

Excerpt from the Bylaws of the Board of Regents

F. Audit Committee.

The Audit Committee is established as a standing committee of the board. The committee shall be responsible for advising the board on matters relating to stewardship of University finances and assets, for oversight of internal and external audit functions, and for ascertaining the existence and adequacy of accounting and internal control systems and safeguards over University assets. The committee shall recommend to the board the selection of the University's external auditors.

G. Audit Committee Charter.

1. The primary function of the Audit Committee is to assist the board in fulfilling its oversight responsibilities relating to: the university's financial statements, systems of internal control, compliance with legal and regulatory requirements, and the independence and performance of the external and internal audit functions. The committee shall maintain free and open communication among the committee, independent auditors, the internal auditors and management of the university.
2. Members shall be independent of management of the university and its component units and related organizations, and be free of any financial or personal relationship that would impair such independence. If possible, a majority of members shall be financially literate and at least one member shall be a financial expert. "Financial literacy" means being able to read and understand fundamental financial statements. "Financial expert" means a person who has one or more of the following: an understanding of generally accepted accounting principles and financial statements, experience applying such principles, experience preparing or auditing financial statements, experience with internal controls, and an understanding of audit committee functions.
3. Management is directly responsible for the preparation, presentation, and integrity of the university's financial statements and for the appropriateness of the accounting principles and reporting practices used by the university. The committee is responsible for overseeing management's efforts to meet those responsibilities in a reasonable and appropriate manner. The principal duties and responsibilities of the committee include:
 - a. the appointment, compensation, oversight, and retention of the independent external auditor; the external auditor shall report directly to the committee;
 - b. the approval of all audit and non-audit services provided by the external auditor; pre-approval authority may be delegated to the committee chair, subject to later ratification by the committee;
 - c. appropriate rotation of the lead external audit partner on the audit engagements;

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- d. providing sufficient opportunity for the external auditors, the internal auditor, and the general counsel to each meet privately with the committee;
- e. inquiring of management and the external auditor about the effectiveness of the university's system of internal controls;
- f. inquiring of management, the independent auditors and the internal auditors about: the appropriateness of the university's accounting principles, the consistency in the application of those principles, the degree of aggressiveness or conservatism used in applying those principles;
- g. inquiring of management, the external auditors and the internal auditors about the clarity and completeness of the financial statements and related disclosures, including the appropriateness of any significant changes in accounting principles;
- h. reviewing with management and the independent external auditor all matters required to be communicated to the committee under generally accepted auditing standards, including communications under Statement of Auditing Standards No. 61 "Communications with Audit Committee", as amended; reviewing and approving the annual financial statements of the university and the audit report on Federal Awards as required by OMB Circular A-133, also known as the single audit; the report on the single audit is completed at a later date than the university's financial statements;
- i. reviewing periodic reports from the internal auditor regarding all audit activities at the university;
- j. reviewing, as needed, the internal audit charter and audit protocols under P05.03.010 – 05.03.018 and making recommendations to the board regarding changes and enhancements;
- k. maintaining adequate policies and procedures for addressing complaints regarding accounting controls and reports of financial fraud;
- l. reviewing briefings from the internal auditor, general counsel, or management on financial fraud situations and/or whistleblower complaints;
- m. the development and monitoring of the university's conflict of interest policies, principles of employee conduct, and fraud policy; and
- n. reporting the results of the committee's activities to the board .

REGENTS' POLICY
PART V – FINANCE AND BUSINESS MANAGEMENT
Chapter 05.03 - Internal Audit

P05.03.010. Internal Audit: Purpose of P05.03.010 - 05.03-018.

By adopting P05.03.010 - 05.03.018, the board establishes the general authority and responsibilities of the university's internal audit department.

(04-15-04)

P05.03.012. Internal Audit: Introduction.

- A. Internal auditing is an independent appraisal activity established within the university to examine and evaluate its activities to meet the needs of the board and executive management. Internal audits may include financial, performance, operational and compliance audits. The mission of the internal audit department is to assist the board and management in the effective discharge of their fiduciary and administrative responsibilities by providing analysis, appraisals, counsel, information and recommendations concerning activities reviewed and by promoting effective controls for the recording and reporting of operational activities and for the custody and safeguarding of assets.
- B. The internal audit department will abide by the Institute of Internal Auditors' (IIA) *Code of Ethics* and will conduct audit activities in accordance with *Governmental Auditing Standards* published by the Comptroller General of the United States and *Standards for the Professional Practice of Internal Auditing* issued by the IIA.

(04-15-04)

P05.03.014. Internal Audit: Authority.

- A. The director of internal audit shall report administratively to the chief finance officer and functionally to the Audit Committee of the board. The chief finance officer shall appoint and may remove the director of internal audit with the advice and consent of the Audit Committee. The director of internal audit is authorized to independently establish the annual audit plan and the scope of audit activities. The director shall report to the chair of the Audit Committee any matters which in the director's sole opinion warrant direct attention or action by the board and shall report to management any matters that in the director's sole opinion warrant direct attention or action by management.
- B. The director of internal audit and the internal audit staff shall have full, free, and unrestricted access to all university records, either manual or electronic, property, and personnel as required for the conduct of their audit responsibilities.
- C. All documents and information provided to the internal auditors shall be handled in the same prudent manner as expected of those who are normally accountable for them.

- D. The chief finance officer shall supervise the director of internal audit except for matters relating to the establishment of the scope of audit activities and the reporting of audit findings and recommendations. The chief finance officer may request special audits by the department in order to meet the officer's responsibilities under regents' policies and shall be responsible for and have the authority to require the implementation of recommendations or other resolution of audit findings and the distribution of audit reports.

(04-15-04)

P05.03.016. Internal Audit: Reporting.

The director of internal audit, in conjunction with the regents' external auditors, shall annually present a complete audit plan for the university to the board's audit committee for review and approval. The director of internal audit shall provide a written report on the status of all internal and external audit activities to the Audit Committee semi-annually. Formal audit reports shall be issued to the chief finance officer, who will be responsible for the implementation of recommendations or other resolution of audit findings and the distribution of audit reports. Copies of all formal audit reports, including management's response, will be provided to the audit committee the next scheduled committee meeting in accordance with procedures established by the audit committee.

(04-15-04)

P05.03.018. Internal Audit: Responsibilities.

- A. The internal audit department shall observe and review operations, activities and procedures as they exist and function, report findings and make recommendations for improvement or correction to the appropriate individuals or management staff.
- B. As a staff function, internal auditors shall not have the authority to require changes in operating practices, procedures, or personnel. The principal responsibilities shall include:
1. evaluating the adequacy and effectiveness of the university's system of internal accounting and operating controls;
 2. reviewing the reliability and integrity of financial and operational information;
 3. monitoring compliance with the policies, plans, procedures, laws and regulations that have an impact on university operations;
 4. reviewing the means of safeguarding assets and verifying their existence when appropriate;
 5. appraising the economy and efficiency with which resources are employed;
 6. reviewing financial and operational activities and programs to determine if results are consistent with established goals, objectives and authorized plans;
 7. serving as liaison for coordination of all external audit activities;

8. assisting in fraud and theft assessment at the request of legal counsel and executive management; and
9. providing staff guidance to university staff and managers on matters relating to audits and internal control functions.

(04-15-04)



Section: 110 Audit Department Charter

Purpose:

This policy defines the general authority and responsibilities of the university's internal audit department.

Introduction:

Internal auditing is an independent appraisal activity established within the university to examine and evaluate its activities to meet the needs of the Board of Regents and executive management. Internal audits may include financial, performance, operational and compliance audits. The mission of the internal audit department is to assist the Board and management in the effective discharge of their fiduciary and administrative responsibilities by providing analysis, appraisals, counsel, information and recommendations concerning activities reviewed and by promoting effective controls for the recording and reporting of operational activities and for the custody and safeguarding of assets.

The internal audit department will abide by the Institute of Internal Auditors' (IIA) Code of Ethics and will conduct audit activities in accordance with Governmental Auditing Standards published by the Comptroller General of the United States and Standards for the Professional Practice of Internal Auditing issued by the IIA.

Authority:

The director of internal audit shall report administratively to the Vice President for Finance and Comptroller and functionally to the Audit Committee of the Board of Regents. The Vice President for Finance and Comptroller shall appoint and may remove the director of internal audit with the advice and consent of the Audit Committee. The director of internal audit is authorized to independently establish the annual audit plan and the scope of audit activities. The director shall report to the chair of the Audit Committee any matters which in his or her sole opinion warrant direct attention or action by the Board and shall report to management any matters which in his or her sole opinion warrant direct attention or action by management.

The director of internal audit and the internal audit staff shall have full, free, and unrestricted access to all university records (either manual or electronic), property, and personnel as required for the conduct of their audit responsibilities. All documents and information provided to the internal auditors shall be handled in the same prudent manner as expected of those who are normally accountable for them.

The Vice President for Finance and Comptroller shall supervise the director of internal audit except for matters relating to the establishment of the scope of audit activities and the reporting of audit findings and recommendations. The Vice President for Finance and Comptroller may request special audits by the department in order to meet the Vice President's responsibilities under Regents policies and shall be responsible for and have the authority to require the



Section: 110 Audit Department Charter

implementation of recommendations or other resolution of audit findings and the distribution of audit reports.

Reporting:

The director of internal audit, in conjunction with the Regents' external auditors, shall annually present a complete audit plan for the university to the Board of Regents' Audit Committee for review and approval. The director of internal audit shall provide a written report on the status of all internal and external audit activities to the Audit Committee quarterly. Formal audit reports shall be issued to the Vice President for Finance, who will be responsible for the implementation of recommendations or other resolution of audit findings and the distribution of audit reports. Copies of all formal audit reports, including management's response, will be provided to the Audit Committee within sixty days of report issuance in accordance with procedures established by the Audit Committee.

Independence:

Independence is essential for effective operation of the internal audit function. It is the policy of the university, therefore, that all audit activities shall remain free of influence by any organizational elements. This shall include such matters as scope of audit programs, the frequency and timing of examinations, and the content of audit reports.

Responsibilities:

The internal auditors shall observe and review operations, activities and procedures as they exist and function, report findings and make recommendations for improvement or correction to the appropriate individuals or management staff. As a staff function, internal auditors shall not have the authority to require changes in operating practices, procedures, or personnel. The principal responsibilities shall include:

- Evaluating the adequacy and effectiveness of the university's system of internal accounting and operating controls.
- Reviewing the reliability and integrity of financial and operational information.
- Monitoring compliance with the policies, plans, procedures, laws and regulations that have an impact on university operations.
- Reviewing the means of safeguarding assets and verifying their existence when appropriate.
- Appraising the economy and efficiency with which resources are employed.
- Reviewing financial and operational activities and programs to determine if results are consistent with established goals, objectives and authorized plans.



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- Serving as liaison for coordination of all external audit activities.
- Assisting in fraud and theft assessment at the request of legal counsel and executive management.
- Providing staff guidance to university staff and managers on matters relating to audits and internal control functions.