External Quality Assessment
Validation of Internal Audit’s Self Assessment

Presented to: Alamo Colleges
August 20, 2015
Letter of Transmittal

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This external quality assessment provides management with information about the internal audit activity at Alamo Colleges as of August 20, 2015. Future changes in environmental factors and actions by personnel, including actions taken to address our recommendations, may have an impact upon the operation of the internal audit activity in a manner that this report did not and cannot anticipate.

Considerable professional judgment is involved in evaluating the findings and developing our recommendations. Accordingly, it should be recognized that others could evaluate the results differently, and draw different conclusions. The criteria that we used to determine our views on conformance with the International Standards for the Professional Practice of Internal Auditing (“Standards”) and Generally Accepted Governmental Auditing Standards (“GAGAS”) are defined on page 6 to this report and are generally consistent with the guidance provided by The Institute of Internal Auditors (“IIA”) in their Quality Assessment Manual.

Matthew Mills
District Director of Internal Audit
Alamo Colleges

Dear Mr. Mills,

Basil Woller & Associates, LLC conducted an independent validation of the self-assessment prepared by Internal Audit at Alamo Colleges to satisfy the external quality assessment requirement of the Standards and GAGAS. The self-assessment was designed to evaluate Internal Audit’s conformance with the Standards, the Code of Ethics, the Definition of Internal Auditing, and GAGAS. An external quality assessment is required under the Standards at least once every five years and under GAGAS at least once every three years. Internal Audit chose to perform a self-assessment of its internal audit activity and retained Basil Woller & Associates, LLC to independently validate the results.

We concur with Internal Audit’s self-assessment that they are operating generally in conformance with the Standards, the Code of Ethics, the Definition of Internal Auditing, and GAGAS. “Generally Conforms” is the top rating and means that an internal audit activity has relevant structures, policies, and procedures as well as the processes by which they are applied that comply with the requirements of the Standards, GAGAS, or element of the Code of Ethics in all material respects.

The results of the validation are included in the body of this report and build upon the work performed during Internal Audit’s self-assessment. Internal Audit appropriately identified areas where (1) they are operating in a successful internal audit practice manner, (2) there appear to be gaps to conformance with Standards or GAGAS, and (3) opportunities for continuous improvement appear to exist. None of the gaps to conformance or opportunities for continuous improvement were significant in nature. Identifying opportunities for continuous improvement support the view that an external quality assessment should provide insight and ideas for positive change in an internal audit activity.

Thank you for the opportunity to be of service to Alamo Colleges. I appreciate the professionalism and support demonstrated by Internal Audit throughout the validation process.

Very truly yours,

Basil Woller & Associates, LLC

August 20, 2015
# List of Acronyms

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
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<tbody>
<tr>
<td>CAE</td>
<td>Chief Audit Executive</td>
</tr>
<tr>
<td>GAGAS</td>
<td>Generally Accepted Governmental Auditing Standards</td>
</tr>
<tr>
<td>IIA</td>
<td>Institute of Internal Auditors</td>
</tr>
<tr>
<td>IPPF</td>
<td>International Professional Practices Framework</td>
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<tr>
<td>QAIP</td>
<td>Quality Assurance and Improvement Program</td>
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<tr>
<td>Standards</td>
<td>International Standards for the Professional Practice of Internal Auditing</td>
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• Standard 2200 – Engagement Planning
• Standard 2300 – Performing the Engagement
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• Standard 2600 – Communicating the Acceptance of Risks
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Executive Summary
Objectives / Scope / Procedures / Definitions

OBJECTIVES – SELF-ASSESSMENT WITH INDEPENDENT VALIDATION
• Assess conformance to the Standards, the IIA Code of Ethics, the Definition of Internal Auditing, and GAGAS.
• Identify opportunities, offer recommendations for improvement and provide counsel to the Chief Audit Executive (“CAE”) and staff for improving their performance and services.
• Assess the effectiveness of the internal audit activity in providing assurance and consulting services to the board, senior management, and other key stakeholders.

SCOPE – SELF-ASSESSMENT WITH INDEPENDENT VALIDATION
• Alamo Colleges Internal Audit as defined in the Internal Audit charter.
• IIA Standards and GAGAS effective as of August 20, 2015.
• Successful internal audit practices derived from experience of the independent assessor.
• Quality self-assessment and supporting work papers.

PROCEDURES PERFORMED TO MEET OBJECTIVES
• Reviewed information prepared by Internal Audit supporting their conclusions relating to conformance with the Standards, the IIA Code of Ethics, the Definition of Internal Auditing, and GAGAS.
• Conducted interviews of key stakeholders to Internal Audit:
  - Internal Audit management and staff
  - Audit Committee Chair
  - Chancellor
  - Vice-Chancellor Finance
• Reviewed a sample of work papers and associated audit reports.
• Prepared diagnostic tools and the final report describing the results of the validation.

DEFINITIONS USED TO EVALUATE CONFORMANCE WITH THE STANDARDS, THE IIA CODE OF ETHICS, THE DEFINITION OF INTERNAL AUDITING, AND GAGAS

GC – “Generally Conforms” means the assessor has concluded the following:
• For individual standards, that the internal audit activity conforms to the requirements of the standard or elements of the IIA Code of Ethics (both Principles and Rules of Conduct) in all material respects.
• For the sections and major categories, the internal audit activity achieves general conformity with a majority of the individual standards and/or elements of the IIA Code of Ethics, and at least partial conformity to others, within the section/category.
• For the internal audit activity overall, there may be opportunities for improvement, but these should not represent situations where the internal audit activity has not implemented the Standards, GAGAS or the IIA Code of Ethics, has not applied them effectively, or has not achieved their stated objectives.

PC – “Partially Conforms” means the assessor has concluded the following:
• For individual standards, the internal audit activity is making good faith efforts to conform to the requirements of the standard or element of the IIA Code of Ethics but falls short of achieving some major objectives.
• For the sections and major categories, the internal audit activity achieves partial conformity with a majority of the individual standards and/or elements of the IIA Code of Ethics.
• For the internal audit activity overall, there will be significant opportunities for improvement in effectively applying the Standards, GAGAS, or the IIA 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 the assessor has concluded the following:
• For individual standards, the internal audit activity is not aware of, is not making good faith efforts to conform to, or is failing to achieve many/all of the objectives of the standard and/or elements of the IIA Code of Ethics.
• For the sections and major categories, the internal audit activity does not achieve conformance with a majority of the individual standards within the section/category and/or elements of the IIA Code of Ethics.
• For the internal audit activity overall, there will be deficiencies that will usually have a significant 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.
Executive Summary

Summary Observations

OVERALL ASSESSMENT

Internal Audit is generally in conformance with the Standards, the IIA Code of Ethics, the Definition of Internal Auditing, and GAGAS. They operate in a very dynamic environment impacted by regulatory, technology, and economic factors. Their ability to adapt and be responsive to change, combined with their ability to leverage insight on risks impacting the organization into focused audit plans, will continue to be critical to their success and value to the organization. The internal quality processes they have in place, including external assessments, demonstrate a strong commitment to continuous improvement and alignment with the Standards and GAGAS. Their annual risk assessment process focuses activities in areas of highest risk and impact consistent with the strategy and objectives of Alamo Colleges. Interviews with senior stakeholders support the view that Internal Audit’s role is highly valued and they are seen as an integral component of the organization’s governance mechanism. The IIA recently adopted a revised International Professional Practices Framework (“IPPF”) that (1) introduced principles as a mandatory element of professional guidance, (2) introduced an Internal Audit mission statement, and (3) restructured professional guidance elements. The revised IPPF will drive changes to Standards as early as 2016. Internal Audit should be diligent in monitoring these changes and incorporating new or changing requirements into their infrastructure and methodology as appropriate.

ATTRIBUTE STANDARDS

Internal Audit has the infrastructure in place to support sustainability of internal audit processes in a quality and consistent manner. The Internal Audit charter establishes the purpose, authority, and responsibility for the activity and is foundational to all their activities. The functional and administrative reporting relationships are appropriate and support organizational independence and objectivity. The nature of the functional reporting relationship to the Audit Committee is consistently and comprehensively defined within the Internal Audit and Audit Committee charters. Internal Audit management and staff sign an annual objectivity statement specific to their role as internal auditors within Alamo Colleges. Internal Audit management and staff, together with co-source resources, collectively possess the knowledge, skills, and other competencies necessary to demonstrate professional proficiency; and work is performed with due professional care that includes an appropriate level of supervisory review and approval. Training and professional development processes support proficiency of Internal Audit management and staff.

The CAE has established a Quality Assurance and Improvement Program (“QAIP”) to promote quality and continuous improvement. The program is formally documented in the Internal Audit Manual and is appropriately designed with regards to internal monitoring of performance, internal periodic assessment, external assessment, and communication of results.

PERFORMANCE STANDARDS

Internal Audit is managed appropriately and the annual audit plan is supported by a risk assessment process that incorporates input from Internal Audit stakeholders including the Audit Committee and that is linked to Alamo Colleges’ strategies and objectives. Internal Audit resources are aligned with meeting the objectives of the approved annual audit plan. Documentation of policies and procedures for Internal Audit infrastructure and key processes is exceptional for a smaller internal audit activity and fully supports sustainability, consistency, and quality. Engagement level planning is supported by engagement level risk assessment to focus audit activities. Objectives evaluate technology, operational, financial, and compliance components as appropriate for individual engagements. Individual audits are of a consistent high quality and work papers fully support reported findings. Audit reports are consistent with the underlying work product and focus the reader on those areas of highest relevance. The follow-up process to track audit issues through to resolution is in the process of being automated through the Internal Audit electronic work paper tool.

GAGAS

Internal Audit is generally in conformance with applicable GAGAS requirements. Specifically, Internal Audit is in conformance with the general standards (independence, professional judgment, competence, and quality control and assurance) and performance standards (planning, supervision, evidence, documentation, and reporting) defined for GAGAS. Independence is demonstrated at both an organizational level and an individual level within Internal Audit. Procedures should be developed to determine whether providing non-audit services to an audited entity creates a threat to independence or whether the non-audit service is prohibited under GAGAS. Professional judgment is consistent with the Standards requirements of due professional care. Competence is consistent with Standards requirements related to proficiency and professional development. Elements of quality control and assurance are in place and operating effectively. An external assessment should be performed every three years to meet GAGAS requirements. The last external review was performed in 2011. Performance standards are fully demonstrated, consistent with the Standards requirements associated with planning, performing the engagement, and communicating results.
## Executive Summary

Conformance with the *Standards*, the IIA Code of Ethics, the Definition of Internal Auditing, and GAGAS

### Independent Assessor Opinion

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<thead>
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### Attribute Standards

#### Purpose, Authority, and Responsibility

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#### Proficiency and Due Professional Care

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#### Quality Assurance and Improvement Program

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### Performance Standards

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### IIA Code of Ethics

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### Definition of Internal Auditing

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### GAGAS

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## Executive Summary

Conformance with the *Standards*, the IIA Code of Ethics, the Definition of Internal Auditing, and GAGAS

### Internal Audit Self-Assessment Opinion

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### ATTRIBUTE STANDARDS

| 1000 Purpose, Authority, and Responsibility | GC | PC | DNC | NA |
| X                                               |    |    |     |    |

| 1010 Recognition of the Definition of Internal Auditing, the Code of Ethics and the Standards in the Internal Audit Charter | GC | PC | DNC | NA |
| X                                               |    |    |     |    |

| 1100 Independence and Objectivity | GC | PC | DNC | NA |
| X                                               |    |    |     |    |

| 1110 Organizational Independence | GC | PC | DNC | NA |
| X                                               |    |    |     |    |

| 1111 Direct Interaction with the Board | GC | PC | DNC | NA |
| X                                               |    |    |     |    |

| 1120 Individual Objectivity | GC | PC | DNC | NA |
| X                                               |    |    |     |    |

| 1130 Impairments to Independence or Objectivity | GC | PC | DNC | NA |
| X                                               |    |    |     |    |

| 1200 Proficiency and Due Professional Care | GC | PC | DNC | NA |
| X                                               |    |    |     |    |

| 1210 Proficiency | GC | PC | DNC | NA |
| X                                               |    |    |     |    |

| 1220 Due Professional Care | GC | PC | DNC | NA |
| X                                               |    |    |     |    |

| 1230 Continuing Professional Development | GC | PC | DNC | NA |
| X                                               |    |    |     |    |

| 1300 Quality Assurance and Improvement Program | GC | PC | DNC | NA |
| X                                               |    |    |     |    |

| 1310 Requirements of the Quality Assurance and Improvement Program | GC | PC | DNC | NA |
| X                                               |    |    |     |    |

| 1311 Internal Assessments | GC | PC | DNC | NA |
| X                                               |    |    |     |    |

| 1312 External Assessments | GC | PC | DNC | NA |
| X                                               |    |    |     |    |

| 1320 Reporting on the Quality Assurance and Improvement Program | GC | PC | DNC | NA |
| X                                               |    |    |     |    |

| 1321 Use of "Conforms with the International Standards for the Professional Practice of Internal Auditing" | GC | PC | DNC | NA |
| X                                               |    |    |     |    |

| 1322 Disclosure of Nonconformance | GC | PC | DNC | NA |
| X                                               |    |    |     |    |

### PERFORMANCE STANDARDS

| 2000 Managing the Internal Audit Activity | GC | PC | DNC | NA |
| X                                               |    |    |     |    |

| 2010 Planning | GC | PC | DNC | NA |
| X                                               |    |    |     |    |

| 2020 Communication and Approval | GC | PC | DNC | NA |
| X                                               |    |    |     |    |

| 2030 Resource Management | GC | PC | DNC | NA |
| X                                               |    |    |     |    |

| 2040 Policies and Procedures | GC | PC | DNC | NA |
| X                                               |    |    |     |    |

| 2050 Coordination | GC | PC | DNC | NA |
| X                                               |    |    |     |    |

### IIA CODE OF ETHICS

| GC | PC | DNC | NA |
| X |    |     |    |

### DEFINITION OF INTERNAL AUDITING

| GC | PC | DNC | NA |
| X |    |     |    |

### GAGAS

| GC | PC | DNC | NA |
| X |    |     |    |
# Executive Summary

## Successful Internal Audit Practices – Noted by Internal Audit

<table>
<thead>
<tr>
<th>Successful Internal Audit Practice</th>
<th>Independent Assessor Comment</th>
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<tr>
<td><strong>Standard 1000 – Purpose, Authority, and Responsibility</strong> – The Audit Committee charter and the Internal Audit charter are both reviewed, updated, and presented to the Board for acceptance on an annual basis. This keeps both areas in line with the most current policies and practices issued by IIA and Governmental Accounting Office.</td>
<td>I concur with this successful practice noted by the self-assessment team. Annual revision, review, and approval ensures that the Audit Committee charter and the Internal Audit charter are updated in a timely manner as changes in the IPPF become effective. This is especially relevant since the IPPF was recently updated in July 2015 which will result in subsequent changes in Standards and other professional guidance in the next several years. In addition, this annual revision, review, and approval demonstrates an appropriate “tone at the top” related to Audit Committee fiduciary oversight over Internal Audit.</td>
</tr>
<tr>
<td><strong>Standard 1130 – Impairments to Independence and Objectivity</strong> – On an annual basis, the audit group individually signs an “Internal Auditor’s Objectivity Statement”. This is done prior to any audits being performed. This helps to ensure that auditors are in fact independent and objective in the work they will perform throughout the year.</td>
<td>I concur with this successful practice noted by the self-assessment team. Including the requirement to positively confirm independence and objectivity in their roles as internal auditors demonstrates a commitment by Internal Audit to these foundational concepts and is a successful internal audit practice.</td>
</tr>
<tr>
<td><strong>Standard 1230 – Professional Development</strong> – When new Internal Audit staff are hired, they are sent to training related to auditing in a higher education environment. This is especially critical where the new staff member does not have experience in higher education. This training helps the staff to be more comfortable when performing audits within Alamo Colleges. In addition, upon finalization of the annual audit plan, specific training is determined for specific skill sets required to meet audit plan objectives.</td>
<td>I concur with this successful internal audit practice noted by the self-assessment team. Consider using a competency framework to establish a base-line of knowledge, skills, and experience for each level within Internal Audit. This successful internal audit practice will support (1) actual training and professional development activities; (2) scheduling of resources for internal audit engagement; and (3) decisions regarding the use of third-party subject matter expertise for internal audit engagements.</td>
</tr>
<tr>
<td><strong>Standard 1311 – Internal Assessments</strong> – The use of performance improvement methodologies such as Focus PDCA and Lean Six Sigma are incorporated into the internal ongoing monitoring of performance process and is designed to increase the efficiency and effectiveness of the internal audit activity.</td>
<td>I concur with this successful internal audit practice noted by the self-assessment team. In addition, Internal Audit continues to refine processes associated with identifying, tracking, and reporting of performance metrics. The current process uses a balanced scorecard and dashboards to enhance the visibility and effectiveness of reporting of these metrics. Input from key stakeholders including senior management and the Audit Committee should be considered as these metrics continue to be refined. The IIA Supplemental Guidance “Measuring Internal Audit Effectiveness and Efficiency” (December 2010) might be considered a resource when developing this approach. Using a balanced scorecard to measure and report internal audit effectiveness is a successful internal audit practice that is used by both large and smaller internal audit functions.</td>
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Executive Summary
Successful Internal Audit Practices – Noted by Internal Audit

<table>
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<th>Successful Internal Audit Practice</th>
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<tr>
<td><strong>Standard 2120 – Risk Management</strong> – In 2014, Internal Audit hired an independent third party to perform a risk assessment for Alamo Colleges at an institutional level. In 2015, they hired an independent third party to perform an IT risk assessment. Internal Audit shared the results of the 2014 risk assessment with departments within Alamo Colleges to promote implementation of processes to mitigate identified risks. The 2015 IT risk assessment is currently in process and will be shared upon completion.</td>
<td>I concur with this successful internal audit practice noted by the self-assessment team. The use of third party subject matter experts to perform institutional level and IT specific risk assessments is a successful internal audit practice. Risk assessment is essential to prioritizing internal audit engagements within the annual audit plan and promotes awareness of risk throughout the organization. Sequencing risk assessments from the institutional level to IT specific is a logical way to perform such reviews. This helps to ensure that the deeper analysis associated with the IT risk assessment is consistent with the level of risk identified during the institutional risk assessment. An additional benefit of this process is the knowledge transfer component as these risk assessments ultimately formed the basis for engagement level objective setting, scoping, and risk assessment.</td>
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**Executive Summary**

**Successful Internal Audit Practices – Noted by Independent Assessor**

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<th>Successful Internal Audit Practice</th>
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<tr>
<td><strong>Standard 1312 – External Assessments</strong> – The self-assessment prepared in conjunction with the independent validation was exceptionally thorough and well done and fully supported and documented the conclusions reached by Internal Audit.</td>
<td>It was evident that the self-assessment was taken seriously and had as a primary focus the identification of opportunities to improve the efficiency, effectiveness, and quality of Internal Audit processes.</td>
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<tr>
<td><strong>Standard 2000 – Managing the Internal Audit Activity</strong> – Internal Audit has defined and implemented a strategic plan specific to Internal Audit that supports the dynamic nature of Alamo Colleges and that guides activities of Internal Audit in a proactive, thoughtful, systematic, and practical manner.</td>
<td>Formalizing strategic plans for an internal audit activity is an emerging and evolving successful practice that enhances quality of internal audit processes and sustainability of the function within the organization. Internal Audit’s efforts are consistent with the strongly recommended guidance issued by the IIA in its Practice Guide “Developing the Internal Audit Strategic Plan” (July 2012).</td>
</tr>
<tr>
<td><strong>Standard 2040 – Policies and Procedures</strong> – The Internal Audit Manual that documents the underlying policies, procedures, and infrastructure supporting the Internal Audit methodology is particularly well done for a smaller internal audit activity.</td>
<td>This manual is comprehensive and includes all required elements that are embedded in the Standards as well as good business practice, and also appropriately incorporates GAGAS requirements into infrastructure and methodology policies and procedures. The manual supports consistency and quality in the performance of audit work as well as the on-boarding of new personnel. The manual is updated periodically to reflect changes in the IPPF.</td>
</tr>
<tr>
<td><strong>Standard 2060 – Reporting to Senior Management and the Board</strong> – Internal Audit uses a Required Communications with the Audit Committee Checklist to ensure that all communication requirements embedded in the Standards are met in the appropriate time frames.</td>
<td>This checklist is updated as changes to Standards become effective. This checklist, when combined with Audit Committee minutes, provides documentation that all required communications are considered and take place in a timely manner.</td>
</tr>
<tr>
<td><strong>Standard 2330 – Documenting Information</strong> – Electronic work papers supporting individual audit engagements are of a consistent high quality.</td>
<td>Observations communicated to senior management and the Audit Committee were fully supported and linked to the underlying work papers. Documentation of information within the work papers – including planning, work programs, and supervisory review and approval – was maintained consistently across the projects reviewed and in strict conformance with the defined methodology. Opening and closing meeting materials were thorough and included the scope and results of engagements. Significant client communications were routinely included and there was appropriate evidence for supervisory review and approval of all work performed. The implementation and use of these electronic work papers is exceptional for a smaller internal audit activity.</td>
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## Executive Summary

**Conformance Gaps – Noted by Internal Audit**

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<td><strong>Standard 1000 – Purpose, Authority, and Responsibility</strong> – The fact that Internal Audit has access to records, personnel, and physical properties is not mentioned in the Internal Audit charter, but rather in an Alamo Colleges policy (C.1.2). This was an oversight. Significant changes were made to the Internal Audit charter in January 2015 to bring it into alignment with the IIA model charter. The “Authority” section inadvertently was cut from the final version. It will be added back in the next annual revision.</td>
<td>I concur with this conformance gap noted by the self-assessment team and with their recommended action to remediate the gap. As described, the Internal Audit charter was updated in January 2015 and was patterned after the IIA Model Internal Audit charter. Other than this language, that was inadvertently excluded, the Internal Audit charter is current with all other Standards requirements as well as professional guidance. Since the required language is included in Alamo Colleges’ policy (C.1.2), we concur that incorporating the omitted language into the Internal Audit charter during the next annual revision is appropriate from a timing perspective.</td>
</tr>
<tr>
<td><strong>GAGAS 3.82 and 3.96</strong> – The Standards and GAGAS external assessment was last performed in 2011. The GAGAS external assessment (required to be completed in 2014) was deferred until 2015. This does not have a significant impact.</td>
<td>I concur with this conformance gap noted by the self-assessment team. The decision to defer the GAGAS external assessment was made in full consultation with the Audit Committee and was based upon the fact that the CAE was new in his position and was in the process of making significant changes to Internal Audit processes and procedures to bring them into better alignment with the Standards and GAGAS as well as increase the efficiency and effectiveness of the department. On a going-forward basis, the GAGAS external assessment should be performed every three years.</td>
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# Executive Summary

**Opportunities for Continuous Improvement – Noted by Internal Audit**

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<td><strong>Standard 1300 – Quality Assurance and Improvement Program</strong> – Continue to develop and formalize the QAIP process, metrics, and reporting.</td>
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<td><strong>Standard 1311 – Internal Assessments</strong> – Implement a quality assessment checklist for each completed audit to ensure that internal assessments are performed and to determine if any areas of improvement are noted to carry forward to future audits.</td>
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<td><strong>Standard 2120 – Risk Management</strong> – Conduct training for process owners within Alamo Colleges to increase awareness and understanding of risk management requirements within their areas of responsibility. Specifically, describe the relationship between risk and control and the requirement to design and operate controls to mitigate risks to an appropriate level. At the current time, not all process owners within Alamo Colleges have a clear understanding of the risks in their areas of responsibility, nor the control processes in place to mitigate those risks. Consider conducting training in advance of performing an audit engagement to highlight the role of Internal Audit in the risk management process.</td>
<td>I concur with this opportunity for continuous improvement noted by the self-assessment team. Increasing awareness of the relationship between risk and control is foundational to effective risk management. Providing training within the organization promotes increased awareness of concepts necessary to effectively manage risks for process owners and is consistent with professional internal audit guidance related to risk management.</td>
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## Executive Summary

**Opportunities for Continuous Improvement – Noted by Internal Audit**

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<td><strong>Standard 2500 – Monitoring Progress</strong> – The issue monitoring process is still in development within the TeamMate electronic work paper tool. Complete monitoring with automatic notifications to corrective action owners will be established in TeamMate within the next three months.</td>
<td>I concur with this opportunity for continuous improvement noted by the self-assessment team. While an effective manual monitoring process is in place and working effectively, the use of TeamMate to manage open action items will enhance efficiency and effectiveness of the process. It will also provide systematic assurance that all open observations identified in individual engagements are being monitored and reported upon.</td>
</tr>
<tr>
<td><strong>GAGAS 3.34</strong> – When performing non-audit services, IA department should build into the kick-off meeting an explanation of the non-audit services and any Yellow Book requirements.</td>
<td>I concur with this opportunity for continuous improvement noted by the self-assessment team. GAGAS suggests using the GAGAS Conceptual Framework for Independence to determine if a non-audit service proposed to be provided is specifically prohibited by GAGAS or whether providing the service would create a threat to independence, either by itself or in aggregate with other non-audit services provided, with respect to any GAGAS audit performed. Documentation should be maintained for threats to independence created by non-audit services, if any, safeguards applied, and effectiveness of applied safeguards.</td>
</tr>
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Validation of Internal Audit’s Self-Assessment Conformance with the *Standards* – Gap Analysis Detail
Conformance with the Standards

Gap Analysis Detail

### Standard 1000 - Purpose, Authority, and Responsibility

The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics, and the Standards. The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.

#### Conformance with Standards

**Standard 1000 – Purpose, Authority, and Responsibility**

An internal audit charter is in place that establishes the purpose, authority and responsibility of Internal Audit and that is consistent with the Definition of Internal Auditing, the IIA Code of Ethics, and the Standards. The Internal Audit charter is periodically reviewed by the CAE and presented to the Audit Committee for review and approval. Documentation of approval is reflected in the Audit Committee meeting minutes. The Internal Audit charter was last approved in January 2015. The Internal Audit charter was patterned after the IIA Model Internal Audit Charter but does not currently include language that provides for unrestricted access to records, personnel, and physical properties when performing engagements. This was an oversight that was identified by Internal Audit during their self-assessment. However, this omission is mitigated by the fact that the appropriate language is included in Alamo Colleges’ Audit Services Policy (C.1.2). The nature of assurance and consulting services are broadly defined within the document. The Internal Audit charter defines a reporting relationship of the CAE to the Audit Committee (functionally) and to the Chancellor of Alamo Colleges or his delegate (administratively). The nature of the functional reporting relationship is specifically described in the Internal Audit charter as required by Standard 1000 – Purpose, Authority, and Responsibility.

**Standard 1010 – Recognition of the Definition of Internal Auditing, the Code of Ethics, and the Standards in the Internal Audit Charter**

The Internal Audit charter is generally consistent with the Definition of Internal Auditing, the IIA Code of Ethics, and the Standards. The mission of Internal Audit is clearly derived from the Definition of Internal Auditing. The Internal Audit charter includes the following statement, “The Internal Audit Department will govern itself by adherence to the Institute of Internal Auditors’ mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing (IPPF). This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity’s performance.”

#### Successful Internal Audit Practice – Noted by Internal Audit

**Standard 1000 –** The Audit Committee charter and the Internal Audit charter are both reviewed, updated, and presented to the Board for acceptance on an annual basis. This keeps both areas in line with the most current policies and practices issued by IIA and Governmental Accounting Office.

**Independent Assessor Comment**

I concur with this successful practice noted by the self-assessment team. Annual revision, review, and approval ensures that the Audit Committee charter and the Internal Audit charter are updated in a timely manner as changes in the IPPF become effective. This is especially relevant since the IPPF was recently updated in July 2015 which will result in subsequent changes in Standards and other professional guidance in the next several years. In addition, this annual revision, review, and approval demonstrates an appropriate “tone at the top” related to Audit Committee fiduciary oversight over Internal Audit.

**Conformance Gap – Noted by Internal Audit**

**Standard 1000 –** The fact that Internal Audit has access to records, personnel, and physical properties is not mentioned in the Internal Audit charter, but rather in an Alamo Colleges policy (C.1.2). This was an oversight. Significant changes were made to the Internal Audit charter in January 2015 to bring it into alignment with the IIA model charter. The “Authority” section inadvertently was cut from the final version. It will be added back in the next annual revision.

**Independent Assessor Comment**

I concur with this conformance gap noted by the self-assessment team and with their recommended action to remediate the gap. As described, the Internal Audit charter was updated in January 2015 and was patterned after the IIA Model Internal Audit charter. Other than this language, that was inadvertently excluded, the Internal Audit charter is current with all other Standards requirements as well as professional guidance. Since the required language is included in Alamo Colleges’ policy (C.1.2), we concur that incorporating the omitted language into the Internal Audit charter during the next annual revision is appropriate from a timing perspective.
Conformance with the Standards
Gap Analysis Detail

Standard 1100 – Independence and Objectivity
The internal audit activity must be independent, and the internal auditors must be objective in performing their work.

Standard 1110 – Organizational Independence
Internal Audit reports functionally to the Audit Committee and administratively to the Chancellor of Alamo Colleges or his delegate. Functional reporting is supported by the Audit Committee (1) approving the Internal Audit charter; (2) approving the risk-based Internal Audit plan; (3) approving the Internal Audit budget and resource plan; (4) receiving communications from the CAE on Internal Audit’s performance relative to its plan and other matters; (5) approving the appointment and removal of the CAE; (6) reviewing the performance and remuneration of the CAE; and (7) making appropriate inquiries of management and the CAE to determine whether there are inappropriate scope or resource limitations. These examples of functional oversight are consistent with the guidance provided in the interpretation to Standard 1110 – Organizational Independence. Language describing this functional oversight is specifically included in the Audit Committee charter consistent with the Internal Audit charter. The CAE communicates the organizational independence of Internal Audit to the Audit Committee on an annual basis as required by Standard 1110 – Organizational Independence.

Standard 1111 – Direct Interaction with the Board
There is an appropriate level of interaction between the CAE and the Audit Committee. Interaction takes place formally during Audit Committee meetings. To the extent permitted by the Texas Open Meetings Act, the Audit Committee meets separately with the CAE to discuss any matters the Audit Committee believes can and should be discussed privately. Language in the Internal Audit charter makes clear that Internal Audit generally and the CAE specifically have full, free, and unrestricted access to the Audit Committee.

Standard 1120 – Individual Objectivity
Engagements appear to be conducted by staff with appropriate backgrounds and experience. Assignments take into consideration previous work history and auditors are not assigned to assurance related audits in areas where they were previously employed in Alamo Colleges if this is applicable. Results and conclusions in engagements are based on factual evidence and observations supported by audit tests. Individual objectivity is supported by language in the Internal Audit charter and Internal Audit policies and procedures.

Standard 1130 – Impairment to Independence and Objectivity
Language in the Internal Audit charter supports independence and objectivity, and there is a specific reference to the mandatory nature of the IIA Code of Ethics. The Internal Audit Manual includes a requirement for each member of Internal Audit to sign an “Internal Auditor’s Objectivity Statement” on an annual basis which covers the requirements of the IIA Code of Ethics and independence and objectivity standards. There is a requirement in the statement to disclose any audit areas in which the internal auditor may have a conflict. The signed statement is maintained within Internal Audit. All disclosed conflicts must be reported to the CAE. Although not specifically stated, GAGAS requirements are deemed to be satisfied within the annual statement. The independent assessor did not note any instances where a conflict to individual independence or objectivity occurred for any engagements reviewed.

Successful Internal Audit Practice – Noted by Internal Audit

Standard 1130 – On an annual basis, the audit group individually signs an “Internal Auditor’s Objectivity Statement”. This is done prior to any audits being performed. This helps to ensure that auditors are in fact independent and objective in the work they will perform throughout the year.

Independent Assessor Comment
I concur with this successful practice noted by the self-assessment team. Including the requirement to positively confirm independence and objectivity in their roles as internal auditors demonstrates a commitment by Internal Audit to these foundational concepts and is a successful internal audit practice.
Conformance with the Standards

Gap Analysis Detail

**Standard 1200 - Proficiency and Due Professional Care**
Engagements must be performed with proficiency and due professional care.

**Conformance with Standards**

**Generally Conforms**

**Standard 1210 – Proficiency**
Internal Audit is a small internal audit activity with a total of three management and staff including the CAE. Two additional principal auditors have recently been authorized to be hired. Third party resources are used appropriately for subject matter expertise. Internal Audit management and staff, together with co-source resources, collectively possess the knowledge, skills, and other competencies necessary to demonstrate professional proficiency. On a collective basis, there is a good blend of skills from a technical (IT), financial, operational, and higher education perspective. Internal Audit management and staff appear to have the background and experience to evaluate the risk of fraud as well as sufficient knowledge of information technology risks and technology-based audit techniques to complete their assigned projects. Audit experience and credentials are reported to the Audit Committee as a component of the annual audit plan presentation.

**Standard 1220 – Due Professional Care**
The audit work papers reflect and support that work is performed with due professional care. Work papers are documented in an electronic format that supports the Internal Audit methodology and provides structure and consistency for audit engagements. Risk assessment takes place to support the annual audit plan and individual engagements. Data analysis technology is used appropriately to support individual engagements during planning, risk assessment, and audit fieldwork. Root cause analysis supporting observations appears to be in place and operating effectively. Work papers support reported observations and supervisory review and approval takes place at appropriate times during the audit and is documented within the work papers.

**Standard 1230 – Continuing Professional Development**
Continuing professional development within Internal Audit requires Internal Audit management and staff to enhance their knowledge, skills, and other competencies. An appropriate level of CPE is encouraged in support of certification and training is tracked and monitored consistent with GAGAS requirements. The CAE is developing a performance appraisal process to link performance with individual development plans. This process is designed to be a complement to the Alamo Colleges process currently in place.

**Successful Internal Audit Practice – Noted by Internal Audit**

**Standard 1230 –** When new Internal Audit staff are hired, they are sent to training related to auditing in a higher education environment. This is especially critical where the new staff member does not have experience in higher education. This training helps the staff to be more comfortable when performing audits within Alamo Colleges. In addition, upon finalization of the annual audit plan, specific training is determined for specific skill sets required to meet audit plan objectives.

**Independent Assessor Comment**
I concur with this successful internal audit practice noted by the self-assessment team. Consider using a competency framework to establish a base-line of knowledge, skills, and experience for each level within Internal Audit. This successful internal audit practice will support (1) actual training and professional development activities; (2) scheduling of resources for internal audit engagement; and (3) decisions regarding the use of third-party subject matter expertise for internal audit engagements.

**Opportunity for Continuous Improvement – Noted by Internal Audit**

**Standard 1230 –** Establish a performance appraisal process to be completed annually for each Internal Audit staff member which links performance related to stated goals and objectives with individual development plans.

**Independent Assessor Comment**
I concur with this opportunity for continuous improvement noted by the self-assessment team. Linking performance with professional development is a successful internal audit practice that promotes proficiency and due professional care within Internal Audit and that targets training budgets in an efficient and effective manner.
Conformance with the Standards

Gap Analysis Detail

**Standard 1300 – Quality Assurance and Improvement Program**
The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity.

**Conformance with Standards**

**Generally Conforms**

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**Standard 1300 – Quality Assurance and Improvement Program** The CAE has established and documented a QAIP that covers all aspects of Internal Audit and that includes internal and external assessment elements. Language in the Internal Audit charter supports the QAIP. Objectives and scope established for the program are consistent with professional guidance described in Practice Advisory 1310-1.

**Standard 1311 – Internal Assessments** Internal ongoing monitoring of the performance of Internal Audit is accomplished through a process that incorporates the use of structured work papers with appropriate supervisory review and approval to ensure Internal Audit projects are executed consistent with the Internal Audit methodology. Internal Audit monitors and reports its performance relative to annual audit plan objectives. Internal Audit is refining the use of performance metrics and are using performance improvement methodologies such as Focus PDCA and Lean Six Sigma to increase efficiency and effectiveness of Internal Audit.

The internal periodic assessment process is documented in the QAIP and is performed on an annual basis. Reviews evaluate conformance with the Standards, the Definition of Internal Auditing, the IIA Code of Ethics, and GAGAS, and results are communicated to the Audit Committee upon completion. Periodic internal assessment is robust, especially when compared to other smaller internal audit activities. Internal Audit is in the process of developing a quality assessment checklist for each completed audit to ensure each engagement conforms to the established methodology and that opportunities for continuous improvement are carried forward for use on future engagements.

**Standard 1312 – External Assessments** This external assessment was performed using the self-assessment with independent validation option available within Standard 1312 – External Assessment. The last external assessment was conducted in 2011 and concluded on conformance with both the Standards and GAGAS. The current external assessment is being performed within the five-year requirement of the Standards, however outside the three-year requirement of GAGAS. The current assessment is being conducted by an independent assessor qualified in internal auditing and in external quality assessment.

The independent assessor does not have any real or apparent conflicts of interest with Alamo Colleges and is not affiliated with Alamo Colleges in any manner. The CAE discussed the requirements related to external assessment with senior management and the Audit Committee including the form and frequency of the review and the qualifications of the independent assessor, including any potential conflicts of interest.

**Standard 1320 – Reporting on the Quality Assurance and Improvement Program** The interpretation to Standard 1320 – Reporting on the Quality Assurance and Improvement Program requires that the results of external and periodic internal assessment be communicated upon completion of such assessments and the results of on-going monitoring be communicated at least annually. The results must include the assessor’s evaluation with respect to the level of conformance. Currently, status against the annual audit plan is reported as a component of the reporting package prepared for the Audit Committee on a quarterly basis. The results of periodic internal assessment are communicated upon completion. The result of the current external assessment is scheduled to be communicated upon completion.

**Standard 1321 – Use of “Conforms with the International Standards for the Professional Practice of Internal Auditing”** Internal Audit uses the statement “Conforms with the International Standards for the Professional Practice of Internal Auditing”. The results of the current external assessment will support its use on an ongoing basis.

**Standard 1322 – Disclosure of Nonconformance** The independent assessor is not aware of any situations where disclosure of nonconformance with the Definition of Internal Auditing, the Code of Ethics, or the Standards was required and not communicated.
Conformance with the Standards

Gap Analysis Detail

Standard 1300 - Quality Assurance and Improvement Program

The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity.

Successful Internal Audit Practice – Noted by Internal Audit

Standard 1311 – The use of performance improvement methodologies such as Focus PDCA and Lean Six Sigma are incorporated into the internal ongoing monitoring of performance process and is designed to increase the efficiency and effectiveness of the internal audit activity.

Independent Assessor Comment

I concur with this successful internal audit practice noted by the self-assessment team. In addition, Internal Audit continues to refine processes associated with identifying, tracking, and reporting of performance metrics. The current process uses a balanced scorecard and dashboards to enhance the visibility and effectiveness of reporting of these metrics. Input from key stakeholders including senior management and the Audit Committee should be considered as these metrics continue to be refined. The IIA Supplemental Guidance “Measuring Internal Audit Effectiveness and Efficiency” (December 2010) might be considered a resource when developing this approach. Using a balanced scorecard to measure and report internal audit effectiveness is a successful internal audit practice that is used by both large and smaller internal audit functions.

Successful Internal Audit Practice – Noted by Independent Assessor

Standard 1312 – The self-assessment prepared in conjunction with the independent validation was exceptionally thorough and well done and fully supported and documented the conclusions reached by Internal Audit. It was evident that the self-assessment was taken seriously and had as a primary focus the identification of opportunities to improve the efficiency, effectiveness, and quality of Internal Audit processes.

Opportunities for Continuous Improvement – Noted by Internal Audit

Standard 1300 – Continue to develop and formalize the QAIP process, metrics, and reporting.

Independent Assessor Comment

I concur with this opportunity for continuous improvement noted by the self-assessment team. While the QAIP has been formalized and documented within the Internal Audit Manual, processes related to monitoring and reporting of metrics continue to be refined. Documentation of the QAIP is comprehensive and supports consistency of execution and sustainability for all elements of the QAIP including internal monitoring of performance, internal periodic assessment, external assessment, and reporting of results. The QAIP also incorporates requirements specific to GAGAS including the three-year external assessment requirement.

Standard 1311 – Implement a quality assessment checklist for each completed audit to ensure that internal assessments are performed and to determine if any areas of improvement are noted to carry forward to future audits.

Independent Assessor Comment

I concur with this opportunity for continuous improvement noted by the self-assessment team. The use of checklists and templates to plan, execute, and administer internal audit projects together with required supervisory review and approval (1) ensures consistent application of the internal audit methodology, (2) contributes to a high level of quality within internal audit projects, (3) provides a mechanism to document appropriate supervisory review and approval for critical elements within the work papers, and (4) demonstrates due professional care in conducting internal audits. The focus on the identification of improvement opportunities is consistent with successful internal audit practice and promotes quality within the Internal Audit activity.
Conformance with the Standards

Gap Analysis Detail

**Standard 2000 - Managing the Internal Audit Activity**
The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organization.

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**Standard 2010 – Planning** The annual audit plan is the result of a risk assessment process that incorporates input from stakeholders throughout Alamo Colleges as well as the Audit Committee. Third parties were used to conduct an entity-level risk assessment (2014) and an IT risk assessment (2015). Risk assessment is formally documented and is updated periodically throughout the plan year. Resulting changes to the annual audit plan are communicated to the Audit Committee in a timely manner. Risks identified in planning are generally linked to or can be inferred from the entity-wide view of risk and the annual audit plan has associated objectives assigned for each audit identified. These form the basis for project level planning. The risk assessment process is defined in the Internal Audit Manual. The audit universe is developed in a defined and systematic manner that provides assurance that all auditable elements are considered for the risk assessment process. Internal Audit resources align with annual audit plan requirements and include both an internal and a co-source component.

**Standard 2020 – Communication and Approval** The CAE reports status against the annual audit plan periodically throughout the year. Adjustments to the plan are communicated to the Audit Committee as well as the risks and impacts associated with those changes. Resource requirements are derived from the audit planning process. As described in the discussion for Standard 2010, the audit plan is presented to the Audit Committee for review and approval and this approval is documented in Audit Committee meeting minutes. The interviews with the Audit Committee chair provided additional evidence that approval of the plan does take place. The potential impact of resource limitations are communicated to the Audit Committee during audit plan discussions.

**Standard 2030 – Resource Management** There currently appears to be a sufficient level of approved resources with the appropriate skill sets to meet the objectives established by the annual audit plan. Approved staffing levels and skill sets are generally consistent with other organizations of similar size and complexity when compared to benchmark data, especially when considering the use of third party resources from a subject matter expertise perspective. Having a variable component to the resource mix for Internal Audit is especially critical for smaller internal audit activities.

**Standard 2040 – Policies and Procedures** Internal Audit has established policies and procedures that are fully documented in the Internal Audit Manual. This manual describes key infrastructure elements and the internal audit methodology in a manner that is particularly well done when considering the small size of the internal audit activity. The level of documentation supports consistency, quality, and sustainability of internal audit processes. The manual supports on-boarding of new personnel and is updated on an annual basis to ensure consistency with the IPPF. Management processes (specifically annual risk assessment, audit plan development, and the QAIP) and engagement processes (planning, fieldwork, reporting, and follow-up) are all documented. GAGAS requirements are appropriately incorporated into the manual.

**Standard 2050 – Coordination** Activities are generally coordinated in an effective manner between Internal Audit and other providers of assurance to Alamo Colleges. The CAE holds periodic discussions with other providers to coordinate coverage with a minimum level of duplication.

**Standard 2060 – Reporting to Senior Management and the Board** Internal Audit reports its activities periodically to senior management and the Audit Committee using a standardized communications package. Reporting to the Audit Committee describes the status of Internal Audit activities as compared to projects in the approved audit plan. The status of open observations and related management actions is routinely communicated. A required communications checklist with the Audit Committee to demonstrate communications take place in the appropriate time frames is used.
Conformance with the Standards

Gap Analysis Detail

Standard 2000 - Managing the Internal Audit Activity
The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organization.

Successful Internal Audit Practices – Noted by Independent Assessor

Standard 2000 – Internal Audit has defined and implemented a strategic plan specific to Internal Audit that supports the dynamic nature of Alamo Colleges and that guides activities of Internal Audit in a proactive, thoughtful, systematic, and practical manner. Formalizing strategic plans for an internal audit activity is an emerging and evolving successful practice that enhances quality of internal audit processes and sustainability of the function within the organization. Internal Audit’s efforts are consistent with the strongly recommended guidance issued by the IIA in its Practice Guide “Developing the Internal Audit Strategic Plan” (July 2012).

Standard 2040 – The Internal Audit Manual that documents the underlying policies, procedures, and infrastructure supporting the Internal Audit methodology is particularly well done for a smaller internal audit activity. This manual is comprehensive and includes all required elements that are embedded in the Standards as well as good business practice, and also appropriately incorporates GAGAS requirements into infrastructure and methodology policies and procedures. The manual supports consistency and quality in the performance of audit work as well as the on-boarding of new personnel. The manual is updated periodically to reflect changes in the IPPF.

Standard 2060 – Internal Audit uses a Required Communications with the Audit Committee Checklist to ensure that all communication requirements embedded in the Standards are met in the appropriate time frames. This checklist is updated as changes to Standards become effective. This checklist, when combined with Audit Committee minutes, provides documentation that all required communications are considered and take place in a timely manner.
Conformance with the Standards

Gap Analysis Detail

**Standard 2100 - Nature of Work**
The internal audit activity must evaluate and contribute to the improvement of governance, risk management, and control processes using a systematic and disciplined approach.

**Conformance with Standards**

**Generally Conforms**

**Standard 2110 – Governance** Internal Audit plays an active and appropriate role in effecting good governance practices within Alamo Colleges. Internal Audit plans incorporate a governance component through broad communication and assessment of governance related activities across the organization. They are clearly viewed as an inherent part of monitoring the governance activity by management and the Audit Committee and participate in the sharing of information to affect good governance practices. The Internal Audit charter specifies that Internal Audit is an essential component of the governance structure. Ethics and fraud are generally considered in annual audit planning as well as for individual engagements. IT governance is incorporated into evaluation of IT risk exposures.

**Standard 2120 – Risk Management** Internal Audit is clearly focused on evaluating risk management within the nature of work standard. They incorporate risk assessment techniques into the annual planning process as well as for individual engagements. In 2014, Internal Audit hired an independent third party to perform a risk assessment for Alamo Colleges at an institutional level. In 2015, they hired an independent third party to perform an IT risk assessment. Internal Audit shared the results of the 2014 risk assessment with departments within Alamo Colleges to promote implementation of processes to mitigate identified risks. The 2015 IT risk assessment is currently in process and will be shared upon completion. The risk assessments also formed the basis for prioritizing areas for review in the annual audit plan approved by the Audit Committee. They have a “seat at the table” related to management of risk within Alamo Colleges and their participation in the enterprise risk assessment process is done consistent with professional internal audit guidance. Fraud risk is an inherent part of the annual and project level risk assessment.

**Standard 2130 – Control** Control is effectively evaluated for all projects performed from both a control design and operating effectiveness perspective. This concept is true regardless of whether the audit is focused on financial, operational, or compliance objectives. Internal Audit appears to be well versed in COSO 2013 requirements and these elements are embodied within the Internal Audit methodology. They use an integrated approach to audit that addresses technology / system control structures as well as those operating in a more manual context. The Internal Audit methodology requires that internal auditors conclude on effectiveness of control as part of the audit execution process.

**Successful Internal Audit Practice – Noted by Internal Audit**

### Standard 2120 – In 2014, Internal Audit hired an independent third party to perform a risk assessment for Alamo Colleges at an institutional level. In 2015, they hired an independent third party to perform an IT risk assessment. Internal Audit shared the results of the 2014 risk assessment with departments within Alamo Colleges to promote implementation of processes to mitigate identified risks. The 2015 IT risk assessment is currently in process and will be shared upon completion.

**Independent Assessor Comment**

I concur with this successful internal audit practice noted by the self-assessment team. The use of third party subject matter experts to perform institutional level and IT specific risk assessments is a successful internal audit. Risk assessment is essential to prioritizing internal audit engagements within the annual audit plan and promotes awareness of risk throughout the organization. Sequencing risk assessments from the institutional level to IT specific is a logical way to perform such reviews. This helps to ensure that the deeper analysis associated with the IT risk assessment is consistent with the level of risk identified during the institutional risk assessment. An additional benefit of this process is the knowledge transfer component as these risk assessments ultimately formed the basis for engagement level objective setting, scoping, and risk assessment.

**Opportunity for Continuous Improvement – Noted by Internal Audit**

### Standard 2120 – Conduct training for process owners within Alamo Colleges to increase awareness and understanding of risk management requirements within their areas of responsibility. Specifically, describe the relationship between risk and control and the requirement to design and operate controls to mitigate risks to an appropriate level. At the current time, not all process owners within Alamo Colleges have a clear understanding of the risks in their areas of responsibility, nor the control processes in place to mitigate those risks. Consider conducting training in advance of performing an audit engagement to highlight the role of Internal Audit in the risk management process.

**Independent Assessor Comment**

I concur with this opportunity for continuous improvement noted by the self-assessment team. Increasing awareness of the relationship between risk and control is foundational to effective risk management. Providing training within the organization promotes increased awareness of concepts necessary to effectively manage risks for process owners and is consistent with professional internal audit guidance related to risk management.
Conformance with the Standards

Gap Analysis Detail

**Standard 2200 – Engagement Planning**

Internal auditors must develop and document a plan for each engagement, including the engagement’s objectives, scope, timing, and resource allocations.

### Conformance with Standards

**Generally Conforms**

**Standard 2201 – Planning Considerations**

The Internal Audit methodology is consistent with and adheres to all the requirements contemplated within this Standard. The methodology is enforced within the electronic work papers and is generally applied across all projects. Risk assessment takes place during planning to refine objectives and scope. Fraud risk is considered as part of this process as well as the use of technology. Data analytics and the use of technology are generally addressed during the planning process. Planning is documented in the work papers and there is an appropriate level of supervisory review and approval. Detailed work programs are prepared for each element of the engagement consistent with stated objectives and scope, and these work programs are consistently approved in advance of fieldwork.

**Standard 2210 – Engagement Objectives**

Objectives are established and documented for each engagement. These objectives are generally linked to the annual audit plan and risk assessment. Objectives are refined during the planning process. Final objectives for the audit engagement are communicated to management in the area for review who provide input and concurrence. Objectives are reported during the reporting phase of the audit.

**Standard 2220 – Engagement Scope**

An engagement scope is established for each audit project consistent with the established risk assessment and objectives. Scope is adjusted based upon the risk assessment and is appropriate to meet the objectives established. Scope is documented in the work papers and is linked to all other required elements. Scope is also reported during the reporting phase of the audit.

**Standard 2230 – Engagement Resource Allocation**

Assignments are resourced using staff with an appropriate level of skills to meet the project requirements. Specifically, IT audit resources are used as required for IT related components and persons with appropriate operational skills are assigned to projects where they can maximize their contribution. Subject matter expertise is used appropriately consistent with requirements for individual engagements. Internal Audit was recently authorized to hire two additional staff members. As these staff members are brought on board, planning documentation should start to include consideration of resource level and skill sets for each engagement.

**Standard 2240 – Engagement Work Program**

Detailed work programs are developed and approved in advance for each audit engagement. Documentation of this approval is consistently maintained in the electronic work papers. It was clear from review of work papers that management was involved in development of detailed work programs. Overall, there was an appropriate level of documented supervisory review and approval embedded in the work papers. Work programs generally build upon the risk assessment, objectives, and scope that have been established for the project.
Conformance with the **Standards**

**Gap Analysis Detail**

**Standard 2300 – Performing the Engagement**
Internal auditors must identify, analyze, evaluate, and document sufficient information to achieve the engagement’s objectives.

- **Standard 2310 – Identifying Information** Work papers contain sufficient information to document the rationale for observations raised during the audit. Test scripts and work programs generally link risk, objectives, and scope. Analytical review appears to take place during planning and fieldwork. The use of data analytics was considered but used in a limited manner. Prior approval of work programs appears to take place and is consistently documented. Work programs and associated test steps appear to identify and analyze relevant information to achieve audit objectives.

- **Standard 2320 – Analysis and Evaluation** Underlying testing and analysis was generally appropriate to evaluate control design and operating effectiveness for the projects reviewed by the independent assessor was consistent with the objectives established for the engagement. There appeared to be an effort to determine root cause for observations raised. Data analytics are considered and used in a appropriate manner.

- **Standard 2330 – Documenting Information** Internal Audit work papers are documented in the electronic work papers in a manner that is consistent with the Internal Audit methodology and in sufficient detail to document all aspects of the project. Documentation within the work papers was consistent from project to project. Review takes place at appropriate times during the review and is consistently documented. All phases of the audit are documented from planning, though field work, reporting, and follow-up. Record retention is consistent with the requirements of Alamo Colleges. The implementation and use of the electronic work paper tool is exceptional for a smaller internal audit activity.

- **Standard 2340 – Engagement Supervision** Audit engagements are properly supervised to ensure objectives are achieved, quality is assured, and staff is developed. The extent of supervision depends on the proficiency and experience of internal auditors and the complexity of the engagement. Supervisory review and approval is evidenced in the work papers at appropriate times for planning, execution, reporting, and project close-out.

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**Conformance with the Standards**

**Gap Analysis Detail**

**Standard 2400 - Communicating Results**
Internal auditors must communicate the engagement results.

**Standard 2410 – Criteria for Communicating**
Audit reports include objectives, scope, and appropriate background information. An overall conclusion is not provided but individual observations are detailed in the body of the report. The significance of individual observations is specifically described in the report. Management responses are included in the report and are taken very seriously. Audit reports are shown at an executive level with supporting detail. Observations are reported periodically to the Audit Committee.

**Standard 2420 – Quality of Communications**
Internal Audit reports are developed using a template driven approach that supports consistency and quality. The reports are of a general high quality, and are usually delivered in a timely manner. Internal Audit report results are clearly linked to the underlying work papers including the project level risk assessment, objectives, and scope. Internal Audit uses a thorough review process to ensure audit reports are well written, conclusions are consistent with underlying work product, and reports clearly communicate the results of the engagement.

**Standard 2421 – Errors and Omissions**
The Independent assessor is not aware of a situation where an error or omission occurred that required communication of corrected information to the parties receiving the report.

**Standard 2430 – Use of “Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing”**
Internal Audit uses the statement “This audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing”. The results of the current external assessment support its continued use.

**Standard 2431 – Engagement Disclosure of Nonconformance**
The independent assessor is not aware of any situations that would require disclosure of nonconformance in audit communications.

**Standard 2440 – Disseminating Results**
Distribution of results is defined in the audit report and documented in the work papers. The distribution is appropriate to ensure that all appropriate parties are included and that results are given due consideration. Upon distribution to the Board, the audit report is also published on the Alamo Colleges website.
Conformance with the Standards

Gap Analysis Detail

Standard 2500 - Monitoring Progress
The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.

Conformance with Standards ➞ Generally Conforms

Standard 2500 – Monitoring Progress
A systematic and thorough monitoring process is in place to ensure that observations reported in audit reports are appropriately addressed by management. Observations are tracked through resolution by Internal Audit. The status of open observations is routinely reported to senior management and the Audit Committee as a component of the periodic reporting process. Internal Audit is currently working to track and report all open observations using the electronic work paper tool and its work flow capabilities.

Opportunity for Continuous Improvement – Noted by Internal Audit
Standard 2500 – The issue monitoring process is still in development within the TeamMate electronic work paper tool. Complete monitoring with automatic notifications to corrective action owners will be established in TeamMate within the next three months.

Independent Assessor Comment
I concur with this opportunity for continuous improvement noted by the self-assessment team. While an effective manual monitoring process is in place and working effectively, the use of TeamMate to manage open action items will enhance efficiency and effectiveness of the process. It will also provide systematic assurance that all open observations identified in individual engagements are being monitored and reported upon.
Conformance with the Standards

Gap Analysis Detail

**Standard 2600 - Communicating the Acceptance of Risks**

When the chief audit executive concludes that management has accepted a level of risk that may be unacceptable to the organization, the chief audit executive must discuss the matter with senior management. If the chief audit executive determines that the matter has not been resolved, the chief audit executive must communicate the matter to the board.

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**Conformance with Standards** ➔ **Generally Conforms**

**Standard 2600 – Communicating the Acceptance of Risks**  The independent assessor is not aware of any situations where there was a disagreement between the CAE and senior management that required communication with the Audit Committee for resolution. There appears to be a high level of collaboration in addressing issues. Management takes issues seriously and there is a good tone and culture within the organization that supports resolution of issues before they require escalation.
Conformance with the **Standards**

Gap Analysis Detail

**IIA Code of Ethics**

Internal auditors must adhere to the IIA Code of Ethics. Internal auditors apply and uphold the principles of integrity, objectivity, confidentiality, and competency.

| Conformance with Standards | Generally Conforms |

**Code of Ethics** — Internal Audit supports and appears to operate consistent with the principles in the IIA Code of Ethics. Internal auditors apply and uphold the principles of integrity, objectivity, confidentiality, and competency. They sign an acknowledgement of the IIA Code of Ethics on an annual basis.
Conformance with the *Standards*

Gap Analysis Detail

**Definition of Internal Auditing**

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.

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**Conformance with Standards**

**Generally Conforms**

*Definition of Internal Auditing* – Internal Audit operates in a manner consistent with the Definition of Internal Auditing. They are organizationally independent and provide both assurance and consulting services. They add value to the organization through their assurance and consulting activities. They bring a systematic and disciplined approach to evaluating and improving the effectiveness of governance, risk management, and control processes for Alamo Colleges.
Conformance with the GAGAS

Gap Analysis Detail

GAGAS

GAGAS are broadly defined in terms of “General Standards” that describe requirements for infrastructure supporting an internal audit activity, “Financial and Attestation Standards” that describe requirements related to work performed to conduct financial attestation, and “Performance Standards” that describe requirements for conducting an internal audit. For purposes of the self-assessment with independence validation, “Financial and Attestation Standards” were considered not applicable.

Conformance with GAGAS

Generally Conforms

General Standard – Independence
Independence is demonstrated at both an organizational level and an individual level within Internal Audit. Procedures should be developed to determine whether providing non-audit services to an audited entity creates a threat to independence or whether the non-audit service is prohibited under GAGAS.

General Standard – Professional Judgment
Professional judgment is consistent with the requirements of due professional care found in Standard 1220.

General Standard – Competence
Competence is consistent with the requirements of proficiency found in Standard 1210 and professional development found in Standard 1230.

General Standard – Quality Control and Assurance
Elements of quality control and assurance are in place and operating effectively. An external assessment should be performed every three years to meet GAGAS requirements. The last external review was performed in 2011.

Performance Standard – Planning
Planning is consistent with the requirements for planning the engagement found in Standard 2200.

Performance Standard – Supervision
Supervision is consistent with the requirements of due professional care found in Standard 1220, planning found in Standard 2200, and performing the engagement found in Standard 2300.

Performance Standard – Evidence
Evidence is consistent with the requirements of performing the engagement found in Standard 2300.

Performance Standard – Documentation
Documentation is consistent with the requirements of documenting information found in Standard 2330.

Performance Standard – Reporting
Reporting is consistent with the requirements of reporting found in Standard 2400.

Conformance Gap – Noted by Internal Audit

GAGAS 3.82 and 3.96
The Standards and GAGAS external assessment was last performed in 2011. The GAGAS external assessment (required to be completed in 2014) was deferred until 2015. This does not have a significant impact.

Independent Assessor Comment
I concur with this conformance gap noted by the self-assessment team. The decision to defer the GAGAS external assessment was made in full consultation with the Audit Committee and was based upon the fact that the CAE was new in his position and was in the process of making significant changes to Internal Audit processes and procedures to bring them into better alignment with the Standards and GAGAS as well as increase the efficiency and effectiveness of the department. On a going-forward basis, the GAGAS external assessment should be performed every three years.

Opportunity for Continuous Improvement – Noted by Internal Audit

GAGAS 3.34
When performing non-audit services, IA department should build into the kick-off meeting an explanation of the non-audit services and any Yellow Book requirements.

Independent Assessor Comment
I concur with this opportunity for continuous improvement noted by the self-assessment team. GAGAS suggests using the GAGAS Conceptual Framework for Independence to determine if a non-audit service proposed to be provided is specifically prohibited by GAGAS or whether providing the service would create a threat to independence, either by itself or in aggregate with other non-audit services provided, with respect to any GAGAS audit performed. Documentation should be maintained for threats to independence created by non-audit services, if any, safeguards applied, and effectiveness of applied safeguards.
Validation of Internal Audit’s Self-Assessment Standards Maturity Framework

The Standards Maturity Framework presented on the following two slides describes the characteristics of infrastructure and process maturity related to major components of the IIA Standards. Maturity progresses from an 1) ad hoc level where infrastructure and process relies heavily upon individuals to 2) a repeatable level where processes have been established but there continues to be heavy reliance on individuals to 3) a defined level where policies and procedures are in place and implemented to 4) a managed level where management techniques are actively employed to 5) optimized where there is a drive for continuous improvement. Most organizations strive to be at a defined to managed level as there is normally incremental cost associated with operating at an optimized level.

Internal Audit has a profile that is a combination of defined, managed, and optimized as it relates to the Standards. The profile demonstrated by Internal Audit is characteristic of an organization that is operating generally in conformance with the Standards and where internal audit is practiced in a leading practice manner.
## Attachment A

### Standards Maturity Framework

<table>
<thead>
<tr>
<th>1000 Purpose, Authority, and Responsibility</th>
<th>1100 Independence and Objectivity</th>
<th>1200 Proficiency and Due Professional Care</th>
<th>1300 Quality Assurance and Improvement Program</th>
<th>2000 Managing the Internal Audit Activity</th>
<th>2100 Nature of Work</th>
</tr>
</thead>
<tbody>
<tr>
<td>IA Charter reviewed and approved on annual basis by Audit Committee to ensure alignment with defined roles</td>
<td>Annual attestation required for all IA staff related to conformance with objectivity requirements</td>
<td>Robust training programs reinforce IA credentials and support IA execution</td>
<td>QA Program focuses on improvement, effectively uses performance metrics</td>
<td>Performance metrics and trending analysis drives continuous improvement into IA activity</td>
<td>IA effectively uses concepts of COSO ERM to drive continuous improvement in organization</td>
</tr>
<tr>
<td>Optimized</td>
<td>Objectivity requirements defined by IA policy, conflict of interest disclosure required</td>
<td>Use of QA checklists and electronic work papers drives consistent execution of IA</td>
<td>QA Program encompasses all significant aspects of IA activity</td>
<td>Effective use of stakeholder feedback to measure management effectiveness</td>
<td>IA plans are clearly linked to enterprise-wide view of risk, plans adjusted periodically</td>
</tr>
<tr>
<td>Managed</td>
<td>IA charter in place and approved by Audit Committee</td>
<td>IA resource requirements linked to annual risk assessment, 3rd party resources used as necessary</td>
<td>QA Program formalized in PPM including both internal and external QA requirement</td>
<td>Performance metrics defined for IA, effective reporting to management and AC</td>
<td>IA methodology is COSO based, reflecting balance between objectives</td>
</tr>
<tr>
<td>Defined</td>
<td>IA charter in place that defines purpose, authority, and responsibility</td>
<td>IA reporting relationship defined in IA charter, functional to AC, administrative to CEO</td>
<td>QA checklists used on individual audits to ensure consistent application of IA methodology</td>
<td>Policy and procedure manual in place, resources match audit requirements</td>
<td>IA focuses on risk and related control as well as governance activities</td>
</tr>
<tr>
<td>Repeatable</td>
<td>IA reporting relationship not defined in IA charter, reporting relationship not appropriate</td>
<td>IA resources not credentialed, annual risk assessment, defined ongoing QA processes</td>
<td>No formal QA program in place although some QA activities might occur on individual audits</td>
<td>No policy and procedure manual in place, IA plans not linked to corporate strategy</td>
<td>IA focuses on risk and related controls but not on governance activities</td>
</tr>
<tr>
<td>Ad Hoc</td>
<td>IA not governed by a formal charter</td>
<td>IA resources not credentialed, limited annual risk assessment, limited ongoing QA processes</td>
<td>No formal QA program in place although some QA activities might occur on individual audits</td>
<td>No policy and procedure manual in place, IA plans not linked to corporate strategy</td>
<td>IA focuses on risk and related controls but not on governance activities</td>
</tr>
</tbody>
</table>

### Realization Of Value Proposition

- **Risk of Failure**

## Attachment A

### Standards Maturity Framework

| Stage | Description | Relationship | Realization
|-------|-------------|--------------|--------------|
| 2200 Engagement Planning | Planning and documentation occurs throughout engagement with feedback process at conclusion | Planning adjusted based upon changing risks and reasons for change fully documented | Optimized
| 2300 Performing the Engagement | Execution linked with ongoing quality internal assessment to drive continuous improvement | Electronic work papers enforced IA methodology, supervisory review required, use of checklists | Managed
| 2400 Communicate Results | Quality and value of reporting seen by stakeholders, metrics focus on recommendations accepted | Reporting protocol clearly defined in PPM for audit engagement, management and AC reporting | Defined
| 2500 Monitoring Progress | Follow-up self reported by management with IA review, IA facilitates remediation as necessary | Follow-up linked to electronic work papers, variance reports used to manage issue resolution | Repeatabl
| 2600 Communicate Acceptance of Risks | Clear definition of level of risk that can be assumed precluding need for escalation protocol | Risk acceptance managed during reporting, collaborative approach to resolution | Repeatable
| Definition of Internal Auditing Code of Ethics | Annual training required to reinforce concepts of IIA Code of Ethics and Definition of Internal Auditing | Annual certification regarding compliance with IIA Code of Ethics | Ad Hoc
| | | | Realization Of Value Proposition |

### Ad Hoc Issues

- **Risk of Failure**

  - No protocol established for communicating results, limited management reporting
  - No escalation protocol in place, no evidence that inappropriate level of risk assumed by management
  - Code of Ethics or Business Conduct not established for organization

- **Risk**

  - No escalation protocol in place, inappropriate level of risk assumed by management
  - No protocol for follow-up on audit observations performed consistently, no protocol established

- **Engagement Planning**

  - Planning not consistently performed on all engagements, planning not documented
  - Work program not consistently in place linking planning with execution

- **Performing the Engagement**

  - Planning not performed consistently on all engagements, planning not documented
  - Work program not consistently performed with execution

- **Communicate Results**

  - No protocol established for communicating results, limited management reporting
  - Follow-up on audit observations not performed consistently, no protocol established

- **Monitoring Progress**

  - Follow-up on audit observations performed consistently, no protocol established
  - No escalation protocol in place, inappropriate level of risk assumed by management

- **Communicate Acceptance of Risks**

  - No escalation protocol in place, no evidence that inappropriate level of risk assumed by management
  - Code of Ethics or Business Conduct not established for organization

Attachment B
Basil Woller Qualifications and Credentials

Professional Experience
Basil is one of the leading and most recognized QAR specialists in the internal auditing profession. Basil formed his own firm, Basil Woller & Associates, LLC in April 2009 to focus on working with organizations to enhance internal audit quality. His firm specializes in external quality assessment, including full scope reviews and validations of management’s self-assessment. Additionally, he works with organizations to prepare for future reviews through readiness assessments and has assisted internal audit activities with designing and establishing Quality Assurance and Improvement Programs.

Basil has more than 35 years of experience in internal auditing and risk management, including risk identification, assessment, and mitigation, corporate governance including Sarbanes-Oxley and NYSE requirements, and ethics and compliance. Basil is a seasoned chief audit executive, operating as the senior executive at El Paso Corporation responsible for all aspects of a global internal auditing function, including the ethics and compliance program. He also served as the global QAR practice leader for Protiviti from 2007 to April 2009. Basil has personally led over 200 quality assessments with many leading organizations. His unique perspective as a former chief audit executive contributes to his view that external quality assessments should enhance the quality of internal audit processes and identify meaningful and practical ways to improve internal audit efficiency and effectiveness.

Basil is a recognized thought leader in the internal auditing profession with service on the Board of Directors of the Institute of Internal Auditors and is accredited by the IIA in Quality Assessment and Validation. He is a frequent speaker on the topic of internal audit quality and has authored several published articles. He is an IIA qualified instructor for the internal audit quality curriculum.

Credentials

Sample of Organizations Where Basil Woller Has Personally Performed Quality Assessment Services

- Alcoa, Inc. (Full Scope)
- American University (Validation)
- Bayer AG (Full Scope)
- CITGO Petroleum (Full Scope)
- ConAgra Foods (Validation)
- Consolidated Edison (Full Scope)
- Dell, Inc. (Full Scope)
- EOG Resources (Full Scope)
- Federal Signal (Validation)
- Freddie Mac (Full Scope)
- General Growth Properties (Full Scope)
- Halliburton (Full Scope)
- International Game Technology (Full Scope)
- International Monetary Fund (Full Scope)
- Johnson Controls (Readiness, Full Scope)
- Kellogg Company (Full Scope)
- Marathon Oil Corporation (Full Scope)
- MD Anderson Cancer Center (Full Scope)
- Minnesota Colleges and Universities (Full Scope)
- Mutual of Omaha (Validation)
- Northwestern Energy (Full Scope)
- PepsiCo, Inc. (Readiness, Full Scope)
- Princeton University (Readiness)
- Principal Financial Group (Full Scope)
- Robert Half, Inc. (Validation)
- SemGroup (Validation)
- Statoil ASA (Full Scope)
- The Methodist Hospital System (Validation)
- The World Bank (Readiness, Full Scope)
- Texas Children’s Hospital (Full Scope)