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Section 1, Internal Auditing Manual

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INTERNAL AUDIT MANUAL

Policy Statement

Purpose: The purpose of this manual is to outline the authority and scope of the Internal Audit functions within Miles College and to document standards and provide cohesive guidelines and procedures for the Internal Audit Department. These guidelines aim to provide for consistency, stability, continuity, and standards of acceptable performance.

Objective: The overall objective of the Internal Audit function is to provide all levels of College Management and The Board of Trustees of Miles College with an independent assessment of the quality of the College's internal controls and administrative processes, and provide recommendations and suggestions for continuous improvements. The auditor's judgment will be required in applying this information to specific audit assignments. This manual should provide guidance, but it should not inhibit professional judgment, practicality and innovative auditing.

Entities Affected by the Policy

Internal Audit Department

Policy Background

N/A

Policy Procedures

AUTHORITY, ORGANIZATION AND PROFESSIONAL STANDARDS

Section

Overview

The following sections set forth the mission and management charter of the Miles College Internal Audit Program and outline the policies and guidelines for the Miles College Internal Audit Management Plan, dual reporting and professional standards and ethics.

Authority: The mission and management charter authorizes and guides the Miles College Internal Audit Program in carrying out its independent appraisal function.

Organization: It is the policy of The Miles College to establish and maintain an Internal Audit Program as an independent appraisal function. Internal Audit is a management control that functions by assessing the effectiveness of other managerial controls. Internal Audit examines and evaluates the College business and administrative activities in order to assist all levels of management and members of The Board of Trustees in the effective discharge of their responsibilities and furnishes them with analyses, recommendations, and information concerning the activities and records reviewed. Internal Audit is headed by the College Auditor (Coordinator of Internal Controls/Operation).

The College Auditor prepares the Internal Audit Annual Plan that defines the Audit Program to be conducted by the Internal Audit for the College during the year. This is approved by the President and the Finance Committee.

Mission and Management Charter

The mission of internal audit is to assess and monitor the College community in the discharge of their oversight, management, and operating responsibilities in relation to governance processes, the systems of internal controls, and compliance with laws, regulations and College policies including those related to ethical conduct by providing relevant, timely, independent, and objective assurance, advisory and investigative services using a systematic, disciplined approach to evaluate risk and improve the effectiveness of control and governance processes..

Management Charter

Independence To permit the rendering of impartial and unbiased judgment essential to the proper conduct of audits, the internal auditor will be independent of the activities they audit.

Independence is essential to the effectiveness of the Internal Audit Office. This independence is based primarily upon organizational status and objectivity. The College Auditor reports functionally to the President and The Board of Trustees through its Finance Committee on Audit and administratively to the President.

The Internal Auditor may take directly to the respective Director, Manager, President, or The Trustees matters that are believed to be of sufficient magnitude and importance. Any Miles College matters will be reported to The Trustees' Board Chair at the discretion of the College Auditor or Finance Committee Chair. In performing the audit function, the Internal Auditor has no direct responsibility for or authority over, any of the activities reviewed. Therefore, the internal audit review and appraisal process does not in any way relieve other persons in the organization of the responsibilities assigned to them.

Scope Internal Auditor is authorized to have full, free and unrestricted access to information including records, computer files, property, and personnel of the College in accordance with the authority granted by the President and Board's approvals of its charter and applicable federal and state statutes, except where limited by law, the work of Internal Audit is unrestricted. Internal Audit is free to review and evaluate all policies, procedures and practices of any College activity, Program or function.

Standards The responsibility of Internal Audit is to serve the College in a manner that is consistent with the standards established by the College internal audit community. At a minimum, it shall comply with the relevant professional standards, as the Standards For The Professional Practice of Internal Auditing and with professional standards of Miles College and the Code of Ethics of the Institute of Internal Auditors, Inc.

Professional Standards and Ethics

Professional Standards

The College Internal Audit Program complies with the Institute of Internal Auditor's *Standards for the Professional Practice of Internal Auditing* and *Code of Ethics*.

Professional Code of Ethics

The Institute of Internal Auditors has adopted the following Code of Ethics, which applies to both individuals and entities that provide internal auditing services. The Code of Ethics provides guidance for staff in the conduct of their profession and elicits the trust and confidence of those for whom services are rendered. The College Audit Program has adopted the Code of Ethics promulgated by the Institute of Internal Auditors.

Principles

Internal auditors are expected to apply and uphold the following principles:

- **Integrity**

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment

- **Objectivity**

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.

Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments

- **Confidentiality**

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

- **Competency**

Internal auditors apply the knowledge, skills, and experience needed in the performance of internal auditing services.

Rules of Conduct

1. Integrity

Internal auditors:

Shall perform their work with honesty, diligence, and responsibility.

Shall observe the law and make disclosures expected by the law and the profession.

Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organization.

Shall respect and contribute to the legitimate and ethical objectives of the organization.

Objectivity

Internal auditor:

Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization.

Shall not accept anything that may impair or be presumed to impair their professional judgment.

Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

Confidentiality

Internal auditors:

3.1 Shall be prudent in the use and protection of information acquired in the course of their duties.

3.2 Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organization.

Competency

Internal auditors:

1.) Shall engage only in those services for which they have the necessary knowledge, skills, and experience.

2.) Shall perform internal auditing services in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

3.) Shall continually improve their proficiency and the effectiveness and quality of their services.

College Audit Program

Program

Objectives

To conduct audits, consultations, and investigations which are of service to Management and The Trustees through the following activities:

A. Reviewing management, financial, and operating controls to appraise their soundness and adequacy to advise management, and The Trustees on matters of material important as to whether:

1) The systems of internal control effected by the College's Board of Trustees, management and other personnel, provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations;
- Reliability of financial reporting;
- Compliance with applicable laws and regulations;

2) Established plans, policies, and procedures are being complied with

3) College assets are accounted for and safeguarded from loss.

B. Providing recommendations to improve operating efficiency and internal controls.

C. Providing consultation on current and proposed operating policies and procedures and changes in the system of internal controls.

College Auditor Responsibilities

- 1) Establish a relationship with the College's external auditors whereby annual plans are developed in concert, appropriate support is provided to them, and an active channel exists for sharing audit findings and other information of mutual interest and concern.
- 2) Analyze and evaluate College-wide policies, plans, procedures and practices including those designed to assure ethical conduct.
- 3) The College Auditor will have responsibility for initiating actions in regard to:
 - 1) Establish Miles College Internal Audit Program mission and the Internal Audit Management Plan.
 - 2) Establish policies and procedures for the Internal Audit Program.
 - 3) Establish and implement professional standards for the Internal Audit Program.
- 4) Fulfill reporting requirements to The Finance Committee:
 - The Internal Audit Mission Statement
 - The Internal Audit Management Plan
 - The Annual Audit Plan
 - The Audit Strategic Plan
 - The Annual Report of Audit Activities

Investigations

Pursuant to College policy, Internal Audit conducts investigations into suspected financial irregularities whether reported by whistleblowers, uncovered in the course of regular audits, or based upon concerns conveyed by management.

Advisory Services Advisory Services encompasses a broad array of activities beyond regular audits. These additional activities are proactive or preventive in nature and are focused in the following areas:

1.) Internal Control & Accountability - Promotes the systems of internal controls through training of College personnel in concepts of internal control and consultation on their implementation.

2.) Special Projects and Consultations - Promote effective and efficient operations through special management studies, advisory participation on business process and systems reengineering teams and consultation on business issues (e.g., regulatory compliance matters) and assist department and program managers in dealing with issues before they become audit or investigation problems.

Communications

The College Auditor meets with the President on a regularly scheduled basis and quarterly with the Finance Committee on audits and, prepares the following formal reports:

1.) Annual Plan - The annual audit plan is presented to President and The Finance Committee of the Board of Trustee annually. The annual plan outlines the planned Internal Audit activities.

The annual plan conveys the current elements of the strategic plan for continuous improvement of the Program.

2.) Annual Report - A formal annual report is provided to the President and Finance Committee on Audit annually.

3.) Quarterly Report - A formal report is provided to the President and Finance Committee on Audits (and Senior Management) as they are completed and summarized quarterly.

INTERNAL AUDIT PROGRAM PLANNING AND REPORTING

Strategic Plan

2010/2011 and 2011/2012 GOALS AND INITIATIVES

The Internal Auditor has made a commitment to continuous improvement of the Internal Audit Program over the years. Towards that end, a strategic plan is established and revised every two years to provide strategic guidance to the Audit Program leadership in these efforts. The Goals and Initiatives of the recently established strategic plan are as follows:

GOALS - to address contemporary and emerging risks and issues and to promote a culture of accountability and integrity. The College Internal Audit Program must excel at:

Operational excellence

Provide timely, quality, cost-effective products and services with the effective use of resources.

Stakeholder/Client Relationships

Be a proactive, responsive, credible, trusted, respected, business-oriented resource.

Innovative Service

Render customized, creative, cutting-edge, functional, and flexible service improvements grounded in our core competencies.

INITIATIVES IN SUPPORT OF THESE GOALS INCLUDE:

Professional Proficiency

- Assess available and needed skills
- Promote attainment of professional certifications and involvement in professional organizations

Identify the Right Risk Issues and Trends Timely

- Develop improved process for collecting, reporting, disseminating and acting upon “hot topics” and significant findings
- Develop improved diagnostic tools for continuous monitoring
- Reassess risk assessment process.

Communications

- Define annual report content and sources of data.
- Improve internal reporting content and criteria
- Develop more effective stakeholder relationships

Adequately Manage Resources

- Develop improved strategies for leveraging resources
- Research industry practices and develop new/additional benchmarks to assess minimum standards and needs.

Operating Plans

Overview: The Operating Plan is the primary component of the College Annual Audit Plan. The Plan serves as a tool to assist internal audit management in analyzing its mix of measuring and monitoring the risk exposure in the audit universe.

Establishment of Audit Universe

The audit planning process begins with an understanding of the entity, activity or process to be audited and identification of the auditable elements, or components, of the entity, traditionally referred to as the audit universe. Annually, the planning process involves reconsideration of transactions, events or conditions which may impact the audit universe such as:

- New activities, organizations and programs
- Changes within the existing organization or operating units

Identification of Risk

The Annual Audit Plan is driven by consideration of the institution's strategic, financial, operational, and regulatory risks, permitting flexibility and input in determining the allocation of audit resources. The risks identified are organized along the College's lines of business:

- College-wide Risk - Risks which affect the College's mission of teaching, research and public service.
- Campus Based Risk – Risks that impact the campuses generally, such as enrollment growth, capital, and operating.

Sources of Information - A variety of sources are utilized to identify risks for the College as a whole. These sources include: regulatory experts, financial experts, The Finance Committee of the Board, Office of the President, and Senior Managers.

Internal Audit Process

Projects identified in audit plan. Internal auditors should develop and record a plan for each engagement, including the scope, objectives, timing and resource allocations.

1. Internal auditors should identify, analyze, evaluate, and record sufficient information to achieve the engagement's objectives.
2. Prioritizes Audit, Advisory Service and Investigations.

Audits These services include the planned and supplemental program of regular audits of business units (including academic departments) and business processes that cut across all organizational units (e.g., purchasing, travel, etc.).

1. Follow College Audit Manual and professional standards.
2. Audit Planning
 - A.) Send notification to audit client and arrange entrance meeting.
 - B.) Preliminary scope and objective are defined and discussed.
 - C.) Perform preliminary audit survey.
 - D.) Develop audit program
3. Perform fieldwork – Detail Work
 - A.) Examine and evaluate business activity in accordance with audit program.
 - B.) Interview, notes, testing result and conclusions documented in Work papers.
4. Communicate results to client - Reporting.
 - A.) Exit meeting is held to discuss results.
 - B.) Obtain corrective action plan from client.

A management response should be requested within a prescribed time frame in order to ensure timely issuance of the final report. The audit report may be issued without the response in the event of undue management delays in responding.
 - C.) Draft report is issued to client to assure factual accuracy.
 - D.) Final Audit Report is issued.
7. Schedule Follow-up

Audit Follow-up Policy

Internal Audit maintains an audit follow-up process to monitor whether significant audit concerns for which corrective actions are recommended have been adequately addressed by management.

Application of Policy for Audit Follow-Up

The audit follow-up process assists management in monitoring and controlling potential risk exposures related to significant audit concerns. The process involves assessing the adequacy and effectiveness of actions taken by

management and documenting and communicating outstanding follow-up issues to higher levels of management when appropriate actions have not yet been taken.

Follow-Up Procedures

The auditor should follow-up on promised management corrective actions on a timely basis. Follow-up requires that the auditor:

- Ascertain the implementation status of each corrective action item and evaluate the adequacy and progress of actions taken.
- Decide whether there is a need for additional follow-up or close out the audit.
- Document the results of follow-up.
- Compile an inventory of outstanding corrective action items or open audits
- Advise the audit committee of follow-up activities and any material open items at least annually.

INVESTIGATION SERVICES

Section Overview

This Section of the manual establishes the standards for conducting investigations. These investigation standards supplement the audit services standards.

Purpose The investigations section of the Miles College Audit Manual is intended to implement and supplement Miles Investigations Policy (such as Policy on Reporting and Investigating Allegations of Suspected Improper Governmental Activities (the “Whistleblower Policy”) and any successors) as such Policy pertains to investigations conducted by Miles Internal Audit. It is intended to supplement the audit standards as set forth in this Audit Manual for certain types of engagements as defined below. An investigation is a special purpose type of audit. In the event of a direct conflict between a section of this chapter and law, regulation or official policy, such law, regulation or policy shall rule. Miles College investigations conducted by the Internal Auditor are expected to comply with relevant standards set forth by appropriate sets of law such as federal and state civil and criminal procedure and rules of evidence. They should also be conducted in compliance with applicable standards set forth by professional bodies representing internal auditors (the Institute of Internal Auditors) and fraud examiners (Certified Fraud Examiners).

Conducting an Investigation

Planning for Investigations

The planning of an investigation includes determining:

- What is the nature of the allegations?
- What other investigative bodies need to be involved?
- What type of evidence is needed to sustain or disprove the allegations?

- What records or other evidence needs to be secured.
 - What assistance may have been required to commit the alleged improper act and is there a possibility of collusion?
 - What resources including specialized skill sets, are likely needed?
 - What notifications are required?
 - What methodologies should be used to gather, secure and analyze evidence?
- The methodology should include coordination of the case as a whole with non-audit personnel, whether internal to Miles or an outside party.

Documentation Within audit investigations there are two types of documentation: administrative and evidentiary. The two types of documentation should be kept discrete.

Administrative Documentation

Administrative documentation pertains to the management of the case within the College that does not have a direct bearing on evidence.

Administrative documentation includes but is not limited to materials evidencing:

- Chronologies of important events.
- Planning not pertaining to allegations or evidence (e.g. personnel scheduling).
- When, and how, the allegations reached Internal Audit's attention.
- Personnel considerations such as if and when a subject employee was placed on investigatory leave and/or terminated, if applicable.
- Operational considerations such as emergency or interim procedures that may be necessary.
- Engagement administration

Evidentiary Documentation

Gathering Evidence - Care should be taken to gather evidence so as not to compromise its admissibility. In cases that result in a deposition or a trial the person who gathered the evidence may have to testify as to the means and authority to gather the evidence. College policies exist in certain areas (e.g. electronic communications policy) which impact, but do not override, Internal Auditors' access authority as provided by President and The Board of Trustees.

Care of Evidence - In all cases that have the possibility of litigation or criminal proceedings, due care must be taken to preserve the integrity of all original evidence. The investigator should ensure that steps are taken to secure and protect all original evidence. This includes:

- Taking steps to ensure that evidence is not destroyed either by the subject or inadvertently by someone else.
- The use of "working copies" rather than originals for analysis.
- The use of "image copies" for securing information on computer storage media.

If the case has a significant chance of a civil or criminal action being taken there should be documentation as to:

- When evidence was gathered.
- How evidence was gathered.
- How a chain of custody was maintained.
- How the integrity of the evidence was preserved.

Interviews - Interviews are made for the purpose of gathering information. A formal record of the interview should be generated of the interviews of all material witnesses. In addition, it is strongly recommended that two persons should conduct interviews of material witnesses including subjects. Such a record should have at a minimum, in addition to the substance of the interview, the name[s] of the interviewer[s], the interviewee[s] and the time and date of the interview. In cases where an interview is recorded, there must be clear permission given by the witness. The interviewer should have the witness acknowledge that permission was granted on the tape. Tapes are considered original evidence. If a transcript made from the tape is used, the tape must still be preserved.

Planned Interrogations - For purposes of this manual, an interrogation is defined as a special purpose interview that has the aim of eliciting an admission of responsibility. It is strongly suggested that planned interrogations handled by internal audit should only be performed by seasoned investigators. In all cases of interrogations in which an admission is made, a statement should be obtained if possible. If the subject refuses to make a formal statement that refusal must be noted in the record of the interview.

Witness Statements - Statements prepared by a witness should be signed by the witness in such a way as to acknowledge authorship. Handwritten statements are acceptable if legible. All statements prepared by a witness should be maintained "as is" without editing or corrections of any sort. If a statement [including interview notes] is prepared by the interviewer careful proofreading must be done prior to signing by the witness. The statement should be prepared with a paragraph just above the witness signature that the statement represents the views, thoughts etc. of the witness.

The Internal Auditor shall notify the appropriate College authorities of any audit investigation as soon as it appears that the investigation:

- Involves resources with a value of \$1,000 or more;
- Concerns corruption
- Is the result of control deficiencies which are likely to be present at other locations.
- Is likely to receive media or other public attention; or,
- May be significant for other reasons in the judgment of the Internal Auditor.

A verbal report should be used for initial notifications of investigations to the President, and Vice president Finance & Administration. This should be followed with a detail written report.

Report Format For purposes of formal reporting, it is expected that there will be an executive summary and a detailed section of the report unless the case is so simple that such a breakdown would not be warranted.

Matters dealing with the allegations or theories of improper acts should either be in a separate report from one dealing with control issues or they should be in a separate section. Principal allegations should be dealt with and concluded upon individually. Secondary allegations, which are those dependent on the principal ones for veracity or relevance, may be addressed within the principal allegation to which it is related.

Report Elements Each report must contain certain elements no matter what type of report is issued. These elements are:

Predicate - The reason for initiating an investigation.

Hypothesis/Allegation - What must be sustained or not sustained by the investigation or preliminary evaluation.

Methodology - The method used to gather and analyze Investigation reports are a special purpose type of audit report. Accordingly, all normal draft and final report distribution policies and practices, are applicable. Care should be taken to ensure that the addressee is at an appropriately high level of management. In addition, certain special report distribution considerations may exist.

Subject - Unless there are reasons to withhold the report from the subject such as in the case of certain criminal matters where the police investigation is not complete, subjects should be included on the distribution of audit investigative reports. This does not relieve the investigator of the responsibility to review material facts of the case with the subject.

Whistleblower - Unless there are significant reasons to withhold the report from the original whistleblower(s), the whistleblowers should be given a copy of the final report. However, care should be exercised not to break any confidentiality in such a distribution.

Advisory Services engagements should be accepted when the engagement's objectives are consistent with the current or prospective values and goals of the College. The Audit should refrain from providing advisory services for engagements where they feel that the auditor cannot be objective. Further, if the internal auditor lacks the knowledge, skills, or other competencies needed to perform all or part of the engagement, the Auditor should decline to perform the engagement or should obtain the necessary competence either through internal or external sources.

Definitions

N/A

Responsibilities

Listed in procedures

Violations of the Policy

N/A

Interpreting Authority

President

Vice President Finance and Administration