

Section: Business and Support Operations

Section Number: 3.1.1

Subject: Audits, Internal

Date of Present Issue: 01/09/92

Date of Previous Issues:
03/79, 08/87, 10/87, 07/88

POLICY:

a. Purposes for an internal audit include one or more of the following:

1. To identify the existence of weaknesses, if any, of internal financial control.
2. To determine existence, if any, of fraudulent practices.
3. To insure that established University financial policies and procedures are being observed and report deviations to the President/Board of Regents.

b. Internal Auditor Selection:

1. The President will nominate an individual for the position of Internal Auditor. The nomination will be discussed with the Finance Committee of the Board of Regents which will make a recommendation for action to the full Board.
2. Internal audits of the President's Office and those offices reporting directly to the President will be conducted by an auditor external to the University. In such cases, the Board of Regents will contract directly with the external auditor for this service on an annual basis.

c. Reporting Relationship:

1. The Internal Auditor reports to the President and the Board of Regents.
2. The President will report to the Finance Committee of the Board of Regents any actions taken with respect to the personnel status of the Internal Auditor.

PROCEDURE:

a. The Internal Auditor recommends an audit plan. Content of this plan is as follows:

areas to be audited
purpose(s) of the audit [objective(s)]
likely assignment of an external or internal audit
staff member to conduct the audit

The finance subcommittee of the Board of Regents approves or modifies the recommended audit plan.

Additional audits may be conducted at the discretion of the University President or Internal Auditor.

b. The person assigned the internal audit:

1. Designs and writes an audit program to fit the parameters established in Paragraph #1 above. Audit program development depends directly on the nature and extent of the audit activity that has been defined in the objectives. The auditor will develop a detailed plan to meet the audit objectives.
2. Prepares an engagement memorandum and sends it to the department to be audited.

The engagement memorandum is directed to the department head and/or administrative area to be audited and copies are directed to the line management over the area to be audited.

The purpose of the engagement memorandum is to present the general scope and objective(s) of the audit and make the audited area aware that an audit will take place. It will also establish introductions and ground-work that will develop the parameters of examination. The engagement memorandum will ask for an engagement interview with appropriate department heads.

NOTE: This procedure may be bypassed if prior notice could jeopardize the success of the audit.

3. Conducts an engagement interview with the department head of the area to be audited.

The engagement interview is a follow-up to the engagement memorandum. Its purpose is to clarify the objective(s) of the audit. It also allows the auditor to become acquainted with the type of records maintained by the audited department; the staff and/or the personnel responsible for maintaining these records; and physically inspect the general area. It also serves to refine the audit plan.

4. Conducts the audit according to the audit plan. Document all questionable material internal control and/or work flow/process procedures. Perform necessary tests and evaluations as required.
5. Prepares preliminary audit report documenting the objectives of the audit, the process followed in conducting the audit, material findings, supporting evidence, and recommendations.
6. Conduct exit interview(s) with the audited department.

The purpose of the exit interview is to review the preliminary report, eliminating possible misunderstandings and/or misinterpretations. This may entail additional meetings to "clear the air" on issues that may be debatable.

7. Prepares a final report and submits to:
 - a. President
 - b. Finance Subcommittee of the Board of Regents (if this audit was approved by this subcommittee)
 - c. Audited department and appropriate vice president
 - d. File copy held by the Internal Auditor

The final report will reveal the scope, program, comments and recommendations in a formal, summary-type presentation.

- c. The Internal Auditor will retain a file copy of the audit for a period of three years from the date of the final report.
- d. A follow-up review to document adherence to the recommendations in the final report will be conducted approximately six months after the final report is issued. The results will be distributed to the line management, the audited department, and the President.