Office of Internal Audit
Seton Hall University

Internal Audit
Policy and Procedure Manual

Effective September 2013

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INTERNAL AUDIT DEPARTMENT

Mission Statement

The mission of the Internal Audit Department is to provide independent and objective reviews and assessments of the business activities, operations, financial systems and internal accounting controls of Seton Hall University. The Internal Audit Department accomplishes its mission through the conduct of assurance and advisory audits, selected as a result of a comprehensive risk analysis and assessment process. The Internal Audit Calendar is reviewed and approved by the Executive Cabinet and the Audit Committee of the Board of Regents of Seton Hall University.

Objective

The Internal Audit Department conducts independent reviews and appraisals of the University procedures and operations. These reviews provide management with an independent appraisal of the various operations and systems of control. The reviews also help to ensure that University resources are used efficiently and effectively while working towards helping the University achieve its mission, as directed by the Board of Regents. It is the intention of the Internal Audit Department to perform this service with professional care and minimal disruption to University operations.

Responsibility and Authority

The Internal Audit function was established at the direction of the Board of Regents and derives its authority directly from the Audit Committee. The Internal Audit Department reports functionally to the Chair of the Audit Committee of the Board of Regents, functionally and administratively to the President of the University, and operationally (day-to-day) to the Vice President and General Counsel. The scope of Internal Audit's responsibility is defined within this policy and has been approved by the Vice President and General Counsel.

The Internal Audit staff (herein, "Internal Audit", or "auditor") is authorized to conduct a comprehensive internal audit program within the institution and is responsible for keeping the Audit Committee informed of unusual transactions or other matters of significance. Additionally, the Executive Cabinet will be notified of such findings, as and when appropriate.

Independence

In order to maintain independence and objectivity, the Internal Audit function has no direct responsibility or any authority over the activities or operations that are subject to review, nor should Internal Audit develop and install procedures, prepare records, or engage in activities that would normally be subject to review. However, Internal Audit may be consulted when new systems or procedures are designed to ensure they adequately address internal controls.

Objectivity

Internal Audit is a service function organized and operated primarily for the purpose of conducting audits, in accordance with professional standards. The evidential matter gathered from these audits forms the basis for furnishing opinions and other relevant information to affected members of senior management, the President, and the Audit Committee.

Opinions and other information furnished may attest to the adequacy of internal control, the degree of compliance with established policies and procedures, and/or their effectiveness and efficiency in achieving organizational objectives. Internal Audit may also recommend cost effective courses of action for management to consider in eliminating unnecessary risks that may have been identified during an audit.

Confidentiality

All information obtained during an internal audit is deemed confidential unless otherwise instructed. It is understood that certain items are confidential in nature and special arrangements may be required when examining and reporting on such items. Internal Audit will handle all information obtained during a review in the same prudent manner as the custodian of such information. Internal Audit respects the value and ownership of information they receive and will not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

Audit reports are considered highly confidential. They are distributed to the respective area Vice President, the President of the University, and the Audit Committee. Other individuals interested in the audit report may gain access by contacting the Chief Audit Executive, with the approval of the appropriate area Vice President.

Internal Audit is expected to act prudently during the course of an audit. When discussing matters pertaining to an audit or any other University matters, the Internal Audit staff must always remain discreet and be certain to limit those conversations exclusively to appropriate University personnel. The Internal Audit staff has an obligation to exercise discretion regarding information obtained during the course of audit assignments, or as a member of the Office of General Counsel, whether within or outside of the University

Code of Ethics

Internal Audit shall subscribe to the Code of Ethics established by the Institute of Internal Auditors, as well as adhere to the policies set forth by the management of Seton Hall University. In addition, the Internal Audit staff will uphold the following:

Integrity – Establish trust and thus provide the basis for reliance on the judgment of Internal Audit. Remain tactful, honest, objective, diligent and credible in all relationships as a representative of Seton Hall University.

Objectivity – Exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the area being examined. Make balanced assessments of all the relevant circumstances and do not become unduly influenced by individual interests or by others in forming judgments.

Confidentiality – Respect the value and ownership of information they receive. Do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

Competency – Apply the knowledge, skills, and experience needed in the performance of

internal auditing services and continually improve their proficiency and the effectiveness and quality of their services.

Standards of Conduct

Internal Audit will adhere to the following Standards of Conduct:

Service – Preserve a commitment to carry out all responsibilities with an attitude of service toward University management while maintaining a sincere, dignified and caring attitude.

Excellence – Uphold a high standard of service and a commitment to quality in performing all projects.

Leadership – Provide noteworthy examples which emphasize high ethical and moral standards.

Professionalism – Conduct business in a manner that reflects favorably on the individual auditor, the Office of the General Counsel, and the University. Exercise skill, integrity, maturity and tact in all relations.

Responsibility for Detection of Errors or Irregularities

Management of the University is responsible for establishing and maintaining an effective system of internal controls to prevent and detect fraud and errors. Internal Audit is responsible for examining and evaluating the design and operating effectiveness of those controls. Audit procedures alone are not designed to guarantee the detection of fraud or errors. In the event that fraud or errors are detected of a material nature, the Internal Audit department head will assess the implications and design appropriate audit steps to evaluate and quantify the potential impact. The results will be reported to the Executive Cabinet and Audit Committee, as appropriate.

Services Provided by Internal Audit

Internal Audit will provide leadership in the implementation and then on-going administration of a comprehensive risk management program encompassing internal audit, enterprise risk management (ERM), and regulatory compliance.

Internal audit will facilitate University-wide risk assessments to develop an inventory of strategic, institutional, and functional/operational level risks that will form the basis for the Internal Audit Calendar and on-going risk monitoring. Additionally, Internal Audit will oversee the development of a regulatory compliance calendar outlining all regulatory reporting obligations within each division.

Internal Audit

Internal Audit's primary activity is the implementation of a program of regular audits of the University's business operations as outlined below.

- **Operational Audits**. Operational audits consist of critical reviews of operating processes and procedures, and internal controls that mitigate area-specific risks. These

audits examine the use of resources to determine if they are being used in the most effective and efficient manner to fulfill the University's mission and objectives.

- **Compliance Audits.** These audits determine the degree to which areas within the University adhere to mandated Federal, State, and University policies and practices. Other regulatory agencies are also included within compliance audits (e.g., NCAA, EPA). Recommendations usually require improvements in processes and controls used to ensure compliance with regulations.
- **Financial Audits.** These audits review accounting and financial transactions to determine if commitments, authorizations, and receipt and disbursement of funds are properly and accurately recorded and reported. This type of audit also determines if there are sufficient controls over cash and other assets and that adequate process controls exist over the acquisition and use of resources. Unlike external financial audits, internal financial audits do not prepare or express professional opinions on the financial statements fairness.
- **Investigative Audits**. These audits are conducted to determine existing control weaknesses, assist in determining the amount of loss, and recommending corrective measures to prevent subsequent reoccurrence. Internal Audit will also work with outside agencies to determine whether misconduct occurred at Seton Hall University. These types of investigations can encompass misuse of University funds or assets, potential fraud, or potential conflicts of interest.
- **Technology Audits**. Technology audits are usually comprised of control reviews of disaster recovery plans, system back-up procedures, and general security of data and of the physical plant. The purpose of these audits is to evaluate the accuracy, effectiveness and efficiency of the University's electronic and information processing systems.
- **Advisory Audits**. These audits are conducted in areas where management seeks Internal Audit's assistance in developing an appropriate system of internal controls to effectively mitigate known risks.

Enterprise Risk Management

Enterprise Risk Management (ERM) is the consistent, structured and process-driven tool that enables University leadership and management to identify, assess, evaluate, mitigate, monitor, prioritize and respond to risk that affects the achievement of University strategic goals and objectives. ERM enables the ongoing identification of risks and controls and monitoring of risk levels and trends over time.

Regulatory Compliance

Regulatory Compliance is the process under the University's ERM Program that assigns responsibility to Seton Hall administrators, faculty and staff for identifying and complying with applicable laws, regulations and policies. The University's Regulatory Compliance Program is intended to foster an environment where environment where managing risk and ensuring regulatory compliance is the responsibility of each member of the Seton Hall community.

Professional Proficiency

Professional proficiency is the responsibility of each auditor. The Chief Audit Executive ("CAE") will assign each audit to the person who possesses the necessary knowledge, skills, and disciplines to conduct the audit properly. Each auditor has a professional obligation to schedule and attend on-going continuing professional education forums to ensure they remain academically proficient and advance professionally.

The CAE is responsible for providing appropriate audit supervision. Supervision is a continuing process, beginning with planning and ending with the conclusion of the audit assignment. The CAE will document evidence of supervision and review on all audits. This will be accomplished by reviewing and approving all work papers, reports, and audit documents before they are finalized or published to the University community.

THE AUDIT CALENDAR

Risk-Based Audit Calendar

The CAE is responsible for developing a risk based Audit Calendar that includes areas subject to regulatory review, each fiscal year. The Audit Calendar is a written document showing specific audits or projects to be performed by the Internal Audit staff. Upon obtaining consensus from the Executive Cabinet and President, the Audit Calendar will be presented to the Audit Committee annually for approval.

The Audit Calendar will be one of three primary outputs resulting from an Enterprise Risk Management (ERM) program linked to the University's strategic plan, "From Strength to Strength", the cornerstone of which will be a University-wide top-down risk assessment. This will be used to create a risk inventory that drives the three year risk-audit plan, a regulatory compliance calendar, and metrics used to monitor risk on an on-going basis.

The annual risk assessment will build on prior year work with a view of being continually more inclusive of all areas in which the University is exposed to risk. It will consider both inherent and residual risk (risk before and after consideration of controls, respectively). Data will be gathered through management interviews and surveys. Internal Audit will also consider the extent to which an area has been included in the Audit Calendar in prior years, seeking to provide audit coverage that is consistent and appropriate to risk level.

As the University's risk management functions evolve, the Internal Audit Risk Assessment (IARA) model will be used to quantitatively calculate risk levels. Specifically, the IARA model is based on an assessment of Inherent Risk (IR) and Control Effectiveness (CE) to calculate Residual Risk (RR): RR=IR+CE. These ratings provide a quantitative guide as to whether an auditable entity should be included in the annual audit plan. Qualitative factors, such as regulatory requirements, prior audit ratings, coverage by other controls functions, and management requests are also taken into consideration.

While Internal Audit will primarily perform audits as per the approved Internal Audit Calendar, the department may also be asked to conduct additional audits or special projects at the direction of University Leadership. Prior to any audit, the auditor assigned to the engagement will discuss the scope, purpose, and estimated timeframe of the audit with the Division Vice President. To the extent that any unplanned audits or projects necessitate substantial changes to the Audit Calendar, Audit Committee approval will be sought.

INTERNAL AUDIT PROCESS

Overview

There are four fundamental phases to the internal audit process: planning, fieldwork, reporting, and on-going follow-up. The first three take place at the time of audit, and of them, the reporting phase is most significant as it is the culmination of the previous steps and results in a report that is received by internal and external stakeholders. The on-going follow-up is part of a continual audit practice.

Planning Phase

During the planning phase of an audit, along with management being notified, information is gathered about the area to be reviewed, and existing controls are evaluated.

Entrance Conference

Prior to beginning an audit, management is informed of the audit indicating the scope and objectives of the review. During the entrance conference, the internal auditor meets with the management directly responsible for the unit under review and any staff members management may wish to include. Management describes the unit or system to be reviewed, the organization, personnel, facilities, equipment, funding sources, and other relevant information. It is important that management identify issues or areas of special concern that should be addressed as part of the audit.

Internal Control Analysis

The internal control structure will be reviewed to determine the areas of highest risk and to design tests to be performed in the fieldwork section.

Fieldwork Phase

The fieldwork concentrates on transaction testing and informal communications. It is during this phase that the auditor determines whether the controls identified during the preliminary review are operating properly and in the manner described by management and departmental personnel. The fieldwork phase concludes with a list of significant observations from which the auditor will prepare a draft audit report.

Testing

After completing the preliminary review, the auditor performs testing of the major internal controls and the accuracy and propriety of the transactions.

Communication
As the fieldwork progresses, verbal and/or written communications are made on any significant observations and are discussed with management. Hopefully, management can offer insights and help regarding the best method of resolving the observation. The goal is for there not to be any surprises.

Reporting Phase
The final report is the principal product where audit observations and recommendations for improvements are presented.

Exit Conference
A meeting is held with management to discuss the draft findings and obtain management's feedback. Preliminary discussions about the rating of individual findings and the overall report opinion may be discussed. Then, a second meeting with the area Vice-President will be held to confirm that the recommendations presented in the final report are factual and practical.

Management's Responses
Once the findings and recommendations have been agreed, management has the opportunity to respond prior to issuance of the final report. These responses will be included in the final report. In the response, management must explain how the observations will be resolved and include an implementation timetable. In some cases, managers may choose to respond with a decision not to implement an audit recommendation and to accept the risks associated as stated in the audit observations. Management should provide an explanation regarding non-acceptance of the audit observation and/or recommendations.

Report
Following the exit conference, a draft report is generated. It is provided to the line management and then the area Vice-President for confirmation that all information presented is accurate and agreed. Once all parties have agreed the draft report, it is issued as final.

On-going Follow-up
Internal Audit will periodically follow-up with management to ensure that the agreed-upon management actions to address control deficiencies have been properly implemented. Operating effectiveness of management's actions may be performed to ensure that the desired results were achieved. All unresolved observations will be discussed in the follow-up report.

Throughout each phase of the audit process, the auditor will work collaboratively with management. The audit process works best when management and Internal Audit have a solid working relationship, based on clear and continuing communication. In many cases, this working relationship is extended beyond the particular audit. By working with department management, Internal Audit will gain a better understanding of how the department operates. Then, going forward, Internal Audit will be well positioned to evaluate the feasibility of making further changes or modifications to the operations of that department.

Conduct of the Audit

Although every audit project is unique, the University will follow a standard methodology when conducting internal audits. The Internal Audit department should work closely with management to understand, document, and assess internal controls. Key outputs in that audit methodology will include:

- Brief opening conference with the relevant Vice President to discuss the planned scope, objectives, and timing of the audit, as well as key business personnel who would be involved. This is also an opportunity for the Vice-President to express their view of the key risks and controls related to a particular audit, as well as any related concerns
- Discussions with line management and business owners to understand risks/control design
- Detailed documentation of risks and controls and testing to evaluate control design and operating effectiveness.
- Formal reporting that explicitly states an opinion and clearly articulates any audit findings up front. An overall rating (e.g., Strong, Satisfactory, Marginal) in audit reports and priority rating for audit findings (e.g., High, Moderate, Low) will be issued.
- Regular follow-up with line manager and Vice President on open findings and reporting to Audit Committee on past-due items.

Additionally, the methodology includes quality control practices that should be incorporated during each phase of the audit in each audit:

- *Scoping* – Ensure all risks have been considered and informed decisions are made to develop as comprehensive and targeted an audit as possible, and then vet the planned scope with the area VP during the opening conference and make adjustments as needed.
- *Documentation and Testing* – Prepare a risk and control matrix (RCM) for all audits to show a clear linkage between risk and control and facilitate design assessment. Also, use standard lead sheets and sample sizes for testing.
- *Reporting* – Communicate all issues to the VP timely and agree specific remedial actions with owners and due dates, and then regularly follow-up on the status of remediation.
- *Supervisor Review* – The Chief Audit Executive will review all documentation, testing, and reports during the course of the audit to avoid issues or delays.

PERFORMING THE AUDIT

Sample Selection

Sampling involves the application of audit procedures to less than 100% of a population to obtain

and evaluate audit evidence about a particular characteristic of the population. It requires auditor judgment in planning/performing the sampling procedure as well as evaluating the test results.

Sample sizes in controls-based auditing are typically driven by the frequency with which the control is performed. The below table provides guidance for sample sizes:

Frequency of Control	Assumed Population of Control Occurrences FN1	Number of Items to Test FN2		
		Low	Mid	High
Annual	1	1		
Quarterly	4	2		
Monthly	12	2 to 5		
Weekly	52	5	10	15
Daily	250	20	30	40
Multiple times per day	Over 250	25	45	60

The actual sample population is then judgmentally selected, which requires the auditor's knowledge of the population and the related areas of risk when choosing a sample. Example: Focusing on and selecting certain types of general ledger accounts that have significant risk such as suspense accounts.

Statistical sampling is another method wherein a sample is randomly selected to reflect the characteristics that occur in the entire population. This enables the auditor to draw valid conclusions based on data derived from a relatively small sample of the total population. Statistical sampling includes random samples and interval samples.

Before deciding on a sample methodology and size, the auditor must determine the audit objectives; identify the population characteristics of interest; and consider the degree of risk that is acceptable. Consideration should also be given to the significance of the control in question and the level of assurance desired. The fewer items tested, the greater the risk of an incorrect conclusion. Thus, for highly critical controls, or when a single manual control provides the sole support for any given assertion, the auditor will consider increasing the sample size to the high end of the range provided in the table above. The extent of testing of a particular control will vary depending on a variety of factors such as:

- Complexity of the control
- Significance of judgment in the control operation
- Level of competence necessary to perform the control
- Frequency of operation of the control
- Impact of changes in volume or personnel performing the control
- Importance of the control (e.g., addresses multiple assertions, period-end detective control, only control that covers a particular assertion)

For an automated control, the number of items tested can be minimal (one to a few items), assuming that information technology general controls have been tested and found to be effective. For example, a common automated control is an edit check that is activated during data entry. Drawing on a database of permissible combinations of services and prices, the edit-check function is designed to prevent the order entry clerk from entering an invalid price for a service. Each attribute of the automated control should be tested for operating effectiveness. In this example, a few different invalid prices/service combinations should be entered to demonstrate that the control is working effectively. In some cases, management override procedures may allow an automated control to be circumvented. This override capability should be evaluated to assess potential internal control deficiencies.

Testing Conclusions

The auditor is responsible for ensuring that controls have been adequately designed and are operating effectively to mitigate risk. Control design should be evaluated by considering whether the control activity is appropriate in light of the risk it is intended to mitigate. Operating effectiveness is evaluated by confirming the control operates correctly and consistently in accordance with management's design through detailed sample testing.

A finding is indicated if, during testing, the internal audit function concludes that any of the control activities identified in the engagement are not properly designed or operating as intended. The auditor will then assess each finding to determine its significance to the overall control environment. Evaluation factors will include the impact and likelihood of the underlying risk, as well as the existence of complementary or compensating controls.

All testing results should be clearly indicated on the individual work papers according to the documentation requirements and standards outlined below, as well as on the RCM.

Work Paper Documentation

Work papers are a representation of the auditors' activities across the phases of every audit. Each phase of an audit is supported by audit work papers that document the work planned and performed, the auditor's thought process and the conclusions reached. Complete and accurate work papers include sufficient evidence to accomplish the following to a degree that a knowledgeable

individual not involved in the audit could follow:

- Demonstrate that the audit plan, scope and objectives for the review have been satisfactorily completed;
- Contain detailed evidence for any findings resulting from the examination; and
- Support any audit opinion or rating rendered on the system of internal controls.

To that end, audit work papers also need to support that due professional care was exercised and illustrates compliance with professional auditing standards. Comprehensive and well-organized work papers are characterized as follows:

Complete. Work papers must be able to "stand alone." This means that a person external to the audit or not necessarily familiar with audit policies and procedures should be able to follow the work from planning through fieldwork to the report with no information besides what appears in the work papers.

Concise. Work papers must be confined to those that serve a useful purpose. Items that are used in the audit should be evaluated as to their necessity in the work papers. Work papers are not retained if they are not required to support the conclusions drawn in the audit. If a document is readily available or reproducible based on a description included in the work papers, it is not required to be included in the work papers. Documents that support evidence of exceptions to policy and procedure should be included in the work papers.

Uniform. Work papers should be of uniform size and appearance, which will generally be 8 ½ x 11 inches. Smaller papers should be fastened to standard work papers, and larger papers should be folded or reduced to conform to size restrictions. All handwritten documentation should be done legibly. The preparer should allow for enough space on each schedule so that all pertinent information can be included in a logical and orderly manner. Lastly, the work papers should be sufficiently numbered and indexed.

Work Paper Standards

The test procedures and all control attributes to be validated will be documented in the RCM for each control to be tested. Those procedures must be followed exactly with all procedures to be completed for all samples selected.

To the extent possible, hard copy supporting documentation should be included in the workpaper for all samples tested. If it is not feasible to include support for all samples, at least one example should be included to facilitate CAE review. There must be complete visibility into the conclusions reached through testing. Therefore, the specific information examined through testing (numbers, fields, signatures, etc.) to determine that a sample meets a particular attribute must be clearly indicated through tickmarks (letter, check mark or inverted check mark). However, if an attribute is not met, a tick mark with a unique explanation should be used. This allows for more easily distinguishing between exceptions and non-exceptions for reporting purposes.

All working papers that are not self-explanatory should have a heading which includes the area

under audit, title of work paper, and the date prepared. If it is not evident, the source of information and purpose of the working paper should also be noted. Additionally, all supporting documentation should indicate the management personnel from whom it was received (name and title) as well as the data source (system name, manually prepared schedule, etc.).

Ambiguities are reduced if uniform meanings are adopted for the various terms used in audit programs. Below are some definitions which should be used to help eliminate confusion and aid communication among auditors:

- **Analyze.** To break into significant component parts to determine the nature of something.
- **Confirm.** To obtain proof to be true or accurate, usually by written inquiry from a source other than the audited.
- **Evaluate.** To look at or into closely and carefully for the purpose of arriving at accurate, proper, and appropriate opinions.
- **Inspect.** To examine physically, without complete verification.
- **Investigate.** To ascertain facts about suspected or alleged conditions.
- **Test**. To examine representative items or samples for the purpose of arriving at a conclusion regarding the group from which the sample is selected.
- **Verify**. To prove accuracy.

The auditor should sign and date all work paper files they have prepared or reviewed.

Work Paper Organization

In order to be useful, work papers must be well organized. This means that the flow of the work papers should be logical. A table of contents should be used to guide the reader to all components of the work paper file, which should be organized as follows:

- Audit Report
- Process Narrative/Overview
- Risk Control Matrix (RCM)
- Operating Effectiveness Testing
- Supplementary Materials

The primary document within the work papers will be the risk and control matrix (RCM) which aligns risks, controls, test procedures, and test results. It will be succeeded by work papers for each individual test performed. A reference number will be assigned to each test of operating effectiveness and noted on the RCM The test number will be the primary means of organizing supporting documentation and indicate this on the upper right corner of the document. Example: 13-001.T1 (Test #1 of Audit # 13-001).

Work papers within each test of operating effectiveness should be arranged from the level of least detail to the most. That is, the lead schedule or summary page should be the first item in the section (after the audit program, if present in the section), with the detailed testing and supporting documentation behind.

Cross referencing within work papers should be complete and accurate. Work papers should be cross referenced to the appropriate lead sheet, working trial balance or other summary work paper. Proper cross-referencing includes page references beside both items being linked. If several amounts on one work paper are to be referenced to the total of those amounts at another work paper, the summation should be shown with the cross-reference beside the total. Although there will be times when space constraints require otherwise, cross-referencing should be consistent. It is not necessary to reference amounts appearing in numerous places every time they appear. Rather, the amount/item should be cross-referenced from the work paper where the audit testing was performed to the lead sheet or summary page in front of it.

The auditor should make full use of the work papers developed in prior audits. Flowcharts, system descriptions, and other data may still be valid. Those papers that remain useful should be made a part of the current working papers. First, a copy of the document should be made to place in the prior year work papers. Then, the original may be updated with current information, referenced, and initialed and dated by the current auditor. Prior year sign-offs should not be deleted from the original document.

Work Paper Review

Each individual auditor is responsible managing the progress of the audit. The CAE may perform an interim review of audit work papers and will conduct a final quality check of all work papers to verify proper completion and adherence to department work paper standards. CAE review must be completed prior to the issuance of a final deliverable.

The CAE will prepare a log of review points to communicate any open questions or areas where the work papers need to be enhanced to the auditor. The auditor will then formally respond to each point in the log so that it is a complete record of reviewer's comments, auditor's responses/actions, and reviewer's confirmation that the points have been satisfactorily addressed. The log should be maintained within the work paper file.

Control/Confidentiality of Work Papers

The Internal Audit staff is to know exactly where the work papers are during the conduct of the audit. During the course of an audit, work papers should not be left unattended. Work papers are to be kept in a secure area not readily available to persons unauthorized to access them. Access to

work papers is limited to authorized personnel. In circumstances where requests for access to audit work papers and reports are made by parties either within or outside the University, approval must be obtained from the Vice President and General Counsel.

COMMUNICATION AND REPORTING

Interim Communication

Communication with management is an integral part of any internal audit and, as noted previously, will occur on an ongoing basis as the audit progresses. During the course of performing an audit, the auditor should ensure their understanding of the controls and supporting documentation provided by management is correct and complete. If a potential finding is identified, it should be discussed with management so that the auditor can ensure their facts are accurate and initiate dialogue regarding the best method of remediation.

The auditor must confirm all preliminary facts and conclusions with management before the draft report is issued. Then, the draft report should be presented to management and discussed in an exit conference. This allows all parties to review what is anticipated to be contained in the formal audit engagement communication and provides a final opportunity for any misunderstandings to be resolved. Additionally, it provides management an opportunity to discuss possible actions to mitigate the noted findings and to give the auditor and CAE feedback regarding the audit itself.

The corrective actions management will take to address findings are commonly referred to as "management's response". These corrective actions are formulated with input from the internal audit function, but are ultimately the responsibility of management to implement. If the internal auditor and engagement client disagree about the engagement results, the engagement communications may state both positions and the reasons for the disagreement.

Final Audit Report

The final audit report is the culmination of all work performed and communication of audit results to the management group that was audited, as well as University Leadership and the Audit Committee of the Board of Regents. It serves as the permanent record of the audit and its results and therefore must effectively describes the scope of work performed and the conclusions reached. To that end, the auditor will ensure that the final report is concise, comprehensive, and accurate.

Within the final report, the priority of individual findings will be evaluated and an overall opinion of the audit will be issued. Appendix A provides a ratings scale and guidelines for each evaluation.

Once all issues and ratings have been agreed with the functional manager(s) of the area audited and management responses have been provided, the draft report will be submitted to the CAE for review. Upon the CAE's approval, a draft report will be circulated to the functional manager. Following receipt of approval from the functional manager, the CAE will send a copy of the draft report to the area Vice President and offer to discuss the results. Upon approval from the Vice President, the report will be considered final and the CAE will distribute it to University and Board personnel, as appropriate.

ISSUES MANAGEMENT

Monitoring and Follow-up

Internal Audit's responsibilities do not end when engagement results are distributed. Monitoring and follow-up procedures will be performed to ensure observations have been addressed and resolved in a manner consistent with management's response included in the final engagement communication.

Issues raised through internal audit work are tracked in the Findings Log. Specifically, the gap or weakness identified, agreed remedial action, business owner responsible for remediation and due date of remediation are noted. Auditors are responsible for regularly reviewing the Findings Log and following up with management to confirm that corrective actions have been implemented by the agreed-upon due date. If the corrective action has a long-range due date (> 6 months), the auditor should inquire with management about the progress of implementation at least quarterly. Any requests made by management to change the due date must be discussed with the CAE and presented to the area Vice President for approval. Then, the findings log will be updated to reflect the change and underlying rationale.

Once management has confirmed that a corrective action has been fully implemented, the auditor should perform a walk-through to confirm the control. The CAE will report outstanding and overdue items to the University President and Audit Committee on a regular basis.

ADMINISTRATIVE PROCEDURES

Cooperation with External Auditors. The CAE is responsible for coordinating audit efforts with the University's external auditors. The coordination of audit efforts should be considered in the planning of internal audit activities to ensure that the work of all auditing groups is complementary and will provide comprehensive, effective and efficient audit coverage.

Knowledge and Continuing Professional Education. The internal auditing department should possess or should obtain the knowledge, skills, and disciplines needed to carry out its audit responsibilities. Auditors should maintain their technical competence through continuing education. They should keep informed about improvements and current developments in internal auditing standards, procedures, and techniques. Continuing education may be obtained through membership and participation in professional societies; attendance at conferences, seminars, college courses, and in-house training programs.

Supervision. The CAE should provide assurance that internal audits are properly supervised. Supervision is a continuing process, beginning with planning and ending with the conclusion of the audit assignment. The extent of supervision required will depend on the proficiency of the auditor and the difficulty of the audit assignment.

Personnel Management and Development. The University has an established program for developing the human resources of the Administration. The preparation and review of the Administrative Performance Appraisal is part of that program. The Performance Appraisal serves the function of staff development. The feedback staff receives from the appraisal process provides them with information they can use to improve job performance.

The Office of Human Resources maintains the job descriptions for each position within the University.

Appendix A

Audit Opinion Definitions

At the conclusion of each audit, the Internal Audit department will render an overall opinion of the process/function/department audited based on an assessment of the design and operating effectiveness of the internal controls therein. The overall opinion will reflect the number and priority rating of identified internal audit issues, considered both individually and in the aggregate. Audited processes/functions/departments with an opinion of Marginal or lower will be subject to more extensive reporting to the Audit Committee than those with a Strong or Satisfactory opinion.

The Internal Audit department will exercise its judgement using the criteria regarding the internal controls within the audited process/function/department in the following table to develop a summary opinion.

Opinion	DEFINITION / CRITERIA
Strong (Well Controlled)	**Audited risks are controlled, with no reportable issues** • Controls, as designed, mitigate risks. • Controls tested are effective (*no significant deviations/exceptions were noted)* and therefore there are generally **no reportable** issues. Controls are operating effectively and can reliably support achievement of Management's objectives. Opportunities for enhancement, as defined below, may exist.
Satisfactory (Adequately Controlled)	**Audited risks are controlled with a few reportable issues** • Controls, as designed, substantially mitigate risks. • Controls tested are generally effective, although a few issues have been identified. • The issues identified represent low potential loss exposure or risk for the area audited. Controls are generally operating effectively; however, recommendations are made to improve the reliability of controls to support achievement of Management's objectives. Typically, the majority of issues are ranked as Low (Level 3), as defined below.
Marginal (Needs Improvement)	**Controls over audited risks require improvement** • Controls are either not optimally designed to substantially mitigate risk and/or testing indicates that certain controls are not operating effectively. • The issues identified represent moderate potential loss exposure or risk for the area audited. Control weaknesses exist, reducing the effectiveness and reliability of controls to support achievement of management's objectives. Typically, a few issues are ranked as High (Level 1) with the majority of issues ranked as Moderate (Level 2) or Low (Level 3), as defined below.

Unsatisfactory	**Controls do not sufficiently mitigate audited risks** • Controls are not appropriately designed and/or have not been effectively implemented to sufficiently mitigate risk. • The issues identified represent high potential loss exposure or risk for the audited process/function/department with a moderate to high likelihood of occurrence. There is not an effective control structure in place and controls do not support achievement of management's objectives. Typically, the majority of issues are ranked as High (Level 1) with a few issues ranked as Moderate (Level 2), as defined below.

Follow-up audits will be performed to verify the clearance status of high-priority audit issues (those issues driving the audit rating) via detailed inquiries, observation and/or testing, in accordance with management's targeted completion dates. If critical action items are not addressed appropriately or timely, additional follow-up reviews may be scheduled and/or related concerns may be escalated to executive management. An opinion of Satisfactory or Unsatisfactory will be issued to indicate whether high-priority findings have been adequately addressed.

Issue Priority Rating Definitions

Audit issues, or findings, will be rated in terms of the priority that should be given to corrective or remedial action by Management. The rating will be based on the assessed functionality of the related controls and their significance in managing business risks and maintaining an effective internal control environment.

The Internal Audit department will exercise its judgement to prioritize issues presented in internal audit reports in accordance with the following guidelines:

PRIORITY	DEFINITION / CRITERIA
High **(Level 1)**	Matters and/or issues considered to be **fundamental** to maintenance of internal control, good corporate governance or best practice for processes. These matters and/or issues should be subject to agreed remedial action either **immediately or not later than three (3) months** from date of issue of final report to Management. Represents findings that management should resolve promptly because the findings could have a significant adverse impact on the University and because one or more of the following conditions apply: • Key controls are not functioning as designed or controls do not exist. • Current process could potentially or does violate critical regulatory requirements or corporate policies and procedures. • Control weakness undermines the overall integrity of the system or process because it compromises the achievement of the business objective. • Financial impact is substantial (if loss occurred) or has the potential to be substantial and wide-spread across the University.

PRIORITY	DEFINITION / CRITERIA
Moderate **(Level 2)**	Matters and/or issues considered to be of **major importance** to maintenance of internal control, good corporate governance or best practice for processes. These matters and/or issues should be subject to agreed remedial action within **six (6) months** from date of issue of final report to Management. Represents findings that management should resolve in a reasonable time frame, because the findings could have an adverse impact—but not likely a critical one—on the University and because one or more of the following conditions apply: • Either key controls are not functioning as designed or controls do not exist, but mitigating controls exist and are operating effectively. • Current process could violate less critical regulatory requirements or corporate policies and procedures. • Control weakness does not undermine the overall integrity of the system or process but compromises a critical component(s) designed to achieve the business objective. • Financial impact is substantial to the audited process/function/department, but does not have the potential for a wide-spread impact on the University
Low **(Level 3)**	Matter and/or issues considered to be of **minor importance** to maintenance of internal control, good corporate governance or best practice for processes. These matters and/or issues should be subject to agreed remedial action and further evaluation within **twelve (12) months** from date of issue of final report to Management. Represents findings that have a less significant adverse impact on the University because one or more of the following conditions apply: • Sufficient compensating controls exist where weaknesses are noted • Financial impact is limited in amount and extent.
Opportunity for Enhancement **(Not a Finding)**	Matter and/or issues considered to be opportunities to further enhance an already sound system of internal controls. Issues raised under this classification relate to matters warranting consideration for improving the efficiency of existing processes subject to availability of specified resources or technology. These matters and/or issues should be subject to agreed remedial action and further evaluation as deemed reasonable by Management. Represents findings that are potential process improvements or Best Practice and because one or more of the following conditions apply: • Enhancements to existing process or systems would improve effectiveness or efficiency. • Cost-saving measures are available