

MAY 17 2012

UNIVERSITY OF HOUSTON SYSTEM  
ADMINISTRATIVE MEMORANDUM

# UCC Certified

SECTION: Audit Function

NUMBER: 04.A.02

AREA: Audits

SUBJECT: Audits by Internal Auditing

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1. PURPOSE

The Texas Internal Auditing Act, Texas Government Code, [Section 2102](#), requires each state agency that receives an appropriation to establish a program of internal auditing. Board of Regents policy [41.01](#) provides for the implementation of the internal audit function within the University of Houston System. The purpose of this document is to define the objectives and operation of the System Internal Auditing Department.

2. GENERAL

2.1. Philosophy: The System Internal Auditing Department performs those audit activities necessary to assure that the System's resources are being properly managed and accounted for and that the System is complying with approved policies and statutory requirements. Internal audits are resource tools for management and enable the institution to monitor the effectiveness with which policies are followed, objectives met, and control systems function. Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve the System's operations. It helps the System accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

The Internal Auditing Department will be free of all operational and management responsibilities that would impair the ability to make independent reviews of all aspects of the System. In carrying out their duties and responsibilities, members of the Internal Auditing Department will have full, free and unrestricted access to all System activities, records, property, and personnel. The Internal Auditing Department may also request access to the financial records of private support organizations and foundations chartered for the benefit of the System or any part thereof. All personnel are expected to fully cooperate with members of the Internal Auditing Department in carrying out their duties. Failure to cooperate with or intentionally misleading the members of the Internal Auditing Department could result in disciplinary action, up to and including termination of employment.

- 2.2. Organizational Responsibility: The Chief Audit Executive will report directly to the Chair of the Audit and Compliance Committee of the Board of Regents and have access to the Chancellor. The Internal Auditing Department will perform its duties in accordance with the Standards for the Professional Practice of Internal Auditing (Standards), ~~and~~ the Code of Professional Ethics contained in the Professional Practices Framework as promulgated, ~~as established~~ by the Institute of Internal Auditors, and generally accepted government auditing standards.
- 2.3. The Internal Auditing Process: In August of each year, the Internal Auditing Department will present to the Audit and Compliance Committee a long-range audit plan and an annual audit plan for the Board's review and approval. This plan will be developed based on available audit resources and the results of the annual risk analysis. The Chief Audit Executive will meet with the Chancellor on a regular basis to review audits performed, audits in progress, and future audits. The Chief Audit Executive will meet with the Chair of the Audit and Compliance Committee on a regular basis to review audits performed, audits in progress, and future audits.

### 3. OBJECTIVES

The internal audit activity evaluates and contributes to the improvement of the system's risk management, control and governance systems by addressing the following objectives:

- 3.1. Risk Management: Internal audit activity will assist the system by identifying and evaluating significant exposures to risk and contributing to the improvement of risk management and control systems.
- 3.2. Control: Internal audit activity will assist the system in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.
- 3.3. Governance: Internal audit activity will contribute to the system's governance process by evaluating and improving the process through which (1) values and goals are established and communicated, (2) the accomplishment of goals is monitored, (3) accountability is ensured, and (4) values are preserved.
- 3.4. The internal audit activity will evaluate risk exposures and adequacy and effectiveness of controls relating to the system's governance, operations and information systems regarding the
- a. Reliability and integrity of financial and operational information
  - b. Effectiveness and efficiency of operations
  - c. Safeguarding of assets
  - d. Compliance with laws, regulations, and contracts.



- 3.5. The Internal Audit Department will coordinate audit efforts with those of external CPA firms and the state auditor's office.

4. METHOD OF OPERATION

- 4.1. The Internal Auditing Department will solicit management's input for the preparation of the annual risk analysis and audit plan.
- 4.2. For the audit of petty cash accounts and cash handling procedures, visits by the Internal Auditing Department will be unannounced.
- 4.3. For detailed audits of operations or fiscal policy and procedures, the Chief Audit Executive or a representative will notify the appropriate vice chancellor/vice president and contact the department involved to establish a time which is convenient to both parties. In especially sensitive cases/investigations, the notification of the auditee by the Internal Auditing Department may be limited.
- 4.4. The Standards require the Internal Auditing Department to prepare working papers to document its work on engagements. These working papers, including audit report drafts, are not considered public information that are available to the public (Texas Government Code, [Section 552.116](#)).

5. REPORT OF AUDIT FINDINGS

- 5.1. The audit findings will be discussed with the supervisor of the function being audited and the vice chancellor/vice president of the appropriate division prior to the development of the final audit report.
- 5.2. On any matter involving a serious violation of state or federal law, the Chief Audit Executive will directly inform the Chancellor/President and the Chair of the Audit and Compliance Committee. The Chief Audit Executive will also comply with the provisions of SAM [01.C.04, Reporting/Investigating Fraudulent Acts](#).
- 5.3. When the fieldwork for an assigned audit has been completed and the findings have been resolved by the Chief Audit Executive, a draft of the report will be issued and submitted for discussion to the dean, chairperson, or other officer responsible for the operation of the department and the applicable vice chancellor/vice president. Any comments regarding findings/recommendations will be solicited and considered by the Internal Auditing Department.
- 5.4. When official responses are received from the audited department, a final report will be prepared. Internal Audit reports will be distributed to the campus administration, Chancellor, members of the Board of Regents, the State Auditor, the Governor's Office of Planning and Budgeting, the Legislative Budget Board and the Sunset Advisory Commission, as required by the Texas Government Code, [Section 2102](#), and other parties as necessary.

5.5. Reports on special projects and investigations which contain recommendations will be distributed in accordance with paragraph 5.4., above. Reports on special projects and investigations that do not contain recommendations will be distributed to the Chancellor and Chair of the Audit and Compliance Committee, at a minimum.

6. FOLLOW-UP REVIEWS

In accordance with the Standards, the Internal Auditing Department will determine whether corrective action was taken on reported findings and that the desired results were achieved, as enumerated in the management action plans included in the audit reports. The Internal Auditing Department will prepare periodic follow-up status reports and distribute them as any other internal audit report.

7. REVIEW AND RESPONSIBILITY

Responsible Party: Chief Audit Executive

Review: Every three years, on or before March 1

8. APPROVAL

Approved: Don Guyton  
Chief Audit Executive

Renu Khator  
Chancellor

Date: June 9, 2009

**REVISION LOG**

| <b><u>Revision Number</u></b> | <b><u>Approval Date</u></b> | <b><u>Description of Changes</u></b>   |
|-------------------------------|-----------------------------|--|
| <u>1</u>                      | <u>10/26/1993</u>           | <u>Initial version</u>   |
| <u>2</u>                      | <u>06/08/1994</u>           | <u>Added information to Section 6.1 on the procedures for corrective action activities and resolution</u>  |
| <u>3</u>                      | <u>08/18/2003</u>           | <u>Applied revised SAM template. Revised a primary portion of the procedure to reflect updated information regarding the processes of the System Internal Auditing Department, as well as including pertinent information contained in rescinded SAM 04.A.03, Subrecipient Audit Requirements. Expanded the definition of Philosophy in Section 2.1. Completely revised Section 3. Added Section 4.4 on Standards working papers. Removed Section 5.2. Added Section 5.6 on distributions for special projects and investigations. Removed the VC for Administration and Finance as a responsible party. Changed review period from even numbered years on or before April 1<sup>st</sup> to every three years on or before April 1<sup>st</sup></u> |
| <u>4</u>                      | <u>08/01/2005</u>           | <u>Added objectives to Section 3.c, Governance. Removed the information from Section 3.d on internal audit activity. Changed "Executive Committee" to "Audit Committee" in Section 5.5.</u>  |
| <u>5</u>                      | <u>07/17/2007</u>           | <u>Applied revised SAM template. The documentation was modified to remain consistent with Board of Regents' Policy 41.01.1.E. The chancellor's approval was required prior to internal audit's request for review of financial records for private support organizations and foundations chartered for the benefit of the System or any part thereof. This restriction has been lifted in the BOR policy and is now reflected in the document</u>  |
| <u>6</u>                      | <u>06/09/2009</u>           | <u>Applied revised SAM template. References to the Audit Committee was changed to Audit and Compliance Committee in Section 5.5. The title "Directory of Internal Auditing" was changed to "Chief Audit Executive" throughout the document. The review period was changed from every three years on or before April 1<sup>st</sup> to every three years on or before March 1<sup>st</sup>. Removed Section 9, Indexing Terms</u>   |
| <u>7</u>                      | <u>TBD</u>                  | <u>Applied revised SAM template and added new Revision Log. Added clarifying language related to Internal Auditing Standards and government auditing standards in paragraph 2.2 to be consistent with Board of Regents' Policy 41.01.2.C. and the Texas Government Code 2102.011.</u>  |