INTERNAL AUDIT DEPARTMENT

Audit Manual

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Section 100: GENERAL

110: Mission

The Internal Audit Department's mission is to independently examine and evaluate University activities as a service to the President and the Board of Trustees. Internal Audit's objectives are to provide analyses, appraisals, recommendations, and evaluation of internal controls to assist members of the University in the effective discharge of their responsibilities.

120: Goal

To accomplish our mission, the Internal Audit Department must:

- Develop an Audit Universe

- Prepare and annual audit schedule to systematically complete the audit universe

- Perform scheduled audits, and report results to the Board of Trustees and senior management

- Perform follow-up reviews of audit recommendations

130: Authority

The Internal Audit Department is authorized by the Board of Trustees to conduct a comprehensive internal auditing program. To accomplish its objectives, Internal Audit is authorized to have unrestricted access to University functions, records, properties, and personnel.

140: Standards for Internal Auditing

The Internal Audit Department performs it function in a manner consistent with University objectives and policies, the Code of Ethics and Standards of the Professional Practice of Internal Auditing established by the Institute of Internal Auditors (IIA), and the American Institute of Certified Public Accountants' Statement on Auditing Standards No. 1.

150: Code of Ethics

The Internal Audit Department has adopted the IIA's Code of ethics. The articles of the Code set forth the standards of professional behavior:

I.   Members shall have an obligation to exercise honestly, objectivity, and diligence in the performance of their duties and responsibilities.

II.   Members, in holding the trust of their employers, shall exhibit loyalty in all matters pertaining to the affairs of the employer or to whomever they may be rendering a service. However, members shall not knowingly be a party to any illegal or improper activity.

III.   Members shall refrain from entering into any activity which may be in conflict with the interest of their employers or which would prejudice their ability to carry out objectively their duties and responsibilities.

IV.   Members shall not accept a fee or gift from an employee, a client, a customer, or a business associate or their employer without the knowledge and consent of their senior management.

V.   Members shall be prudent in the use of information acquired in the course of their duties. They shall not use confidential information for any personal gain nor in a manner, which would be detrimental to the welfare of the employer.

VI.   Members, in expressing an opinion, shall use all reasonable care to obtain sufficient factual evidence to warrant such expression. In their reporting, members shall reveal material facts to them, which, if not revealed, could either distort the report of the results of operations under review or conceal unlawful practice.

VII.   Members shall continually strive for improvement in the proficiency and effectiveness of their service.

VIII.   Members shall abide by the Bylaws and uphold the objectives of the Institute of Internal Auditors, Inc. In the practice of their profession, they shall be ever mindful of their obligation to maintain the high standard of competence, morality, and dignity which the Association of College and University Auditors, and its members have established.

160: Independence and Objectivity

Independence and objectivity are essential to internal auditing; therefore, Internal Audit shall be independent of the activities audited and shall assert no direct responsibility or authority over activities reviewed. Internal Auditors should not develop and install procedures, prepare records, or engage in activities that would normally be reviewed by Internal Audit. Recommendations to improve internal controls,

compliance with established policy, and increase efficiency are included in the written audit report, which is given to management for review and implementation.

Any illegal activity or the legality is questioned by the audit staff (e.g. conflict of interest, embezzlement, or theft) shall be reported to the appropriate institutional administrator or President immediately upon discovery by the audit staff.

In performance of their functions, internal audit staff should have neither direct responsibility for, nor authority over, any of the activities and operations reviewed.

Management is responsible for establishing and maintaining controls to discourage the perpetration of fraud. Internal Audit is responsible for examining and evaluating the adequacy and the effectiveness of management's actions to fulfill this obligation. Internal Auditors should be able to identify indicators that fraud might have been committed. However, Internal Auditors are not expected to have the knowledge equivalent to a person whose primary responsibility is to detect and investigate fraud. Audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected. Further, it is recognized that the performance of audits and other reviews may include the assistance of other professionals with specific expertise.

170: Types of Audits Conducted
With the guidance of the Standards for the Professional Practice of Internal Auditing (Institute of Internal Auditors), the Office of the University Auditor uses a variety of audit techniques in its review of campus programs/resources. These audit techniques are commonly referred to as:

- **Operational Audits -** examine the use of unit resources to evaluate whether those resources are being used in the most effective and efficient manner to fulfill the University's mission and objectives. An operational audit includes elements of the other audit types.
- **Financial Audits -** accounting and reporting of financial transactions, including commitments, authorizations, and receipt and disbursement of funds. The purpose of this type of audit is to verify that there are sufficient controls over cash and cash-like assets, and there are adequate process controls over the acquisition and use of resources. Unlike external financial audits, internal financial audits do not prepare or express professional opinions on the fairness of the presentation of financial statements.
- **Compliance Audits -** adherence to laws, regulations, policies and procedures. Examples include federal and state law, university policies, and regulatory agency requirement. Recommendations typically call for improvements in processes and controls intended to ensure compliance with regulations.
- **Internal Control Reviews -** focus on the components of the University's major business activities. Areas such as payroll and benefits, cash handling, inventory and equipment and their physical security, grants and contracts, and financial reporting are usually subject to review.
- **Fraud Audits –** where fraudulent activity is present or suspected, specialized audit activities may be performed to assist management in detecting or

confirming the presence and extent of the fraud and in providing necessary evidence for legal purposes.

- **Information Systems (IS) Audits -** internal control environment of automated information processing systems and how people use those systems. IS audits typically evaluate system input, output, and processing controls, backup and recovery plan, system security, and computer facility reviews. IS auditing projects can focus on existing systems, as well as systems in the development stage.

180: Department Organization

The Internal Audit Department consists of three professional auditing staff positions:

- Director, Internal Audit
- Manager Internal Audit
- Internal Auditor

The Director is responsible for the department's operation, which includes both audit selection and budgetary monitoring. The Director also performs audits of university operations throughout the fiscal year.

The Manager is responsible for conducting assigned audits are overseeing the work of the Internal Auditor. The Manager is responsible for the department's operation in the director's absence.

The Internal Auditor is responsible for conducting assigned audits and assisting on maintaining the Administrative Policy and Procedure Manual on the university's website.

190. Reporting Structure

The Internal Audit Department reports functionally to the Board of Trustees' Audit Committee to maintain the necessary independence for the internal audit function. The Director reports administratively to the President for day-to-day activities. The Director will meet with the Audit Committee quarterly in closed session to discuss internal audit issues and reports.

SECTION 200:   Annual Audit Plan

The Internal Audit Department developed a "risked-based" audit universe document for management in 2006 and updated in 2012, which 1) identified all university areas subject to an audit and 2) ranked each area in terms of risk to the university's operation. The Board of Trustees requested this document, and it was presented to them in February 2006. On an annual basis, the audit universe is updated for the cyclical audits completed in that fiscal year.

210: Development Process

Each June, the Internal Audit Director will develop a comprehensive audit plan for the given fiscal year. This plan is based on a systematic approach to complete the audit universe. Audit frequency is determined by the risk associated with the audit area. A formal risk assessment is maintained for each audit area. The annual plan will include the following:

- Annual audits
- Cyclical audits
- Audits completed in the previous fiscal year
- Audits currently in process

Cyclical audits should be selected based on "risk" and "time lapse" from the last audit. The goal is to complete the entire audit universe. Also, Internal Audit's participation in special projects should be incorporated, to the extent practicable, in the annual audit plan.

220: Approval Process

The Director will provide a draft audit plan to the President and met to discuss any concerns, incorporate any areas he/she may want audited. Approximately, each July or August the Director will present the audit plan to the Board of Trustees' Audit Committee for review and approval. A final audit plan is then prepared and sent to the Board of Trustees' Audit Committee, President, and the Vice President for Legal Affairs.

230: Changes to the Audit Plan

The Audit Director must notify and obtain the Audit Committee (AC) Chair's approval for all changes (e.g.; special projects) to the annual audit plan. This approval must be obtained prior to any audit work. The only exception to this process would be the immediate investigation of criminal or fraudulent activity. In those cases, the Audit Director will notify the President and AC Chair concurrently upon starting the investigative work. Should an area request an audit, it must be made to the President who in consultation with Internal Audit Director will determine the merits of the request.

SECTION 300:   AUDIT PROCESS

The most successful audit projects are when the audit team and auditee consider themselves as consultant and client. Understanding and applying this concept tends to foster a more constructive working relationship and can result in improved operations for the department under review. Although every audit is unique, similarities can be found in each one. The typical audit process consists of the following areas:

310: Planning

Prior to meeting with the client, the Internal Audit Team discusses the upcoming audit and determines the audit's focus and risk areas. If the area has been previously audited, the prior audit file should be reviewed to re-familiarize with the unit's operations and prior audit findings and areas of concern. The audit team, using the university's financial reporting system will prepare a report of all funds reporting to the audit unit. This step may not be necessary for audits that are cross-sectional of the university (e.g.; travel, Pcard, E-commerce).   The audit team should review the area's financial transactions (both revenue and expenses) for the past eighteen months. The audit team also will review the department's completed risk assessment questionnaire and related risk assessment sheet.

Using the financial and risk assessment information, the audit team will determine the audit objectives and develop an audit program, which must always include internal control review, expenditure examination, and compliance with university policy and procedures. During the entrance meeting, the audit team will inquire with the client any areas they want reviewed. These areas, if any, will be incorporated into the audit.

The audit team will prepare an "audit start memo" to notify department head and university management of the audit. Since all audits are conducted on a "surprise basis", the audit team will deliver the start memo to the auditee on the date the audit begins.

320: Entrance Conference

The entrance conference, which is held at the client's location, provides the opportunity for the audit team to meet with department management to outline the audit objectives, approximate time schedule, types of auditing tests, and the reporting process. Any areas of concern the client would like to have reviewed by the audit team should be brought up at this stage. The audit team will make an effort to minimize any disruption of regular departmental routines and avoid seasonal busy periods. The client may designate a member of the department staff as the primary contact person for audit team questions and assistance.

330: Audit Fieldwork

Using the audit program, the audit team will complete each audit step. This will entail gathering additional information about the auditee's operations. If the unit has not previously been audited, this is a significant effort. The audit team also reviews any changes in operations since the last audit. This work typically results in narratives, flowcharts, and document samples obtained from interviews with key personnel and office manuals and policies.   The analysis helps evaluate internal controls relating to business transactions, safeguarding University assets, compliance with University policies, and promotion of operational efficiency. After the survey stage, the audit team will proceed to the transaction testing stage.

Transaction testing involves examining documents and other records for evidence that the internal controls described in the survey stage are actually in place and functioning as intended. When we find such evidence on a sample of transactions or records, we conclude that established procedures are being followed and the level of compliance with internal controls is adequate. When a strong system of internal controls is in place and followed, we are confident that the data generated by the transactions can be relied upon as accurate and that administrative policies are being carried out. If the audit team finds one or more opportunities / deficiencies during their transaction testing, these will become audit findings and included in the report.

340: Audit Findings

Once the audit team encounters potential audit findings they will bring them to the client's attention as they are identified in an attempt to resolve them, if possible, before fieldwork completion. At the end of the fieldwork stage, the audit team will meet with department management and informally review all findings, including minor findings that will be excluded from the report. During this closing meeting the audit team will re-inform the auditee of the audit process and the draft audit report.

350: Draft Report and Exit Conference

The audit team will prepare a draft audit report based on the finding documented in the audit workpapers. The report will be drafted in the format discussed in Section 400, and include an overall rating based on the evaluations of the individual sections reviewed (e.g.; internal controls, revenues, expenditures). Upon completion of the draft, the audit team will submit to the Director for review.   The Director will make changes as needed and will discuss with audit team to ensure the recommendation still meets the control purpose. The draft report will be indicated as "DRAFT" and sent to the audited department head, using the standard preliminary audit memorandum.

At the exit conference, the draft report is discussed with audited department management. This discussion focus on findings and recommendations noted. The

auditee may request changes to the wording, in which the Internal Audit will try to accommodate the request as long as the finding and recommendation's objective is not altered.   The goal of the meeting is for both parties to agree on the accuracy of the audit finding and the report content. In most cases this will occur; however, it is acceptable for a disagreement regarding the need for corrective action. Executive management will make the final determination in these cases.

The audited department then must provide a response in electronic format to the recommendations within three weeks to the Internal Audit Director. All replies must include a corrective action plan addressing each recommendation and include the responsible employee and estimated target date for implementation. The 3–week response period begins after our draft audit conference meeting date.

360: Final Report Approval

Upon receiving the auditee's corrective action plan; the Internal Audit staff will incorporate the response into the report. The response will be identified as such and have a different font type to distinguish it from the actual findings. The Director and staff will review the auditee's response and determine if the corrective action to be taken meets the control/compliance objective of the recommendations. The responses may, in some instances, be different than the recommendation or may indicate a disagreement with the finding. The Director will then add "Auditor's Evaluation" section for every recommendation. In most cases corrective action will occur. However, if the auditee indicates the recommendation will not be implemented, the Director's response must restate why the need for corrective action is necessary.

The Director will send the draft report electronically to the President and Board of Trustees Audit Committee members for their review and approval. Once approved, The Director will then issue the report in "final" using the process described in section 420. The final report will have a "CONFIDENTIAL" watermark sent to the audited department head, university management and the Board of Trustees.

 370: Audit Report Distribution

The final report will be issued to the Board of Trustees and the following university management concurrently:

- Department head of area audited
- University President
- Chief Operating Officer
- Vice President for Finance & Administration
- Vice President for Division being audited
- Dean of area audited (only for academic areas)
- Supervisor of Department head of area audited
- Assistant Vice President/Controller

The Internal Audit Director will be responsible for audit report distribution to all parties.

380: Follow-up Review

Internal Audit will perform a follow-up review within six months from audit report issuance to determine if department management has implemented the recommendation. The auditee is informed during the audit process the Audit Committee and university executive management expect immediate corrective action, where possible and within six months for all recommendations. A final report will be issued to update executive management and the Board of Trustees on status of corrective action plans.

390: Board of Trustees Notification Process

On a quarterly basis, Internal Audit will prepare an "Audit Recommendation Status Summary" for the Audit Committee, using the quarterly reporting summary format. The Director will meet with the AC and discuss the recommendations' status. Once the auditee has implemented the recommendation, it will be removed from the report.

SECTION: 400   AUDIT REPORT STANDARDS

410: Format

The standard audit report contains the following sections:

- Audit Cover /Title Page
- Table of Contents
- Executive Summary
- Audit Scope and Opinion Page
- Comments and Recommendations
- Financial Statement (if prepared)

The report should written using MS Word with "Ariel 11 pt." Font, and include page numbers. After the audit report is completed and issued, the report file must be transferred to the "IAShare" folder on the Shares server. The folder should be included in the overall audit folder "audit 20xx/20xx" for each fiscal year. Each audit must have its own individual folder, which contains the various files relating to the audit.

420: Issuance Process

A draft audit report will be prepared and sent to the audited area's department head. The draft report will include a "DRAFT" watermark and sent with the standard preliminary audit memorandum. An exit meeting will be scheduled with audited department management to discuss the report. The auditee may request changes to the wording, in which the Internal Audit will try to accommodate the request as long as the finding and recommendation's objective is not altered.   The goal of the meeting is for both parties to agree on the accuracy of the audit finding and the report content. The auditee will then have three weeks to prepare a corrective action plan. The 3–week reply period begins on the draft report meeting date. All replies must include a corrective action plan addressing each recommendation including the responsible person and target completion date. Submission of the corrective action plan must be electronically to allow for inclusion in the report.

The Director will incorporate the auditee's response into the report, and forward the "final draft" to the University President and AC Chair concurrently for their review and approval. Once this occurs, the report will then be issued in "final" and identified as "CONFIDENTIAL". The final report is sent to the Board of Trustees and the following university employees:

- Department head of area audited
- University President
- Chief Operating Officer
- Vice President for Finance & Administration
- Vice President for Division being audited
- Dean of area audited (only for academic areas)

- Supervisor of Department head of area audited
- Assistant Vice President/Controller

Additional copies are made for the following individuals:

- Director, Internal Audit (1)
- Internal Audit Staff (2)
- Extra copies (1)

The Director, Internal Audit is responsible for audit distribution. Board of Trustees will receive an electronic copy of the audit report via email.

SECTION 500:   AUDIT WORKPAPER STANDARDS

510: Content Standards

a) Audit Objective Relevance

The workpaper must be relevant to both the specific audit objective and the total audit assignment. Only include other materials or data that support the testing performed.

b) Condensation of Detail

The workpaper should be condensed and carefully summarized to make their later use more efficient.

c) Presentation Clarity

The workpaper should be presented in a clear and understandable manner. The workpaper should be able to "stand alone" so the reviewer can determine the testing and results without the need to discuss with the preparer. This is critical, since the workpaper may be used in the future to substantiate Internal Audit's work performed and the original preparer may no longer be an Internal Audit Department employee.

d) Accuracy

The workpaper must contain statements and quantitative data that are accurate. This is essential because the workpaper may be used in the future to answer questions and support the Internal Audit Department's representations.

e) Sampling Procedure

The workpaper should include the method to select the audit sample. The description of the sampling method should be sufficiently definitive so that each item can be identified by the method description.

520: Preparation Standards

Technical preparation standards are necessary to ensure consistency and professionalism in creating the audit workpaper. The Internal Audit Department evolved to electronic workpapers using "AutoAudit" in 2007. The standards adopted for electronically prepared documents are as follows:

- Place a title on each workpaper
- Include the audit objective on each workpaper
- Indicate the source of data on each workpaper
- Identify tickmarks in "RED", and include "tickmark legend", if applicable
- Denote audit exceptions with an "E" and subscript the exception number
- Include a conclusion for work conducted on each workpaper
- Prepare a separate workpaper for each supporting schedule
- Index workpaper reference to correspond to the audit program step (e.g. A1-1, A1-7, or C3-4)
- Cross-reference each workpaper to the workpaper which it is transferred, and to the workpaper from which it is obtained, if applicable
- Prepare the workpaper using correct grammar and accurate spelling.
- Do not include insignificant or irrelevant material

530: Review Standards

The preparer's supervisor on the audit engagement will review the workpapers prior to submission to the Internal Audit Director. In each case, the workpaper will have a secondary review, except for the director's work. The supervisor will log into AutoAudit and review the work, making changes as needed. The supervisor will then save a "preliminary review", causing AutoAudit to log the date and time the supervisor's review was conducted. Any review comments will be initiated in AutoAudit and must be cleared. AutoAudit will automatically log the review comments and subsequent changes into in the audit file. After the initial review, the director will log into AutoAudit and review the workpapers. The director will finalize the workpaper, which will prevent any future changes.

SECTION 600   SPECIAL PROJECTS

610: Whistleblower Complaints

Internal Audit is responsible for managing the University's "fraud and misappropriation" hotline. All complaints are investigated, with a report sent to limited distribution of the President, Chief Operating Officer, BOT Audit Committee, and full BOT based on complaint subject.

Internal Audit generally investigates the complaints, however, based on the allegation another department may handle (e.g., University Human Recourses). Internal Audit will act as liaison, and review work performed to ensure appropriateness and prepare a final report.

Special report distribution process is the same as scheduled audits, and described in section 360, except a draft report is not prepared.

SECTION 700   TIME RECORDS

710: Weekly Time Sheets
Each staff member, including the director, must complete the time record form. The purpose of monitoring hours in to determine actual time spent on audit and non-audit activities. Also, it is used for annual audit plan development regarding budgeting hours allocated to audits. Additionally, it is a tool for measuring the staff's performance efficiency.

Each week, the director will prepare a time summary report using the information provided from the staff. The report will include both the week's and year-to-date totals.

MEMORANDUM

DATE: date

TO: Department Head

FROM: David P. Vartanian
               Director, Internal Audit

SUBJECT: Audit Name

The Internal Audit Department will begin an audit of the <u>department name</u> as of <u>date.</u> The scope of the audit is to <u>include audit scope</u>.

The auditor in charge is <u>auditor name</u>.

Please call me in the event there are any areas you wish to receive special attention during the course of the audit.

Auditor's initial / audit name

C: President
      VP for Finance and Administration
      Division VP

Internal Audit
Office of the President
Ext. - 2374   Fax - 2295

MEMORANDUM

DATE: date

TO: Department Head

FROM: David P. Vartanian
                   Director, Internal Audit

SUBJECT: Audit Name

Enclosed is the preliminary report on the results of our audit of the <u>department name</u>.

Your understanding of the results is a necessary part of the audit and for this reason, I wish to meet with you by <u>date</u>.

University policy requires a written corrective action plan to Internal Audit recommendations. The plan must be in electronic format and is due three weeks after our draft audit conference meeting date.

Please call me at extension 2373 to arrange a meeting.

Enclosure

OAKLAND UNIVERSITY
INTERNAL AUDIT DEPARTMENT

Date

<u>AUDIT REPORT NAME</u>

Distribution
Board of Trustees
President
COO
VP - Finance
VP – Division audited
Supervisor of Auditee
AVP/Controller

TABLE OF CONTENTS

EXECUTIVE SUMMARY

AUDIT SCOPE AND OBJECTIVE

INTERNAL AUDIT OPINION

Include an opinion on the adequacy and effectiveness of internal controls for, compliance with university policy, and operational efficiency.

Internal Control and Policy Compliance Evaluation

The adequacy of internal controls and compliance with university policies and procedures were evaluated to be excellent (no deficiencies), satisfactory (few minor deficiencies), marginal (some serious deficiencies), or unsatisfactory (many serious deficiencies):

Cash Handling & Depositing
Expenditures
Internal Controls
Information Technology
Payroll
Purchasing/Pcard
Revenue

Department specific areas:

Audited by: Audited and reviewed by:

_____   _____
Auditor's Name   Director's Name
Title   Title

COMMENTS AND RECOMMENDATIONS

1.   Finding and Recommendation

       Auditee Response

       Auditor's Evaluation

OAKLAND UNIVERSITY
INTERNAL AUDIT DEPARTMENT

Date

SPECIAL REVIEW NAME

Distribution
Board of Trustees' Audit Committee
President
Respective Vice President

REVIEW SUMMARY

Review Purpose

Allegation

Investigation Summary

Conclusion

Reviewed and Approved by:

_____
Name
Director, Internal Audit

INTERNAL AUDIT
TIME   RECORD

Name_____   Week Beginning _____   Ending _____

AUDITS	M	T	W	T	F	TOTAL
OTHER INTERNAL AUDIT FUNCTIONS						
TIME OFF						
TOTALS						

Oakland University
Audit Recommendation
Status Summary
FY

AUDIT REPORT DATE	AUDIT RECOMMENDATION	AUDIT RESPONSE	RESPONSIBLE PERSON / TITLE	TARGET DATE	CURRENT STATUS	AUDITOR'S APPROVAL AND COMPLETION DATE