

Section 10

Board of Trustees for Fort Lewis College

Internal Auditing

GENERAL DESCRIPTION

It is the policy of the Board of Trustees to provide an Internal Auditing Department to serve as an independent objective appraisal function for Fort Lewis College. The objective of the Internal Auditing Department is to assist members of the organization in the effective discharge of their responsibilities. To this end, the Internal Auditing Department provides analyses, appraisals, recommendations, counsel, and information concerning the activities reviewed.

The members of the Board and College are served by the Internal Auditing Department. Internal auditors owe a responsibility to the Board and to College management, providing them with information about the adequacy and effectiveness of the organization's system of internal control and the quality of performance. The information furnished to each may differ in format and detail, depending upon the requirements and requests of management and the Board.

The President and the Audit and Performance Committee are assigned responsibility for the internal audit function and will ensure that:

1. Departments, programs, activities, and functions within each institution are reviewed at appropriate intervals to determine whether they are efficiently and effectively carrying out their functions of planning, accounting, stewardship, and control in accordance with Board and College policies and objectives.
2. Audit findings and recommendations for corrective action are promptly reported to management personnel responsible for taking appropriate action.
3. Any plans or actions taken to correct reported conditions are evaluated for satisfactory disposition of audit findings and, if the disposition is considered unsatisfactory, to see that further discussions are held to achieve satisfactory disposition.

The Director of Internal Auditing shall have complete and timely access to all College activities, records, property and personnel.

In performing the above functions, the Director of Internal Auditing has no direct responsibility for or authority over any of the activities reviewed. Therefore, the internal audit review and appraisal does not in any way relieve other persons in the College of the responsibilities assigned to them.

The Internal Auditing Department will be managed in accordance with the following standards for the professional practice of internal auditing, promulgated by the Institute of Internal Auditors, Inc.:

INDEPENDENCE AND OBJECTIVITY

The internal audit activity should be independent and internal auditors should be objective in performing their work.

Independence and objectivity are essential to the effectiveness of internal auditing. Audits are performed using impartial and unbiased judgments. Internal auditors maintain an objective mental attitude when performing audits. We are highly conscious that independence is vital to preserve the standards of the profession. Internal Auditing does not make College operating or financial decisions.

Organizationally, the Director communicates directly with the Audit and Performance Committee of the Board, which assures independence.

PROFESSIONAL PROFICIENCY

Internal audits should be performed with proficiency and due professional care.

The internal auditor should have sufficient knowledge skills, and other competencies needed to perform their individual responsibilities. The internal auditor should have sufficient knowledge to identify the indicators of fraud but is not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud. The internal audit activity collectively should possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities.

1. Compliance with Standards of Conduct

Internal auditors should comply with professional standards of conduct.

2. Knowledge, Skills, and Disciplines

Internal auditors should possess the knowledge, skills, and disciplines essential to the performance of internal audits.

3. Human Relations and Communications

Internal auditors should be skilled in dealing with people and in communicating effectively.

4. Continuing Education and Professional Development

Internal Auditing staff members are required to maintain proficiency in state-of-the-art auditing techniques. Continuing education is obtained through membership and

participation in professional societies as well as training seminars and classes. EDP auditing techniques, statistical sampling methods and auditing procedures are frequent topics for staff education enhancement.

5. **Due Professional Care**

The internal auditor should exercise due professional care by considering the:

- A. Extent of work needed to achieve the engagement's objectives.
- B. Relative complexity, materiality, or significance of matters to which assurance procedures are applied.
- C. Adequacy and effectiveness of risk management, control, and governance processes.
- D. Probability of significant errors, irregularities, or noncompliance.
- E. Cost of assurance in relation to potential benefits.

SCOPE OF WORK

The scope of the internal audit should encompass the examination and evaluation of the adequacy and effectiveness of the organization's system of internal control and the quality of performance in carrying out assigned responsibilities.

1. **Reliability and Integrity of Information**

Internal auditors should review the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information.

2. **Compliance with Policies, Plans, Procedures, Laws, and Regulations**

Internal auditors should review the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on operations and reports and should determine whether the organization is in compliance.

3. **Safeguarding of Assets**

Internal auditors should review the means of safeguarding assets and, as appropriate, verify the existence of such assets.

4. **Economical and Efficient Use of Resources**

Internal auditors should appraise the economy and efficiency with which resources are employed.

5. **Accomplishment of Established Objectives and Goals for Operations or Programs**

Internal auditors should review operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.

PERFORMANCE OF AUDIT WORK

Audit work should include planning the audit, examining and evaluating information, communicating results, and following up.

1. **Planning the Audit**

Internal auditors should plan each internal audit activity to ensure it adds value to the organization.

2. **Examining and Evaluating Information**

Internal auditors should establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organization's goals.

3. **Risk Management**

The internal audit activity should assist the organization by identifying and evaluating significant exposures to risk and contributing to the improvement of risk management and control systems.

4. **Communicating Results**

Internal auditors should report the results of their audit work.

5. **Following Up**

Internal auditors should follow up to ascertain that appropriate action is taken on reported audit findings.

MANAGEMENT OF THE INTERNAL AUDIT DEPARTMENT

The Director of Internal Auditing should properly manage the Internal Auditing Department.

1. **Purpose, Authority, and Responsibility**

The Director of Internal Auditing should have a statement of purpose, authority, and responsibility for the Internal Auditing Department.

2. **Planning**

The Director of Internal Auditing should establish plans to carry out the responsibilities of the Internal Auditing Department.

3. **External Auditors**

The College Controller will coordinate internal and external audits. The Internal Auditing Department will work cooperatively with external auditors and consultants to avoid duplication of efforts and to ensure optimum audit coverage is obtained.

4. **Quality Assurance**

The Director of Internal Auditing should adopt a process to monitor and assess the overall effectiveness of the quality auditing function. The process should include both internal and external assessments.

GUIDELINES

The following principle objectives are set forth as a guide to auditing practices:

1. Provide annual audit plans to the Audit and Performance Committee for review and approval. Each year in the annual audit plan staff time is budgeted for special projects. Each member of the Board has direct access to Internal Auditing. Requests made to the Director of Internal Auditing will be considered as soon as possible or worked into the scope of planned audit projects. The Director will notify the Audit and Performance Committee Chair in writing of all requests received.
2. Appraise the adequacy of the system of internal control.
3. Verify the existence of College assets and ensure that proper safeguards are maintained to protect them from loss.
4. Identify operational opportunities for cost savings/revenue improvements.

5. Evaluate whether existing policies, procedures and practices are useful and effective, economically justified, and are followed.
6. Act as in-house consultant on internal control matters and provide guidance on control aspects of new systems and procedures.
7. Discuss audit reports with auditee prior to report issuance to ensure a complete understanding of audit disclosures.
8. Submit comprehensive, timely reports to Audit and Performance Committee and Institutional management encompassing audit findings and recommendations for corrective action.
9. Perform special studies or investigations requested by Board and Audit and Performance Committee Members and College management.
10. Perform audits in accordance with the Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.
11. Internal Auditing will not direct personnel to change work methods or take corrective action to implement audit suggestions. The adoption of audit recommendations is encouraged, however, acceptance of audit suggestions will be the responsibility of operating management.

ORGANIZATION

The Director of Internal Auditing reports administratively to the Vice President for Finance and Administration and functionally to the Chair of the Audit and Performance Committee of the Board. The Director is responsible for developing and monitoring the Board's internal audit activities. An Annual Audit Plan detailing specific goals and objectives and scheduled audit engagements is prepared and submitted to the Audit and Performance Committee for approval.

DIRECTOR OF INTERNAL AUDITING

1. The Director of Internal Auditing shall be authorized to direct a comprehensive program of internal auditing and shall serve at the pleasure of the Board.
2. The Director of Internal Auditing shall report to the Board Audit and Performance Committee as well as the Vice President for Finance and Administration.
3. The Director of Internal Auditing shall be responsible for the following:
 - A. Establishing policies and procedures for the Internal Auditing Department.

- B. Selection and hiring of qualified staff.
- C. Development of staff resources.
- D. Establishing and executing plans of work, which will ensure appropriate long and short-term internal audit coverage of the organization.
- E. Supervising, directly or through subordinates, internal audit projects. This includes planning, execution, and write-up activities.
- F. Recommending improvement of management controls designed to safeguard organization resources, promote efficiency and effectiveness of operations, and ensure compliance with organization policies and procedures and government laws and regulations.
- G. Authorizing the publication of reports on the results of audit examinations, including recommendations for improvement.
- H. Appraising the adequacy of the action taken by operating management to correct reported deficient conditions; accepting adequate corrective action; continuing reviews with appropriate management personnel on action considered inadequate until there has been a satisfactory resolution of the matter.
- I. Conducting special examinations at the request of management, including the reviews of representations made by persons outside the organization.

ANNUAL AUDIT PLAN

Annually, the Director of Internal Auditing prepares a risk-based Audit Plan for the College. The Director submits a status report of the internal audit activities of the prior academic year and proposes an audit plan for the forthcoming year. After review by the President, the Audit Plan is submitted to the Audit and Performance Committee for approval.

The Annual Audit Plan includes:

1. Department performance against goals and objectives for the prior academic year.
2. Prior year internal audit coverage of institution operations.
3. Status of audit report recommendations implemented and not implemented.
4. Department goals and objectives for the upcoming academic year.
5. Master Schedule of Audit Projects.

6. Proposed audit coverage for the forthcoming year.

AUDIT AND PERFORMANCE COMMITTEE

The Board Audit and Performance Committee is comprised of at least two Voting Members of the Board, Director of Internal Auditing, Director of Institutional Research, the Vice President for Finance and Administration or designee, and the Provost and Vice President for Academic Affairs or designee. The faculty and student Board representatives are also invited to serve on the committee.

The Audit and Performance Committee:

1. Reviews and approves the annual Internal Auditing Department audit plan for the College.
2. Reviews the results of the independent auditor's annual financial audit and management recommendations.
3. Oversees internal audit activities, including review of audit reports.
4. Reviews and approves costs and budgets of the internal auditing function.
5. Reviews external performance indicators.
6. Approves hiring/termination of the Director of Internal Auditing.

AUDIT PROCESS

1. Select audit engagement from Annual Audit Plan.
2. Notify the President and department head when an audit is initiated.
3. Commence audit by obtaining understanding of how the system works.
4. Document system and identify critical internal and administrative controls, College policies and procedures and relevant external laws and regulations.
5. Evaluate adequacy of controls in the system.
6. Test existing system controls.
7. Evaluate compliance with internal and external policies, laws and regulations.

8. Identify control concerns, risks and alternative control improvement recommendations.
9. Evaluate overall effectiveness and propose solutions to improve operations.
10. Discuss audit findings with auditee and reach agreement in principle to the audit issues.
11. Prepare formal audit report noting findings and recommendations and send to Auditee.
12. Receive audit report responses from auditee and incorporate responses in final report.
13. Send final report to the President and the Audit and Performance Committee.
14. Issue report in final form.
15. Perform six-month follow-up audit and issue report to the President.

RESOLUTION OF AUDIT FINDINGS

The Internal Auditing Department will attempt to resolve all internal audit findings at the lowest administrative level capable of implementing the necessary corrective action.

Reported internal audit findings are reviewed with the Auditee (e.g., department head, unit manager) at six-month intervals until all findings are resolved. "Resolution" means satisfactory corrective action is taken or the audit recommendation is rejected. Where resolution of findings is untimely or, in the auditor's opinion, will result in significant exposure from control weakness or lost opportunity to improve productivity, resolution will be pursued at appropriate higher administrative levels.

EDP AUDIT FUNCTION

Data processing's impact on Institutions is increasing dramatically. The effect of moving to organizational databases has a great impact on processing financial data.

The responsibilities of the EDP Audit Function include:

1. Participating in development of controls during Systems Development Life Cycle.
2. Performing Data Center audits.
3. Testing computerized systems utilizing EDP audit software.
4. Using microcomputer audit software to document and test auditee microcomputer generated applications.

5. Participating in the User Committees for Administrative and Information Systems and Institutions Strategic Planning Committees for Computing and Communications.
6. Presenting information to College administrators on microcomputer controls.
7. Participating in the College Disaster Recovery Program.

AUDIT REPORTS

Formal audit reports are issued on all audit engagements. The reports are designed to:

1. Identify control weaknesses and noncompliance issues noted during audit engagements.
2. Explain risks that result.
3. Present alternative procedures to correct the deficiencies.

Operational cost savings and improvements are also identified in the audit reports. The reports include auditee responses and a timetable for implementation of procedures to correct weaknesses. The auditee reviews and clears audit reports prior to distribution to the Audit and Performance Committee and President.