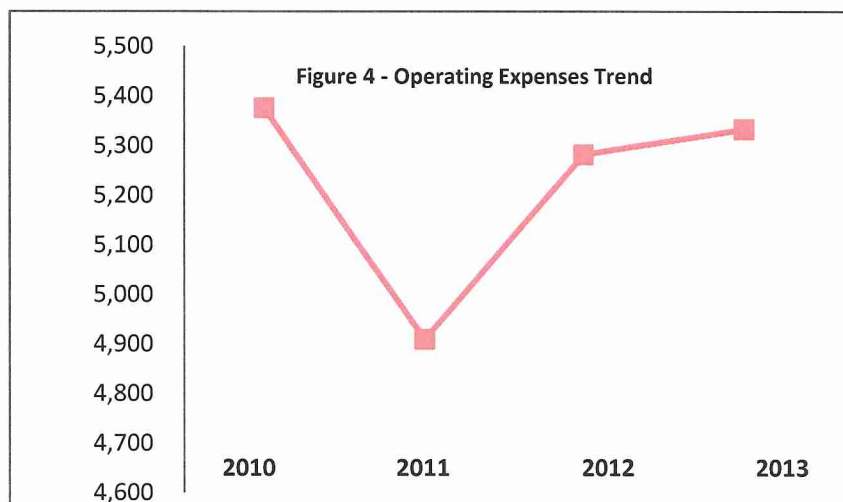
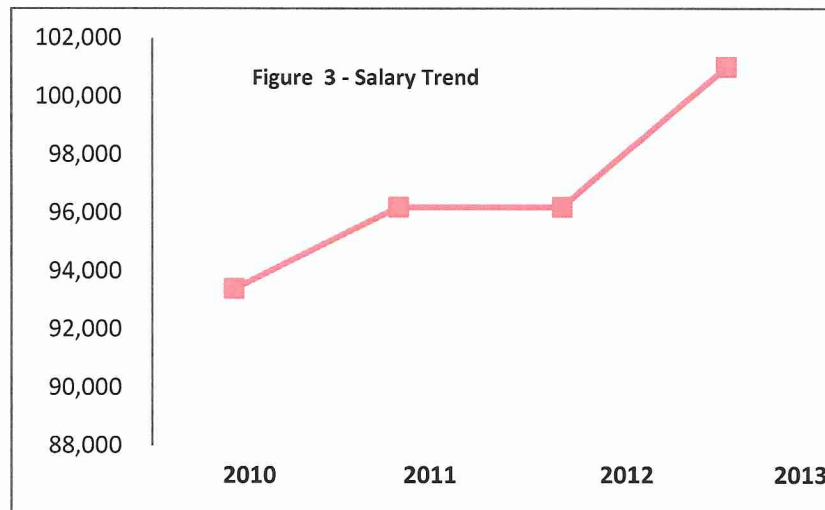


Within the audit plan, resources were heavily focused on performing audit engagements with a secondary focus on investigations. Figure 2 – Actual Time Allocation provides a breakdown of where the internal audit function concentrated its efforts within the audit plan.



Financial Resources

During the 2012-2013 fiscal period, the Compliance and Auditing Department had a budget of \$123,585. Staffing for the department consists of one employee, the Internal Auditor. The vast majority of funding is allocated to salary and benefits, approximately 95%. The remaining 5% is allocated to operating expenses such as travel and office supplies. Trends related to salary, in addition to operating expenses over the past four years are provided in Figure 3 – Salary Trend and Figure 4 – Operating Expenses Trend. Salary increases, where applicable, were due to collegewide raises and the attainment of an advanced degree.



Operating expenses in the 2010 fiscal period included a new desktop computer for the department, which accounted for approximately 28% of the operating expenses. In 2011, there were no technology expenses for the department. During the following fiscal periods, institutional memberships increased in professional organizations such as the Society of Corporate Compliance and Ethics.

Professional Development

The internal auditor maintains two professional designations, Certified Internal Auditor (CIA) and Certified Fraud Examiner (CFE). These designations require continuing professional education. This ensures that staff receives adequate training and provides the opportunity to keep abreast of current industry trends within the auditing and fraud profession.

The internal auditor's goal was to obtain at least 40 hours of continuing professional education. During the fiscal year, the internal auditor received 57 hours. Training was provided by the following reputable professional organizations, known as industry leaders:

- The Institute of Internal Auditors
- The Association of College and University Auditors
- The Association of Certified Fraud Examiners

The internal auditor was elected during the 2012-2013 fiscal period to serve as Vice President for the Central Florida Chapter of the Institute of Internal Auditors for the 2013-2014 fiscal period.

Additionally, the internal auditor completed graduate requirements at Columbia College earning a Master's of Business Administration.

Improper Activities Allegations & Investigations

According to College policy 6Hx28:1-10, *Policy Against Improper Activities; Whistleblower Protection* is intended to (1) communicate clearly that Improper Activities are strictly prohibited, unacceptable, and will not be tolerated (2) institute preventive measures designed to deter these activities or make them

easier to detect and stop, and (3) provide for the reporting and investigation of such activities, including providing protection to persons who report violations.

Implementing procedures of the policy provides that allegations of improper activities should be reported to the Internal Auditor. Procedures also provide that the Internal Auditor along with the Office of Human Resources & Diversity will monitor and may participate in any resulting investigations.

During the year, the internal auditor received 5 complaints, 4 of which fell under the policy of improper activities. The remaining complaint did not fall under the purview of the improper activities policy. The disposition of each complaint is provided in Figure 5 – Complaint Disposition.

Complaint Disposition	Total
Preliminary Investigation by the Internal Auditor – full investigation not warranted.	1
Full Investigation by the Internal Auditor	1
Investigation Assistance by the Internal Auditor	1
Investigation Performed by Other Appropriate Party w/out Assistance of the Internal Auditor	1
Outside the scope of Improper Activities – Directed to appropriate College official	1
Total	5

Quality Assurance & Improvement Program

International Standards for the Professional Practice of Internal Auditing, promulgated by the Institute of Internal Auditors, provides that the internal auditor must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity. The program must include both internal and external assessments. A periodic internal assessment, part of the current audit plan, was completed during the fiscal period. A report was presented to the Board and Senior Administration communicating the results of the assessment. In response to evaluating the effectiveness and efficiency of the internal audit activity, the internal auditor developed performance measurements designed as a

basis for evaluating the internal auditor and the department's performance. Appendix C details the performance measurements and results. In addition, the Board will prepare its own performance evaluation of the internal auditor. Overall, the department achieved the overwhelming majority of its goals.

Mandatory Disclosures

International Standards for the Professional Practice of Internal Auditing require the reporting of specific items to an organization's Board and Senior Administration. The following is a list of required disclosures not previously addressed in this document.

Organizational Independence

The internal auditor must confirm to the Board, at least annually, the organizational independence of the internal audit activity. The Compliance and Auditing Department reports administratively to the Vice President, Operations & Finance and functionally to the Valencia College District Board of Trustees. Reporting to the Board helps promote the independence necessary for the internal audit activity to adequately perform its job function.

Impairments to Independence or Objectivity

If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed. There were no impairments to independence or objectivity for any engagements performed during the 2012-2013 fiscal period.

Management's Acceptance of Risks

Each engagement can potentially identify activities that may present exposures to the College that could potentially impede the College from achieving its goals or expected outcomes. Such exposures are considered risks to College operations. Risks are a part of any business operation. The acceptance of some risk by management is understood due to cost/benefit constraints and progression of the institution.

When the internal auditor concludes that management has accepted a level of risk that may be unacceptable to the organization, the internal auditor must discuss the matter with Senior Administration. If the internal auditor determines the matter has not been resolved, the internal auditor must communicate the matter to the Board. There were no instances noted of unacceptable levels of risks during the 2012-2013 fiscal period.

Appendix A: Compliance & Auditing Charter

Valencia College Compliance and Auditing Department Charter

Introduction

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. The Compliance and Auditing Department serves as the College's internal auditing function.

Mission

The mission of the department is to promote economical and efficient use of resources; to ensure compliance with institutional policies and procedures, as well as, federal and state laws and regulations; to protect institutional assets; to deter and detect fraud, theft, and abuse; and to promote accountability and integrity throughout the institution.

Organizational Structure and Independence

The Internal Auditor is hired by and reports directly to the Valencia College District Board of Trustees. The Internal Auditor shall have unrestricted access to the District Board of Trustees. All internal audit activities shall remain free of undue influence by any element in the organization, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of an independent and objective mental attitude necessary in carrying out internal auditing responsibilities.

The department shall have no direct operational responsibility or authority over any activities reviewed. Accordingly, the department shall not develop nor install systems or procedures, prepare records, or engage in any other activity which would normally be reviewed by the department.

Authority

The department is granted access to all institutional systems, functions, operations, records, data, property, and personnel relevant to performing audits, reviews, investigations, and consulting services. Information provided to the department will be handled with prudence and confidentiality.

Audit Scope

The scope of Compliance and Auditing encompasses the examination and evaluation of the adequacy and effectiveness of the organization's governance, risk management process, and system of internal control structure. It includes:

- Reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information.
- Reviewing and assessing the adequacy and effectiveness of the system of internal controls.
- Reviewing automated and manual systems established to ensure compliance with policies, procedures, statutory requirements and regulations which could have a significant impact on operations.
- Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
- Evaluating the economy, efficiency and effectiveness with which resources are employed, including reviews of business practices.
- Conducting special assignments and investigations at the request of the District Board of Trustees, the President, management, or as required by institutional policy.

Professional Standards

Internal auditing staff shall govern themselves by adherence to The Institute of Internal Auditors' *Code of Ethics* and the Institute's *International Standards for the Professional Practice of Internal Auditing*. Internal auditing staff shall also work under the guidance of College policy and procedure.

Appendix B: 2012-2013 Audit Plan

Valencia College Compliance and Auditing Department Audit Plan 2012-2013				
Audits	Scope	Budgeted Hours	Actual Hours	Status
Lab Fees	Review processes used to determine the composition of such fees and compliance with applicable policy and laws.	210	431.25	Completed Report No. CA2013-103
Student Activity	Review processes in place to administer and disburse student activity funds.	165	N/A	**Rollover**
International Student Processes	Review various processes and compliance requirements related to international students.	230	N/A	Investigation completed. See below.
Competitive Solicitation Processes	Review adequacy of internal controls within established policies and procedures and determine college adherence to such policies and procedures in addition to any applicable federal and/or state laws and rules.	240	17.25	In-Progress
Advisory Services	Scope	Budgeted Hours		Status
Emergency Preparedness – Risk Coverage	Determine the adequacy of insurance coverage for potential adverse events.	180	N/A	**Rollover**
Follow Up Reviews	Scope	Budgeted Hours		Status
Work Order Process Audit (Collegewide Maintenance)	Review corrective measures of prior audit issues related to college maintenance.	80	80.75	Completed Report No. CA2013-101
Other Projects	Scope	Budgeted Hours	Actual Hours	Status
Quality Assurance & Improvement Program	Internal self-assessment of the internal audit function.	130	102.25	Completed Report No. QA2013
Year-end Bookstore Inventory – FY12	Validation of bookstore inventory for financial statement purposes.	32	27.75	Completed
Investigations	Scope	Budgeted Hours	Actual Hours	Status
Alleged Improper Activities	International Student Records/SEVP Certification	N/A	297.75	Completed Report No. CA2013-102

Note: Audit plan is subject to change due to unforeseen high risk projects, whistleblower issues or special administrative projects that require internal audit resources.

Appendix C: Performance Measurements 2012-2013

Internal Auditor Performance Measurements				
Fiscal Year 2012-2013				
Performance Objectives	Target Range	How to Collect	When to Measure	Outcomes
1. Substantial completion of audit plan & response to critical issues or inquiries	6 to 8 projects of the approved audit plan	Determine the number of approved audits/projects where all fieldwork has been completed by year-end.	Annually in June.	5 out of 8 projects were completed. Fieldwork for one project was still being performed at year-end.
2. Customer concurrence with engagement report	85% to 100%	Obtain the total number of "approved" engagement reports and divide by the total number of reports issued at year-end.	Annually in June.	100%
3. Final report turnaround time	Within 30 working days of the issuance of the draft report	The number of days between the initial draft issue date and the date of final response by the Internal Audit Advisory Committee.	Annually in June.	Within 18 working days.
Development Objectives	Target Range	How to Collect	When to Measure	Outcomes
4. Pursuit of an advanced degree in Business Administration	2 courses per fiscal period	Institutional transcript.	Annually in June.	2 courses completed. Met the requirements to obtain the MBA.
5. Continuing professional education (CPE) to fulfill requirements of the Certified Internal Auditor and Certified Fraud Examiner designations	40 CPE hours per fiscal period	CPE certificates detail hours earned.	Annually in June.	Earned 57 CPE hours.
Value Objectives	Target Range	How to Collect	When to Measure	Outcomes
6. Provide quality and value services to internal audit customers	Minimum rating of 3.0 per project on a scale of 1 to 4 1 = poor 2 = fair 3 = good 4 = excellent	Customer satisfaction surveys for audits and advisory request. Summation of ratings divided by the total number of factors.	Annually in June.	Multiple surveys received for audit engagement completed: average score was 3.9

Note: Audit plan completion target not met due to limited internal auditing resources allocated to additional administrative and investigative requirements.