SECTION: Audit Function

AREA: Audits

SUBJECT: Audits and by the Internal Auditing Department (IAD)

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 (UHS). The purpose of this document is to define the objectives and baseline operation of the UHS System Internal Auditing Department (IAD).

2. GENERAL

2.1. Philosophy: The UHS System Internal Auditing Department (IAD) performs those audit activities necessary to ensure that the System’s resources are being properly managed and accounted for and that the UHS System is complying with applicable approved policies, regulations, and law and statutory requirements. IAD Internal audits are resource tools for management and enable the UHS institution to monitor the effectiveness and efficiency with which applicable policies, regulations and law are followed, objectives are met, and control systems function.

IAD Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve the UHS System’s operations. IAD 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, including those related to contracts monitoring and oversight.

The IAD Internal Auditing Department will be free of all operational and management responsibilities that would impair its ability to independently review make independent reviews of all aspects of the UHS entities System. IAD carries out their duties and responsibilities, members of the IAD Internal Auditing Department will have full, free, and unrestricted access to all UHS System activities, records, property, and personnel. IAD The Internal Auditing Department, at the Chief Audit Executive’s CAE’s discretion, may also request access to the financial records of private support organizations affiliated organizations and foundations chartered for the benefit of the System or any part-
All UHS personnel are expected to fully cooperate with members of the Internal Auditing Department (IAD) in carrying out their duties.

Failure to cooperate with or intentionally misleading the members of IAD may result in disciplinary action, up to and including termination of employment.

Audit observations, results, and recommendations will be filtered through the lens of risk mitigation to achieve the audited organization’s strategic objectives.
2.2. Organizational Responsibility: The Chief Audit Executive (CAE) will report directly to the Chair of the Audit and Compliance Committee of the Board of Regents (BOR) and have access to the Chancellor. The Internal Auditing Department (IAD) will perform its duties in accordance with the Standards for the Professional Practice of Internal Auditing (Standards) International Professional Practices framework (IPPF), the Code of Professional Ethics contained in the IPPF Professional Practices Framework as promulgated by the Institute of Internal Auditors (IIA), and Generally Accepted Government Auditing Standards (GAGAS).

2.3. The Internal Auditing Process: In August of each year prior to Fiscal Year (FY) Q1, the Internal Auditing Department (IAD) will present to the Audit and Compliance Committee a long-range next FY (audit plan and annual audit plan) audit plan for the Board’s-BOR’s review and approval. In addition to the audits the plan will include included in the plan, at a minimum, will be a summary of the resources dedicated to the IAD Internal Audit program to assist in order for the BOR board in to determine determining if adequate resources exist to provide reasonable assurance that ensure that risks identified risks in the annual risk assessment are adequately covered assessed within a reasonable time frame. The plan will include risk-based testing of contract administration and monitoring. The Chief Audit Executive (CAE) will meet with the Chancellor and the Chair of the Audit Committee (separately or together) on a regular basis (minimum quarterly) to review changes to the audit plan, audits performed, audits and advisory services 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 (IAD) evaluates and contributes to the improvement of the system’s UHS’s Enterprise Risk Management (ERM), control, and governance systems by addressing the following objectives:

3.1. Risk Management: IAD internal audit activity will assist the system UHS by identifying and evaluating significant exposures to risk and contributing to the improvement of ERM risk management and control systems, and other risk issues as necessary.

3.2. Control: IAD internal audit activity will assist the system in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement. IAD will evaluate control, governance, and compliance systems and report those evaluations to executive management for mitigation of risk exposure.
3.3. **Governance:** Internal audit activity will contribute to the system’s governance process by evaluating and improving the governance process through which (1) strategic goals, values and goals are established and communicated, (2) the accomplishment of goals is attained and monitored, (3) accountability of resources is ensured, and (4) values are preserved.

3.4. The internal audit activity will conduct assessments evaluate risk exposures and adequacy and effectiveness of controls relating to the system’s governance, including but not limited to, the following: 

3.4.1a. Reliability and integrity of financial and operational information.

3.4.2b. Effectiveness and efficiency of operations to include information systems and cybersecurity.
3.4.3c. Verification existence of assets and safeguarding controls of assets; and

3.4.4d. Compliance with laws, regulations, policies, and contracts.

3.5. The Internal Audit Department [IAD] will coordinate audit efforts, when necessary, with those of external CPA firms and the State Auditor’s Office [SAO] and other external audit stakeholders, state auditor’s office.

3.6. The Internal Audit Department [IAD] will perform advisory services, including investigating reports of suspected defalcation, fraud, misfeasance, malfeasance, misappropriation, misdirection, asset shrinkage, or other fiscal irregularities, and various other forms of loss.

4. METHOD OF OPERATION

4.1. The Internal Auditing Department [IAD] will annually consult key risk stakeholders solicit management’s input for the preparation of the annual long-range audit plan and risk analysis.

4.2. For the audit of petty cash accounts and cash handling procedures, visits by the Internal Auditing Department will be unannounced.

4.23. The Chief Audit Executive or a representative will notify the appropriate vice-chancellor/vice-president [stakeholder(s)] and contact the department [auditee] involved to establish appropriate timelines for audit activities, 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.

4.34. The Standards [IPPF and GAGAS] require the Internal Auditing Department [IAD] to prepare working papers to document audits its work on engagements. These working papers, including audit report drafts, are not considered public information that are available to the public under the Texas Government Code, Section 552.116.

5. REPORT OF AUDIT FINDINGS/OBSERVATIONS

5.1. The audit findings, observations, and associated issues will be discussed with the supervisor of the function being audited [auditee] and the executive stakeholder [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 [CAE] will directly inform the Chancellor/President and the Chair
of the Audit and Compliance Committee on matters leaving the operational responsibility of the UHS. The Chief Audit Executive CAE will must also comply with the provisions of SAM 01.C.04, Reporting/Investigating Fraudulent Acts.

5.3. When audit the fieldwork for an assigned audit has been completed and the fieldwork findings issues have been resolved by the Chief Audit Executive CAE, a Management Action and Discussion Memo (MADM) draft of the report will be issued and submitted for discussion to the management stakeholder dean, chairperson, or other officer responsible for the operation of the department and the applicable vice chancellor/vice president. Responses Any comments regarding findings/observations/issues/recommendations will be addressed solicited and considered by the Internal Auditing Department before the issuance of the final report.

5.4. A report to BOR on the audit will be developed. That report will be considered the “Audit Report,” as defined under GAGAS and the IPPF, and in accordance with Texas law will be sent to the State Auditor’s Office SAO. When official responses are received from the audited department, a final report will be prepared. Internal Audit reports will be distributed to the campus stakeholders at the discretion of the CAE Chief Audit Executive and in accordance with Texas law. In accordance with Section 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.

5.6. Internal Audit’s written responses to the State Auditor’s Office’s requests of Internal Audit to investigate reports of suspected fraud, waste, abuse and/or ineffective operations at the University of Houston System will be distributed to the Chair of the Audit and Compliance Committee and the Chancellor.

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.
67. REVIEW AND RESPONSIBILITY

Responsible Party:  Chief Audit Executive

Review: Every five years on or before March 1

78. APPROVAL

Approved:  Don Guyton
Chief Audit Executive

Renu Khator
Chancellor

Date: January 17, 2019

REVISION LOG

<table>
<thead>
<tr>
<th>Revision Number</th>
<th>Approval Date</th>
<th>Description of Changes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>10/26/1993</td>
<td>Initial version</td>
</tr>
<tr>
<td>2</td>
<td>06/08/1994</td>
<td>Added information to Section 6.1 on the procedures for corrective action activities and resolution</td>
</tr>
<tr>
<td>3</td>
<td>08/18/2003</td>
<td>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 1st to every three years on or before April 1st.</td>
</tr>
<tr>
<td>4</td>
<td>08/01/2005</td>
<td>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.</td>
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<td></td>
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<tr>
<td>5</td>
<td>07/17/2007</td>
<td>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.</td>
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<tr>
<td>6</td>
<td>06/09/2009</td>
<td>Applied revised SAM template. References to the Audit Committee were 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 1st to every three years on or before March 1st. Removed Section 9, Indexing Terms.</td>
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<tr>
<td>7</td>
<td>06/05/2012</td>
<td>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.</td>
</tr>
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<td>8</td>
<td>11/30/2016</td>
<td>Updated links as applicable. Added contracts to Section 2.1. Revised Section 2.3 regarding the composition of the long-range audit plan, including risk-based testing of contract administration. Added Section 3.6 on investigating reports of defalcation, misappropriation or other fiscal irregularities. Added long-range audit plan to risk analysis in Section 4.1. Added Section 5.6 on written responses of reports of suspected fraud, waste, abuse and/or ineffective operations to be distributed to the Chair of the Audit and Compliance Committee and the Chancellor.</td>
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<tr>
<td>9</td>
<td>01/17/2019</td>
<td>Changed review cycle from every three years to every five years on or before March 1. No additional changes were indicated by the Subject Matter Expert (SME).</td>
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