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**INTERNAL AUDIT POLICY
CHAPTER 1
POLICY 3.01**

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I. PURPOSE

To establish the Internal Audit Department, its policies, procedures, objectives, and authority.

II. POLICY

The Internal Audit Department assists SLCC in accomplishing its objectives by providing an independent appraisal of risk management, internal controls, effectiveness, efficiency, and compliance with applicable laws, regulations, rules, and procedures.

Internal Audit maintains a comprehensive program of internal auditing under the direction of the College President or designee as specified in Utah Code §63-91-302 3.g, and all applicable Bylaws, policies, and regulations established by the Utah State Board of Regents and the SLCC Board of Trustees Audit Committee. The internal audit program shall function such that:

- a) The College places no limitations on the scope of the internal audit department's work,
- b) The auditors have no authority or responsibility for the activities they audit, and
- c) The authority and line reporting responsibility of the Internal Audit Department passes from the Board of Trustees through the President and his/her designee, with the understanding that the Internal Audit Staff will have simultaneous communication and report generation responsibilities to both the College administration and the Trustee Audit Committee.

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I. REFERENCE

- A. Utah Code §63-91-100 (Internal Audit Act)
- B. Utah Code §53B-7-101 (State System of Higher Education—Finance)
- C. Utah Code §63-2 (Government Records Access Management Act)
- D. Utah Code §67-16 (Utah Public Officers' and Employees' Ethics Act)
- E. Bylaws of the State Board of Regents R120, 3.3.2.7
- F. Bylaws of the State Board of Regents R541, 4.8 and 4.9
- G. Bylaws of the State Board of Regents R548, 4.6
- H. Bylaws of the State Board of Regents R565 (Audit Review Subcommittee)
- I. Bylaws of the State Board of Regents R567 (Internal Audit Program)

II. INTENT

The responsibilities of the internal audit department are not limited to the following:

- A. Preparing and maintaining audit schedules based on evaluations of risk, administration emphasis, and other exposure to the College.
- B. Planning, conducting, and reporting performance, program, financial and follow-up audits; special projects; and investigations in accordance with audit schedules and standards established by relevant authority, state law, and the professional practices of internal auditing and fraud examination.
- C. Maintaining open communication with the audited department supervision and administration, before, during, and after fieldwork. However, the regular communication conduit may not function during other internal work such as special projects or investigations, depending upon security needs. Relevant administrators involved in each work project will be advised as to objectives, findings, issues, and recommendations. Regular reports and updates will be delivered to the President or his/her designee and to the Trustee Audit Committee.
- D. Preparing a report of findings, conclusions, and recommendations upon completing an audit or follow-up audit.
- E. Conveying information regarding special projects during a debriefing and in a letter or memorandum to relevant parties, including the President or his/her designee and the Trustee Audit Committee.

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- F. Coordinating and providing support as appropriate with external auditors in an effort to eliminate duplication of efforts or reduce outside audit scope and costs.
- G. Integrating and maintaining appropriate interface with the State Board of Regents' audit staff, complying with the applicable State Board of Regents Bylaws, policies, and regulations, and participating in system-wide audits or other projects and other assignments as directed by the President, his/her designee, or the Trustees' Audit Committee.
- H. Maintaining the independent and professional proficiency of internal audit staff members to assure objectivity and due professional care in conducting all internal audit work.

III. DEFINITIONS

- A. Audit. A systematic process of measuring intended results against actual conditions. An audit results in communicating the results to interested users in a report format. Audits may follow various objectives determined by the audit scope. They may include a number of areas of focus, such as the three types following:
 - 1. Financial Audit. A systematic process of objectively obtaining and evaluating evidence regarding management's assertions about economic activities and events. The process determines the degree of correspondence between those assertions and established criteria.
 - 2. Performance Audit. A systematic process of:
 - a) examining administrative adherence to constitutions, statutes, regulations, administrative policies, and other requirements;
 - b) determining the degree of efficiency of an auditee by measuring the extent to which the resources (i.e. people, facilities, equipment, supplies, funds) have been efficiently planned, allocated, controlled, and employed to generate output.
 - 3. Program Audit. A systematic process to determine the extent to which a program meets its intent and hence justifies resources used to support the

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program. Many audits will contain elements of a program audit because programs constitute the largest percentage of expenditures.

- B. Performance Review. Assessing the extent to which an auditee unit accomplishes its objectives and goals, or the objectives and goals set by the institution's administrators, legislative mandate, or similar requirements. The scope of the review remains narrow and only focuses on how well the unit meets established goals.
- C. Limited Review. A systematic process of inquiries and analytical procedures that are designed to detect material weaknesses and/or nonconformance to generally accepted accounting principles and other applicable standards. A limited review provides narrow scope but specific answers to the questions raised. Consequently, a review may disclose certain important matters, but not necessarily all matters disclosed in a full audit. Limited reviews usually require no follow-up actions to determine compliance. However, requests from the appropriate authority (Trustee Audit Committee, College administration, USHE Commissioner's office, USHE Board of Regents, etc.), may require a compliance review.
- D. Internal Controls. The plan of organization and all of the coordinate methods and measures adopted within a business to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, increase compliance with applicable rules and regulations, and encourage adherence to prescribed managerial policies.
- E. Follow-up Audit. A report of the compliance review conducted by internal audit, usually six months after the issue date of the initial report. The review provides information regarding the actions (or lack of) taken by the auditee regarding each recommendation. It also contains Internal Audit's opinion as to whether the auditee remedied the identified deficiencies, continues to work toward resolving the issues, or otherwise plans to resolve the concerns. It may also identify new issues not identified previously. The follow-up audits maintain similar formatting to initial audits except each recommendation receives its own subsection
- F. Special Project. A work product summarizing information gathering on a specific subject, reviewing specific work performed by a department within the institution, or providing answers to specific questions or need for clarification. These projects generally cover one-time concerns and do not require any

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follow-up unless requested by the proper authority. Special projects generally aim to satisfy questions, so they may follow a memorandum format or another style best suited to convey the required information.

- G. Investigation. Work covering special concerns as requested by College administration, the State Board of Regents, or the Trustee Audit Committee, usually in response to a perceived concern with one person's or work unit's compliance with College policy, state law or both. Investigations, more often than other audit work products, may contain implications or suggest action involving civil and/or criminal action. Reported investigations maintain their own special format containing the standard in the left column and the condition, effect, and cause in the right column.
- H. Surprise Audit. Audit work conducted with no prior notice to the auditee. This type of audit includes surprise cash or inventory counts, as well as other verifications where unannounced Internal Audit scrutiny is part of the audit plan. Internal Audit shall convey the results in a letter, checklist and summary, memorandum, or other format that best provides the needed information to management.

IV. PROCEDURES

- A. Opening Conference. Internal Audit will ordinarily provide adequate notice of an audit or follow-up audit to the department head and other responsible administrators. Work involving limited review may or may not involve a formal opening conference. Based on the nature of special projects or investigations, Internal Audit and management will determine if an opening conference will further the objectives of the situation. Surprise audits will *not* include an opening conference, for obvious reasons.
- B. Audit Planning. Auditors will devote an initial portion of time to developing a program or plan for every project. The program development includes identifying a preliminary list of interviewees, seeking appropriate and important criteria/standards, outlining the initial scope of audit work, preliminarily judging risk for each area, identifying appropriate documents and other data to review, and initial testing if appropriate.

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- C. Fieldwork. Audit fieldwork consists of implementing the audit program or plan. Work includes interviews with relevant employees, including stakeholders from other work units within SLCC and outside, if appropriate. Auditors observe procedures and examine documents and other forms of information including electronically formatted media. Auditors test for compliance, determine if the auditee maintains appropriate controls, and otherwise gather information regarding risk and methods of mitigating the risks. Normally, the auditors will discuss or relay tentative findings, concerns, and proposed recommendations with those in the audited unit who have responsibility for correcting problems or resolving issues. The auditors will immediately raise any urgent issues needing instant attention with the individuals who can take action to address the deficiency. The auditors will communicate preliminary information through conferences if possible, but may also use e-mail and memoranda should conferences not prove possible within the budgeted time frames.
- D. Draft Report. Some time during the end of fieldwork, the auditors will begin drafting a preliminary report. This report provides a guide to Internal Audit in completing fieldwork as well as preliminary information on audit issues for the auditee. A more finalized copy goes to the auditee either at the pre-closing conference or before.
- E. Pre-closing Conference. Internal Audit will hold a pre-closing conference with the auditee and other relevant stakeholders. During the conference, the auditors will review all issues/findings with all participants. At that time, all involved have an opportunity to discuss differences, interpretations of information, the criteria and methods used, and work to resolve differences if any exist. The auditors will use this meeting to correct inaccuracies and misinformation, recheck calculations if warranted, and clarify information. At the discretion of Internal Audit, the pre-closing conference may result in revisions to findings or recommendations.
- F. Auditee Response. An auditee will respond, using a template provided by Internal Audit, to each finding and recommendation. The response provides the auditee with the opportunity to state any corrective action taken since the audit beginning, as long as the action can be verified independently. This format also allows the auditee to formulate his/her own plan of action to address any problems or deficiencies. Normally, the auditee should respond to all findings and recommendations within ten (10) working days of receiving the response template. However, under special circumstances, Internal Audit may allow an

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extension if requested. The extension shall not be longer than twenty (20) working days unless approved by the President or his/her designee. Since these responses come from outside Internal Audit, they go into the report exactly as provided to Internal Audit.

- G. Closing Conference. Internal Audit will provide another opportunity for the audited parties and other stakeholders to meet if needed. At this time, all persons involved will attempt to clarify their individual viewpoints to ensure all readers and stakeholders understand the issues involved. If meeting events and agreements make revising the responses necessary, those people writing responses may have another five (5) working days to submit revised auditee responses to Internal Audit.
- H. Other Responses. Other stakeholders may also provide comments and input to the report. However, they must contact Internal Audit on a timely basis before the auditors send the report for printing. The auditors will also advise them whether to use the template or a letter/memo in response. The template primarily functions as a means to document what the respondee will do to correct any deficiencies. Hence, most stakeholders would use a letter or memo response unless they also develop solutions to the recommendations. Those responses will reside in the appendices.
- I. Audit Report. This report contains all the information compiled by Internal Audit, along with responses to each finding and recommendation. The report shall contain all necessary elements of a finding (i.e. strong effect requires no criteria to be valid and strong criteria require no effect). It shall have an introduction, background information, and audit scope necessary to explain the purpose and initial concerns leading to the audit request. After the closing conference and the collection of any additional relevant material, Internal Audit will finalize all information into the report and distribute copies of the report to the following:
- a. The President and Vice Presidents of Salt Lake Community College.
 - b. The SLCC Board of Trustees Audit Committee.
 - c. The audited unit head, as well as any supervisors above, up to the vice president level.
 - d. Relevant stakeholders, especially those needed to implement the recommendations. The most commonly included ones would include the

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Controller/Business Manager, the Director of Purchasing, the Director of Human Resources and the CIO.

- e. Salt Lake Community College's Risk Manager.
- f. Others on a "need to know" basis.

J. Follow-up Audit. Within a reasonable amount of time as specified in the Bylaws of the State Board of Regents (R548 4.6), from the official report release date, Internal Audit will conduct a compliance review. This review will verify compliance with each recommendation objective contained within the report. The internal auditors will send a notice to the auditee outlining the compliance review. Any new developments in terms of the criteria shall be listed in the body of the report with the original finding. These may include important and relevant case law or new regulations from any level. The compliance report will state if actions have resolved the problem or are sufficiently advanced to address the concerns identified in the report. If the internal auditors find an unacceptable level of progress towards compliance, they will identify the cause and if needed make more recommendations. If the internal auditors identify other concerns they will list those in an appendix as "New Issue(s) for Consideration." The new issues, if sufficiently serious, may require further compliance review. The internal auditors will continue conducting compliance reviews until they find

- a. the auditee has sufficiently resolved the conditions leading to the original or subsequent finding(s).
- b. the auditee's operations changed sufficiently to eliminate the need for the recommendation.
- c. the auditee created other solutions that address the problem.

They will also conduct a closing conference if requested. The follow-up report goes to all the initial positions identified on the audit distribution list, as well as new positions that may be involved in the follow-up process.

K. Record Retention. At minimum, Internal Audit complies with GRAMA and other relevant laws. Internal Audit will:

- 1. File and retain audit reports and investigations in perpetuity.

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2. Maintain correspondence and other materials not pertaining to specific audits as required in relevant law.
3. Retain working papers for a minimum of three (3) years after the finalization of the complete audit (and follow-up).
4. Store special projects and limited scope audits for a minimum of two (2) years after full completion.

V. OTHER

- A. Objective. Internal Audit functions as an independent, objective assurance and appraisal activity. It is designed to add value and improve the College's operations. Its services include audit, review, or information gathering of any operations. It provides managerial control through its functions of measuring, evaluating, appraising, assessing, verifying, or determining the effectiveness and efficiency of College operations.

However, first responsibility for College operations and internal controls lies with management. Internal Audit can have no operational duties that might compromise audit independence.

Internal Audit assists SLCC in accomplishing its objectives by bringing a systematic approach to evaluate and improve the effectiveness of general risk management measures, internal controls, and governance processes.

1. Internal Audit strives to assist all members of management in the efficient and effective discharge of management's responsibilities. To do so, Internal Audit provides facts and recommendations or compilations of information concerning a manager's area of responsibility.
2. In most instances, issued reports or investigations will identify those involved only by job title or responsibilities. Auditors identify individuals only in this way because the positions themselves maintain responsibility for

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specified areas and do not depend upon particular characteristics of the current jobholder. Expectations remain the same, regardless of who fills the position currently. Internal Audit will alter this practice by request from the President or his/her designee.

- B. Authority. Internal Audit derives its authority directly from the College Administration, Utah Code §63-91-200, Regents Bylaws R120 3.3.2.7, R565 and R567, and the SLCC Board of Trustees Audit Committee. Internal Audit's program also complies with other relevant standards within state laws and State Board of Regents Bylaws, policies, and regulations. These sources authorize Internal Audit to conduct audits, reviews, investigations, and special projects as necessary to accomplish internal audit objectives or comply with state law and Regents Bylaws. Internal Audit's authority extends to any department, system, function, program, or administrative unit which functions as part of Salt Lake Community College.
1. The internal auditors maintain authorized free and unrestricted access to all College records, personnel, and physical property relevant to its current work projects (Utah Code §63-91-302 3.f.), including Banner screens and information. The only restrictions to access would come from laws or regulations superceding those of Salt Lake Community College and relevant laws and bylaws cited above.
 2. Internal Audit may also audit SLCC business partners if the contract or agreement has a "right to audit" clause. These types of audits would usually begin as a request from either the President's office or from the functional administrative unit most closely associated with the business partner.
 3. Internal Audit will protect all information gathered and provide documents only in accordance with state and federal law. Decisions to release or not release information shall only be made in conjunction with the College's Government Records Access Management Act (GRAMA) officer. All requests must channel through the College GRAMA office.
- C. Internal Audit's responsibilities include audits, follow-up audits, investigations, special projects requested by management, and reviews of fiscal, operational, program, and system entities within Salt Lake Community College.

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- D. By the independent nature of audit activities, no one within Internal Audit shall assume authority or responsibility for any activities audited, investigated, or reviewed (Utah Code §63-91-302 3.e). Internal Audit's involvement in no way relieves any department heads, supervisors, or others in managerial positions of the responsibilities assigned to them.
- E. Fraud detection constitutes a part of Internal Audit activities. During the course of most audits, follow-up audits, and investigations, the auditors employ a variety of measures to examine or test for suspicious activities or behaviors. Additionally, the auditors may assist management through appropriate requests for services to test for specific things. However, management retains responsibility to be vigilant for any signs of fraud because management provides daily oversight to all operations. The day-to-day operational responsibilities allow management better opportunities to observe and note anomalies, suspicious behavior, questionable practices, and other indicators that might be signs of fraud or other misdeeds. If any criminal activity is suspected, Internal Audit will notify Police Services.
- F. Internal Audit does *not* involve itself in issues better resolved by departments trained to handle certain types of problems. Examples may include:
1. Sexual harassment
 2. Employee performance problems
 3. Technical issues requiring lengthy training
 4. Environmental or chemical hazards
 5. Specialized tax concerns
 6. Targeted federal regulation issues requiring specialized expertise
- G. Internal Audit may become involved in various projects with ethical implications, such as violations of Utah Code §67-16-1, et seq. This involvement in no way relieves management of responsibility for identifying issues and concerns regarding employees under its control. Management's position allows it to observe daily and notice any concerns or issues as they occur.

Additionally, other work units within Salt Lake Community College may have greater expertise in some areas of violation concerning ethical conduct. In those Salt Lake Community College instances, the other work units may be better suited to conduct the investigation of violation(s).