

3.01
INTERNAL AUDIT
CHAPTER # 1
POLICY # **3.01**

Cabinet Approval:
Board of Trustees Approval: 11/13/2013

I. POLICY

The Internal Audit Department assists Salt Lake Community College 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 and all applicable Bylaws, policies, and regulations established by the Utah State Board of Regents and the Salt Lake Community College 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 or designee, with the understanding that the Internal Audit Staff will have simultaneous communication and report generation responsibilities to both the College administration and the Board of Trustees Audit Committee.

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I. REFERENCE

- A. Utah Code §63I-5 (Utah Internal Audit Act)
- B. Utah Code §53B-7-101 (State System of Higher Education—Finance)
- C. Utah Code §63G-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 (Commissioner of Higher Education Authority)
- F. Bylaws of the State Board of Regents R541-11 (Annual Audits of Investment Reports)
- G. Bylaws of the State Board of Regents R548-4.6 (Annual Audits of Discretionary Fund Expenditures)
- H. Bylaws of the State Board of Regents R550-7.3 (Audits of Auxiliary Enterprises)
- I. Bylaws of the State Board of Regents R557-4.7 (Audits of Vehicle Fleet Reports and Compliance with Policy)
- J. Bylaws of the State Board of Regents R565 (Audit Review Subcommittee)
- K. Bylaws of the State Board of Regents R567 (Internal Audit Program)

II. DEFINITIONS

A. Audit

A systematic process of measuring intended results against actual conditions. An audit results in communicating issues to interested parties in a report format. Audits accomplish various objectives determined by the audit scope. They may include a number of areas of focus, such as the following three types of audits:

1. Financial Audit

A systematic process of objectively obtaining and evaluating evidence regarding management's assertions about financial and economic activities and events. The process determines the degree of correspondence between those assertions and established criteria.

2. Performance Audit

A review of internal controls and the efficiency and effectiveness of procedures and processes. It is not an evaluation of financial performance. It is a systematic assessment of management's methods and implementation of policies in the administration and the use of resources, tactical and strategic planning, and employee and organizational improvement. It includes:

- a) Examining administrative adherence to constitutions, statutes, regulations, administrative policies, and other requirements;
- b) Determining the degree of efficiency of a client 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.

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The objectives of performance audits are to:

- a) Substantiate the current level of efficiency, effectiveness, and compliance with policies, procedures, and statutes,
- b) Suggest improvements, and
- c) Specify widely recognized standards for future performance.

Internal auditors do not appraise individual performance, but may critically evaluate the management of operations.

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

B. Audit Issue

Auditors use “Audit Issues” to document (1) control breakdown within a process or function, (2) performance gaps or deficiencies, or (3) potential adverse consequences that may prevent the achievement of a goal or objective. An issue may result from a single exception or multiple exceptions. An exception is a deviation from the expected norm noted during audit testing or a review process. Auditors use root cause analysis to identify the underlying causes of why an exception occurred so that the appropriate process improvements and business process controls can be implemented to correct or eliminate the cause and prevent the exception from reoccurring.

C. Client

A logical area within the College, which handles specific functions under the domain of a manager, that is being audited.

D. Client Action Plan

Client Action Plans are created in response to Audit Issues to identify responsible parties, steps required, and expected time lines for resolution. These written responses to audit observations are a crucial step towards remediating potential risks and should address the complete action plan. The client response includes several key elements: (1) the remediation plan, (2) the responsible party and title, and (3) the proposed date of completion.

E. Follow-up Audit

A review conducted by Internal Audit usually within two years after the issue date of an audit report. The review provides information regarding the actions (or lack thereof) taken by the client regarding each recommendation. It also contains Internal Audit’s opinion as to whether the client has 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 previously identified.

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F. 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 status, rules, and regulations; and encourage adherence to prescribed managerial policies.

G. Investigation

Work covering special concerns as requested by College administration, the State Board of Regents, the Board of Trustees Audit Committee, or an appropriate State or law enforcement agent, usually in response to a perceived concern with one person's or work unit's compliance with College policy, State statutes, or both. Investigations, more often than other audit work products, may contain implications or suggest action involving civil or criminal action. Applicable standards of the Institute of Internal Auditors or Association of Certified Fraud Examiners will be use to perform all investigations. Due to the nature of investigations, report formats are different than audit reports and each report will be uniquely different as determined by the specifics of the investigation. Investigation reports will generally include some, but not necessarily all, of the following elements: background, executive summary, scope, approach, findings, summary, impact, or recommendations.

H. Limited Review

A systematic process of inquiries and analytical procedures that are designed to detect material weaknesses or nonconformance with generally accepted accounting principles and other applicable standards. A limited review provides narrow scope and answers specific 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 (Board of Trustees Audit Committee, College administration, USHE Commissioner's office, USHE Board of Regents, etc.), may require a compliance review.

I. Performance Review

Assessing the extent to which a client 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 client unit meets established criteria.

J. 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 responding to a need for clarification. These projects generally cover one-time concerns and do not require any 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.

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K. Surprise Audit

Audit work conducted with no prior notice to the client. 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.

III. PROCEDURES

A. Opening Conference

Internal Audit will ordinarily provide adequate notice of an audit or follow-up audit to the appropriate Executive Cabinet member, department administrator, and other responsible administrator. Limited reviews may or may not require a formal opening conference. Based on the nature of special projects or investigations, Internal Audit and management will determine if an opening conference is necessary. 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 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.

C. Fieldwork

Audit fieldwork consists of gathering, analyzing, and evaluating evidence based on the audit program or plan. Work includes interviews with relevant employees, including stakeholders from other work units within Salt Lake Community College 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 client 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 to 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, but may also use e-mail and memoranda should conferences not be convenient.

D. Client Action Plan

Written audit findings will generally be given to the client in the form of an "Audit Issue." The client should respond to all "Audit Issues" within ten (10) working days of receiving the response template. However, under special circumstances, Internal Audit may allow an extension if requested. The extension shall be no longer than twenty (20) working days unless approved by the appropriate Executive Cabinet member. The client will respond to each finding

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and recommendation.

The response provides the client with the opportunity to state any corrective action taken since the audit began, as long as the action can be independently verified. A response should be prepared which clearly and specifically:

1. Indicates agreement or disagreement with the finding and recommendation.
2. Describes, in detail, the corrective action to be taken and how it will remediate the noted issue.
3. Describes what physical evidence, if any, will exist to provide support that the action plan has been implemented as agreed.
4. Indicates when the implementation will be complete and contain a specific and attainable due date.
5. Indicates who will be responsible for implementing the agreed upon action plan.

This format allows the client to formulate a plan of action to address problems or deficiencies. Preferably, responses should be made using the template provided by Internal Audit. However, the client may respond using a letter, memorandum, or an electronic format such as an e-mail. Internal Audit reserves the right to include responses in the audit report or attach them as report appendices. Since these responses come from outside Internal Audit, they are included in the audit report exactly as provided.

E. Pre-closing Conference

Internal Audit will hold a pre-closing conference with the client and other relevant stakeholders to discuss the results of the audit. A major focus of the pre-closing conference will be to reach an agreement on the accuracy of matters proposed for inclusion in the audit report and recommended corrective actions. Internal Audit will also present findings and suggestions that are not considered significant enough to be included in the report. During the conference, the auditors will review all issues with all participants. The purpose of the conference is to give all involved parties the 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 conference may result in revisions to findings or recommendations.

The manager directly responsible for functional areas audited should, at a minimum, attend the pre-closing conference. Attendance by appropriate senior member(s) of the management staff is also strongly encouraged. Additionally, the Controller / Business Manager (or designee) will be notified of the meeting and is encouraged to attend.

F. Draft Report

Some time towards 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 client.

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G. Closing Conference

Internal Audit will provide another opportunity for the audited parties and other stakeholders to meet. The draft report, revised as necessary, will be made available to the client and applicable Executive Cabinet members either at the closing conference or before. This conference is used to allow all persons involved 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 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 issue the report. Responses made by others may be included in audit report appendices.

I. Audit Report

This report contains all the information compiled by Internal Audit, along with revisions and responses to each finding and recommendation. The report shall include a summary of findings as appropriate. 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 final audit report and distribute copies of the report to the following:

1. The President and the appropriate Executive Cabinet member(s) of Salt Lake Community College.
2. The Salt Lake Community College Board of Trustees Audit Committee.
3. The audited unit administrator, as well as any supervisors above, up to the Executive Cabinet level.
4. Relevant stakeholders, especially those needed to implement the recommendations. The most commonly included are the Vice President of Business Services and the Controller / Business Manager.
5. Salt Lake Community College's Risk Manager.
6. Others on a "need to know" basis.

J. Follow-up Audit

At least annually, the Internal Audit Director will request clients to provide an update on the implementation status of responses to audit reports. The client should respond by providing a status update within ten (10) working days of receiving the request. However, under special circumstances, Internal Audit may allow an extension. The extension shall be no longer than twenty (20) working days unless approved by the appropriate Executive Cabinet member. The client will respond using the template provided by Internal Audit.

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Upon receipt of the updates, the Internal Audit Director and Controller / Business Manager will assess the appropriateness and completeness of indicated actions in comparison to management's responses, and will consult with applicable management personnel, as necessary, to resolve questions about deviations from original responses. A summary of these updates will be sent to the Executive Cabinet. The summary will include:

1. Corrective actions not completed, explanations as necessary and expected completion dates.
2. Corrective actions still in progress beyond the original commitment date along with an indication of expected completion dates.
3. Corrective actions implemented that did not achieve the desired results.

Summarized results of the status reports will be presented by the Internal Audit Director at a regularly scheduled meeting of the Salt Lake Community College Board of Trustees Audit Committee.

Internal Audit's responsibilities include determining that a corrective action in response to audit findings has been taken and is achieving desired results. Accordingly, Internal Audit will conduct follow-up reviews to verify the implementation status reported by clients according to the following guidelines:

1. In most cases, the implementation status of prior audit recommendations will be verified during the annual follow-up process mentioned above. Verification procedures will include review of documentation and discussions with personnel to obtain sufficient evidence to evaluate the reported implementation status.

When the nature or severity of audit findings warrants, special follow-up audits will be conducted within a reasonable amount of time after reported implementation dates. This review will verify compliance and implementation of the client's agreed upon action plan included in the issued report.

2. The internal auditors will send a notice to the client outlining the scheduled follow-up review. Any new developments in terms of the criteria shall be listed with the original finding. These may include important and relevant statutes, regulations, standards, or policies from any level whether new or long-standing.

The follow-up 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 implementation of management action plan or compliance with statutes, regulations, standards, or policies; they will identify the cause and, if needed, make more recommendations and request the client implement a revised action plan. If the internal auditors identify other concerns they will list those in an appendix as "New Issue(s)." Client Action Plan will adhere to the same requirements stipulated in paragraph III. D. of this section. 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.

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The result of a follow-up, if sufficiently serious, may require another follow-up review. The internal auditors will continue conducting follow-up reviews until they find:

1. The client has sufficiently resolved the conditions leading to the original or subsequent finding(s).
2. The client's operations changed sufficiently to eliminate the need for recommendation(s).
3. The client created other solutions that address the problem(s).

Pre-closing and closing conferences will be held as determined by Internal Audit.

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.
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 (including follow-up).
4. Store special projects and limited scope audits for a minimum of two (2) years after full completion.

L. 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 Salt Lake Community College 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 their 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 specified areas and do not depend upon particular characteristics of the current jobholder. Expectations remain the same, regardless of who

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currently fills the position. Internal Audit will alter this practice by request from the President or designee.

M. Authority

Internal Audit derives its authority directly from the College Administration, Utah Code §63I-5, Regents Bylaws R120 3.3.2.7, R565 and R567, Salt Lake Community College Board of Trustees Audit Committee, and the Internal Audit Department's Charter Statement.

Internal Audit's program also complies with other relevant standards within State statutes 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 statutes and Regents Bylaws.

Internal Audit's authority extends to any department, system, function, program, or administrative unit which operates as part of Salt Lake Community College.

1. The internal auditors have free and unrestricted access to all College records, personnel, and physical property relevant to its current work projects (Utah Code §63I-5-302 3.f), including Banner screens and information. The only restrictions to access would come from laws or regulations superseding those of Salt Lake Community College and relevant laws and bylaws cited above.
2. Internal Audit may also audit Salt Lake Community College 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 for information and documents must channel through the College GRAMA office.

N. 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.

O. 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 §63I-5-302e). Internal Audit's involvement in no way relieves any department administrators, supervisors, or others in managerial positions of the responsibilities assigned to them.

P. 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 attributes. However, management

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retains responsibility to be vigilant for any signs of fraud because management provides daily oversight of 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.

- Q. 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
- R. Internal Audit may become involved in various projects with ethical implications, such as violations of Utah Code §67-16. 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).