



# TUSKEGEE

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## UNIVERSITY

### **University Audit & Risk Management Policies & Procedures**

## **Mission/Purpose**

The mission of University Audit & Risk Management (UA) is to provide independent, objective reviews and assessments of the business activities, operations, financial systems, human resources, and internal accounting controls of Tuskegee University in an effort to add value and improve the University's operations. UA furnishes management with objective, timely and accurate analysis; develops recommendations; counsels; and provides information regarding the University's activities. Audits are performed in all areas of the University, and UA has full and complete access to all records, physical properties, and personnel relevant to the audit process. The UA aims to help the University accomplish its objectives by bringing a 21<sup>st</sup> century systematic, disciplined approach to evaluate and improve the efficiency and effectiveness of risk management, control, and the governance processes. In addition, the UA seeks to employ best practices in higher education management and administration as well as utilize effective and transparent lines of communication throughout the University. UA also intends to aid the University in strengthening its institutional capacity and sustainability by reviewing and managing the adherence of all personnel to institutional policies and procedures and increase managerial accountability. UA reports to the President with fiscal reporting responsibilities to the Chair of the Board of Trustees and his/her designee.

## **Objective**

UA conducts independent reviews and appraisals of the University procedures and operations. These reviews provide management with an independent appraisal of the various operations and systems of control. The reviews also help to ensure that University resources are used efficiently and effectively while helping the University achieve its mission, as directed by the President and by the Board of Trustees. It is the intention of the UA to perform this service with professional care and with minimal disruption to University operations.

## **Responsibility and Authority**

UA was established at the direction of the Board of Trustees per Article VI of the Tuskegee University Charter and Bylaws and derives its authority directly from the Audit Committee. UA reports to the President with fiscal reporting responsibilities to the Chair of the Audit Committee of the Board of Trustees. The scope of UA's responsibility is defined within this policy. UA is authorized to conduct a comprehensive internal audit program within the institution and is responsible for keeping the Office of the President and Chair of the Audit Committee informed of unusual transactions or other matters of significance.

## **Independence**

In order to maintain independence and objectivity, UA has no direct responsibility or any authority over the activities or operations that are subject to review, nor should UA develop or install procedures, prepare records or engage in activities that would normally be subject to review. However, UA may be consulted when new systems or procedures are designed to ensure they adequately address internal controls.

## **Objectivity**

UA is a service function organized and operated primarily for the purpose of conducting audits, in accordance with professional standards. The evidential matter gathered from these audits forms the basis for furnishing opinions and other relevant information to impacted members of senior management, the President and the Audit Committee of the Board of Trustees. Opinions and other information furnished may attest to the adequacy of internal control, the degree of compliance with established policies and procedures and/or their effectiveness and efficiency in achieving organizational objectives. UA may also recommend cost effective courses of action for management to consider in improving efficiencies that have been identified during an audit.

## **Confidentiality**

All information obtained during an internal audit is deemed confidential unless otherwise instructed. It is understood that certain items are confidential in nature and special arrangements may be required when examining and reporting on such items. UA will handle all information obtained during a review in the same prudent manner as the original custodian of the information. UA respects the value and ownership of information received and will not disclose information without appropriate authority unless there is a legal or professional obligation to do so. Audit reports are considered highly confidential. They are distributed to the respective area Vice President, the President, and the Audit Committee as requested. Other individuals interested in the audit report may gain access by contacting the Chief Audit Executive, with the approval of the appropriate area Vice President.

UA is expected to remain prudent with all information obtained during the course of an audit. When discussing matters pertaining to an audit or any other University matters, UA must always remain discreet and be certain to limit those conversations exclusively to appropriate University personnel. UA has an obligation to never indiscreetly discuss any information obtained during the course of audit assignments, whether within or outside the University.

## **Code of Ethics**

The UA shall subscribe to the Code of Ethics established by the Institute of Internal Auditors, as well as adhere to the policies set forth by the management of Tuskegee University. In addition, UA will uphold the following:

- a) **Integrity.** Establish trust and thus provide the basis for reliance on the judgment of University Audit. Remain tactful, honest, objective and credible in all relationships as a representative of Tuskegee University.
- b) **Objectivity.** Exhibit the highest level of professional objectivity in gathering, evaluating and communications information about the area under examination. Make balanced assessments of all the relevant circumstances and do not become unduly influenced by individual interests or by others in forming judgments.
- c) **Confidentiality.** Respect the value and ownership of information received. Do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.
- d) **Competency.** Apply the knowledge, skills and experience required in the performance of internal auditing services and continually improve the proficiency, effectiveness and quality of the services provided.

## **Standards of Conduct**

UA will adhere to the following standards of conduct:

- a) **Service.** Preserve a commitment to carry out all responsibilities with an attitude of service toward University members while maintaining a sincere and dignified attitude.
- b) **Excellence.** Uphold a high standard of service and a commitment to quality in performing all projects and assignments.
- c) **Leadership.** Provide noteworthy examples, which emphasize high ethical and moral standards.
- d) **Professionalism.** Conduct business in a manner that reflects favorably on the University and the individual. Exercise skill, integrity, maturity and tact in all relations.

## **Scope of the University Audit Function**

While carrying out their duties, UA is responsible for utilizing a systematic, disciplined approach to evaluating and improving the effectiveness of internal controls and should include the following:

- a) Developing and maintaining a comprehensive audit program necessary to ensure compliance with accounting standards, policies and procedures necessary to safeguard University resources.
- b) Communicating the results of audits and reviews by preparing timely reports, including recommendations for modifications of management practices, fiscal policies and accounting procedures as warranted by audit findings.

## **Responsibility for Detection of Errors or Irregularities**

The management of the University is responsible for establishing and maintaining controls to discourage perpetuation of fraud. UA is responsible for examining and evaluating the adequacy and effectiveness of those controls. Audit procedures alone are not designed to guarantee the detection of fraud.

An **error** is an unintentional mistake in financial statements which includes mathematical or clerical mistakes in the underlying records and accounting data from which the financial statements or other reports are prepared, mistakes in the application of accounting principles and oversight or misinterpretation of facts that existed at the time the reports were prepared.

An **irregularity** is an intentional distortion of financial statements or other reported data or the misappropriation of assets.

If the Director of Internal Audit believes that a material error or an irregularity exists in an area under review or in any other area of the University, the implications of the error or irregularity and its disposition should be reviewed with the responsible Vice President. As soon as it has been determined that an irregularity does exist, the Director of Internal Audit will notify the President that an irregularity has been identified and the audit steps needed to determine the extent of the problem.

## **Services Provided by University Audit**

UA's primary activity is the implementation of a program of regular audits of the University business operations, as outlined below. However, the complete range of services provided by UA may also include special projects and consultations as directed by the President, Board of Trustees, and/or other senior management.

- a) **Operational audits.** Operational audits consist of critical reviews of operating processes and procedures and internal controls that mitigate area specific risks. These audits examine the use of resources to determine if they are being used in the most effective and efficient manner to fulfill the University's mission and objectives.
- b) **Compliance audits.** These audits determine the degree to which areas within the University adhere to mandated Federal, State and University policies and practices. Other regulatory agencies are also included within compliance audits (e.g. NCAA, EPA, OSHA, Department of Education, etc.). Recommendations usually require improvements in processes and controls used to ensure compliance with regulations.
- c) **Financial audits.** These audits review accounting and financial transactions to determine if commitments, authorizations and the receipt and disbursement of funds are properly and accurately recorded and reported. This type of audit also determines if there are sufficient controls over cash and other assets and that 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 financial statements fairness.

- d) **Investigative audits.** These audits are conducted to identify existing control weaknesses, assist in determining the amount of loss and recommending corrective measures to prevent additional losses. The OIA will also work with outside agencies to determine if misconduct occurred at Tuskegee University. These types of investigations can encompass misuse of University funds or assets, fraud or potential conflicts of interest.
- e) **Technology audits.** Technology audits are usually comprised of control reviews of disaster recovery plans, system back up procedures and the general security of data and of the physical plant. The purpose of these audits is to evaluate the accuracy, effectiveness and efficiency of the University's electronic and information processing systems.

## **Professional Proficiency**

Professional proficiency is the responsibility of the individual auditor. UA has a professional obligation to schedule and attend on-going professional education forums to ensure they maintain academic proficiency and to advance professionally.

# **AUDIT PLANNING**

## **Develop the Audit Plan**

The Chief Audit Executive is responsible for developing a risk based Audit Plan that includes areas subject to regulatory review, each fiscal year. The Audit Plan is a written document showing specific audits or projects to be performed by the OIA. After review by the President, the Audit Plan is presented to the Audit Committee for approval.

The development of the Audit Plan includes a review of the University's risk assessment of the key processes. This is a process in which business process are identified and evaluated according to the goals of the University and the goals of the individual area. An assessment of the level of risk is conducted in cooperation with each member of the President's Cabinet, or their designee, and is updated quarterly. The assessment includes a broad range of risks and associated controls. In addition, the Chief Audit Executive is responsible to identify and evaluate exposures to business risk and the controls designed by management to reduce those risks. When doing so, the following factors are considered:

- a) Ongoing factors
  - a. Financial value
  - b. Public image
  - c. Process liquidity
  - d. Asset liquidity
  - e. Budget deviations
  - f. Regulatory guidelines.
- b) Environmental Risk factors
  - a. Process stability
  - b. Recent audit history
  - c. Executive assessment
  - d. Political environment
  - e. Financial markets
  - f. Technology initiatives.

The majority of audits are planned. However, that does not preclude UA from conducting unplanned audits. Prior to any audit, the Chief Audit Executive will discuss the engagement with management. The discussion will include the scope, purpose and estimated timeframe of the audit. As unplanned projects are required, they are included in the overall plan for the year.

The annual Audit Plan will be submitted to the President and the Audit Committee for review and approval. Any proposed changes to the approved Audit Plan will be presented to the President and to the Audit Committee at subsequent meetings.

## AUDIT PROCESS

### Overview and Conduct of the Audit Process

Although every audit project is unique, the audit process is similar for most engagements and usually consists of nine stages. Through these stages, UA will determine ways to minimize risks and increase efficiencies within the area. Client involvement is critical at each stage of the audit process. An audit will result in a certain amount of time being diverted from area personnel's usual routine. One of the key objectives is to minimize this time and avoid disrupting on-going activities.

- a) **Plan.** UA will develop an audit plan based on a review of all pertinent information. Sources may include, but are not limited to a risk assessment, internal and external evaluations and management guidance.
- b) **Notify.** UA will schedule a meeting with the unit manager and the senior managers of the process to be audited. Identify the scope and objectives of the audit, how long it is expected to last and what the responsibilities for all parties are in the audit process. Any factors that may impact the audit should be raised at this time. Factors include vacations, fiscal year end reporting requirements, etc.
- c) **Test.** Testing will include interviews with the staff, review of procedures and manuals, compliance with the University policies and governmental laws and regulations and assessing the adequacy of internal controls.
- d) **Communicate.** Keep the department that is undergoing the audit updated on the status of the audit on a regular basis especially if there are any findings. There may be instances where the findings can be addressed immediately.
- e) **Draft.** The report draft will include the audit Scope and Objectives, Summary and Opinion, Findings and Audit Recommendations.
- f) **Management Response.** Management will receive the audit draft to confirm the facts and respond to the Audit Recommendations. Their response should assign the responsibility and have a specific target date of completion for the corrective actions. The time window for the Management Response is normally 21 calendar days.
- g) **Review.** The final version of the audit will be reviewed and all issues resolved by the Chief Audit Executive.
- h) **Distribute.** The report is then released to the audited department, the divisional Vice President and the President. It is also released to the Audit Committee as part of the agenda at the periodic meetings as requested.
- i) **Verify.** UA will normally conduct a follow up on the management responses to the audit findings and recommendations within a reasonable time frame. This subsequent review will be discussed with the involved management and the comments published. The comments may also be released to the Audit Committee as part of the agenda at the periodic meetings.

# AUDIT PROCEDURES

## Evidential Matter

Evidential matter obtained during the course of fieldwork provides the documented basis for the auditor's opinions, observations and recommendations as expressed in the auditor's opinions, observations and recommendations as noted in the audit report. UA is obligated by professional standards to act objectively, exercise due professional care and collect sufficient and relevant information to provide a sound basis for audit observations and recommendations.

Auditors must obtain all evidence necessary for the effective completion of the audit. The decision on how much evidence is enough and what type to seek requires the exercise of the auditor's judgment based on experience, education and intuition. A thorough knowledge of the concepts underlying audit evidence will help the auditor to improve the audit quality and efficiency of the process.

Standards for the Professional Practice of Internal Auditing require that work papers possess certain attributes to provide a sound basis for audit observations and opinions and to be considered as evidential matter. These attributes are:

- a) Sufficient information is factual and adequate so that a prudent, informed person would reach the same conclusions as the auditor
- b) Information is reliable and the best attainable through use of appropriate audit techniques
- c) Relevant information supports audit findings and recommendations and is consistent with the audit objectives for the audit
- d) Useful information helps the organization meet its goals. It also provides a reference for the preparer when called upon to answer questions.

## Types of Evidence

If the evidence supports the basic test of sufficiency, competence and relevance, it may be used to support the auditor's findings. The following outlines the different types of evidence obtained during the course of an audit:

- a) **Physical evidence.** Obtained through observation and inquiry
- b) **Testimonial evidence.** Based on interviews and statements from involved persons
- c) **Documentary evidence.** Consists of legislation, reports, minutes, memoranda, contracts, extracts from accounting records, formal charts and specifications of documentation flows, systems design, operational and organizational structure
- d) **Analytical evidence.** Secured by analysis of information collected by the auditor.

## Documentation of Evidential Matter

Standards for the Professional Practice of Internal Auditing require that audit work papers reflect the details of the evidence upon which the auditor has relied. UA must maintain adequate documentation of the audit, including the basis and extent of planning, the work performed and the results and findings of the audit. This will allow the work papers to serve both as tools to aid the auditor in performing their work and as written evidence of the work done to support the auditor's report. Information included in work papers should be sufficient and relevant to provide a sound basis for audit findings and recommendations.

In the process of collecting evidential matter, the auditor is required to perform audit testing to support all observations and opinions. During the performance of such testing, the auditor is not required to test the

population in its entirety. Audit sampling may be employed. Audit sampling is performing an audit test on less than 100% of a population. In “sampling”, the auditor accepts the risk that some or all errors will not be found and the conclusions drawn (i.e. all transactions were proper and accurate) may be wrong. The type of sampling used and the number of items selected should be based on the auditors understanding of the relative risks and exposures of the areas audited.

## **Types of Samples**

- a) **Statistical or probability sampling.** Allows the auditor to stipulate, with a given level of confidence, the condition of a large population by reviewing only a percentage of the total items. Several sampling techniques are available to the auditor.
- b) **Attribute sampling.** Used when the auditor has identified the expected frequency or occurrence of an event.
- c) **Variable sampling.** Used when the auditor samples for values in a population which vary from item to item.
- d) **Judgment sampling.** Used when it is not essential to have a precise determination of the probable condition of the universe, or where it is not possible, practical or necessary to use statistical sampling.

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