

Tennessee Board of Regents

Internal Audit Manual



Tennessee Board of Regents
Internal Audit Manual
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Section I – Introduction

The Tennessee Board of Regents (TBR) was created in 1972 by the General Assembly as the governing body of the State University and Community College System of Tennessee. At that time, the member institutions of the system were six universities and ten community colleges formerly governed by the Tennessee Board of Education. In 1983, the General Assembly transferred the technical institutes and area vocation schools (now called Tennessee Technology Centers) to the Tennessee Board of Regents. The system currently consists of 6 universities, 13 community colleges, 27 technology centers and the TBR staff located in the central office in Nashville.

Pursuant to state law (Tennessee Code Annotated 49-14-102(b)), the TBR created an Audit Committee as a standing committee in September 2004 and a system-wide internal audit director position that reports directly to the Audit Committee and the Board and oversees the internal audit function. The Audit Committee and Board enacted an Audit Committee Charter (Section III) that defines the purpose, authority and responsibilities of the Audit Committee and the internal audit function for the TBR system.

Particularly, the Audit Committee has the authority to conduct or authorize audits or investigations into any matter within its scope of responsibility. The scope of internal auditing extends to all aspects of institutional operations and beyond fiscal boundaries. The committee is authorized to seek any information it requires from employees or external parties; have access to all books, records and physical properties of the TBR and its institutions; and meet with Board and institutional officials, external and internal auditors, legal counsel, or others as necessary.

The Director of System-wide Internal Audit and staff coordinate these audit activities with the Tennessee Comptroller of the Treasury, with the campus internal auditors and with any other external auditors. Each university is required to employ at least two internal auditors. Each community college must have an internal auditor on staff or contract with another TBR institution for internal audit services. Campus internal auditors report to their respective President, with audit reporting responsibility to the Audit Committee and the Board through the Director of System-wide Internal Audit.

This manual is intended to provide guidance for internal auditors in the TBR system. It was prepared using various TBR policies and guidelines, the *International Standards for the Professional Practice of Internal Auditing* published by the Institute of Internal Auditors and other professional publications. The manual was developed by TBR internal auditors and represents a consensus of opinion. The manual was designed to allow flexibility for each internal audit office in the TBR system, while maintaining consistency across the system. Suggested changes should be scheduled for discussion at the quarterly Internal Audit Directors' meetings.

A. Background

In addition to education, experience and communication skills, the internal auditor's integrity and professionalism are extremely important. The audit staff must have integrity and credibility. A reputation for dealing with the facts that are reported in proper perspective, with proper opinions is an absolute requirement for the auditor.

Professional standards for auditors provide guidance to the audit staff. The Institute of Internal Auditors' (IIA) *Standards for the Professional Practice of Internal Auditing* and *Code of Ethics* provide the foundation for the auditor's performance. IIA Standard 2130 and the related Practice Advisories describe the role of the internal auditor. Adherence to these *Standards* will enhance the credibility of the audit function.

B. IIA Standards

TBR Policy 4:05:01:00, Internal Audit, states that internal auditors will adhere to the Institute of Internal Auditor's (IIA) *Standards for the Professional Practice of Internal Auditing* and *IIA Code of Ethics* (IIA *Standards*). These IIA *Standards* and other guidance from the IIA are published in a handbook entitled the International Professional Practices Framework (IPPF). It includes mandatory and strongly recommended guidance as listed below. Information in the IPPF may be viewed on the internet at <http://www.theiia.org>.

Mandatory Guidance

Definition of Internal Auditing
Code of Ethics
Standards

Strongly Recommended Guidance

Position Papers
Practice Advisories
Practice Guides

Position Papers, Practice Advisories and Practice Guides issued by the IIA, although not mandatory, assist the internal auditor by providing practical guidance in interpreting the *Standards* or applying them in specific internal audit environments. These advisories should be referenced frequently in combination with the *Standards*.

Tennessee Code Annotated (TCA) 4-3-304(9) indicates internal audit reports shall include a statement that the audit was conducted pursuant to *Standards for the Professional Practice of Internal Auditing* published by the Institute of Internal Auditors or other standards as approved by the comptroller of the treasury.

The purposes of the IIA *Standards* and IIA *Code of Ethics* are to:

1. Delineate basic principles that represent the best practices of internal auditing.
2. Provide a framework for performing and promoting a broad range of value-added internal audit activities.

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Section II – Professional Standards and Ethics

3. Establish the basis for the measurement of internal audit performance.
4. Foster improved organizational processes and operations.

C. Other Auditing Standards

Other sets of auditing standards may be adopted by internal auditors because of the scope of an audit or to meet the objectives of an audit. These Standards are mentioned for reference purposes in particular audits but the focus of TBR internal audits is compliance with the IIA *Standards*.

Generally Accepted Government Auditing Standards

The Government Accountability Office (GAO) establishes standards to be followed by GAO, by offices of federal inspectors general, and by nonfederal auditors whose clients are covered by OMB Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*. These government auditing standards are published in a handbook known as the “yellow book.”

The Office of Management and Budget issues annually a compliance supplement posted at www.whitehouse.gov/omb/grants/index.html. It provides guidance to assist auditors as they perform the audits required by Circular A-133. It is a valuable tool for colleges and universities to assure themselves that their own policies and procedures are appropriate.

Generally Accepted Auditing Standards

The American Institute of Certified Public Accountants has promulgated Generally Accepted Auditing Standards (GAAS) through Statements of Auditing Standards, Industry Guides and other professional releases. These standards may be viewed at <http://www.aicpa.org>.

Information Systems Auditing Standards

The Information Systems Auditing Standards are to inform IS auditors of the minimum level of acceptable performance required to meet the professional responsibilities of IS auditors and provide management and other interested parties of the profession’s expectations concerning the work of practitioners. These standards may be viewed at <http://www.ISACA.org>.

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Section III – Audit Committee Charter

Purpose

The Audit Committee, a standing committee of the Tennessee Board of Regents, provides oversight and accountability on all aspects of institutional operations within the Tennessee Board of Regents system. The committee will assist the Board in fulfilling its oversight responsibilities by reporting regularly to the Board about Audit Committee activities and issues that arise with such recommendations as the committee deems appropriate. The Audit Committee will provide for open communications among the Board of Regents, the Board's and institutions' senior management, the Tennessee Comptroller's Office auditors, and System-wide Internal Auditing regarding audit matters.

For the Board of Regents and its institutions, the Audit Committee will provide oversight in the following areas:

- Audit engagements with the Tennessee Comptroller's Office, including the integrity of financial statements and compliance with legal and regulatory requirements.
- Internal Audit function.
- Audit engagements with external auditors.
- Internal controls, compliance with laws and other requirements and risk assessments.
- Fraud, waste, and abuse prevention, detection, and reporting.
- Other areas as directed by the Board.

Authority

The Audit Committee has the authority to conduct or authorize audits or investigations into any matter within its scope of responsibility. The scope of internal auditing extends to all aspects of institutional operations and beyond fiscal boundaries. The committee is authorized to:

- Seek any information it requires from employees or external parties. Employees are directed to cooperate with the committee's requests.
- Have access to all books, records and physical properties of the Tennessee Board of Regents and its institutions.
- Meet with Board and institutional officials, external and internal auditors, legal counsel, or others as necessary.
- Delegate authority to subcommittees, providing that such decisions by any subcommittee are presented to the full committee at its next scheduled meeting.

Responsibilities

The Audit Committee employs a person qualified by training and experience to serve as the Director of System-wide Internal Auditing and to report directly to the Audit Committee and the

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Board of Regents. The Director of System-wide Internal Auditing coordinates audit activities with the Tennessee Comptroller of the Treasury, with the campus internal auditors and with any other external auditors. The Audit Committee facilitates any audit and investigative matters, including advising auditors and investigators of any information the committee may receive pertinent to these matters.

The Audit Committee will carry out the following duties for the Board and its institutions and will report to the Board about Audit Committee activities and issues that arise with such recommendations as the committee deems appropriate:

Tennessee Comptroller's Office Audits

- Understand the scope and approach used by the auditors in conducting their examinations.
- Review results of the Comptroller's examinations of financial statements and any other matters related to the conduct of the audits.
- Review with management and general counsel any legal matters (including pending litigation) that may have a material impact on the financial statements, and any material reports or inquiries from regulatory or governmental agencies.
- Resolve any differences between management and the Comptroller's auditors regarding financial reporting.
- Meet, as needed, with the Comptroller's auditors to discuss any matters that the Audit Committee or auditors deem appropriate.

Internal Audit

- Ensure that the Director of System-wide Internal Auditing has direct and unrestricted access to the chairman and other committee members.
- Review the Director of System-wide Internal Auditing's administrative reporting relationship to the Vice Chancellor for Business and Finance to assure not only that independence is fostered, but adequate resources in terms of staff and budget are provided to enable the department to effectively perform its responsibilities. The Vice Chancellor has administrative authority for approval of the Director's time, travel, and other expenses of the Office of System-wide Internal Audit. Additionally, the Vice Chancellor may initiate a performance evaluation of the Director at the request of the Audit Committee or Chair of the committee. This administrative reporting relationship is meant to facilitate administrative activities and does not diminish the Director's reporting relationship to the Audit Committee and the Board of Regents.
- Review and approve the appointment, compensation, reassignment, or dismissal of the Director of System-wide Internal Auditing; review and approve the compensation and termination of central office internal auditors; review the compensation of campus internal auditors; and approve the termination of campus internal audit directors.
- Review and approve the charter for the System-wide Internal Audit function.
- Review and approve the annual audit plan.
- Receive and review significant results of internal audits performed.

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Section III – Audit Committee Charter

- Review the results of the year’s work with the Director of System-wide Internal Auditing. Changes to the audit plan, including management requests for unplanned assignments, should also be reviewed.
- Receive and review any other work prepared by the Director of System-wide Internal Auditing.

External Audits

- Understand the scope and approach used by the external auditors in conducting their examinations.
- Review results of the external auditors’ examinations and any other matters related to the conduct of the audits.
- Meet, as needed, with the external auditors to discuss any matters that the Audit Committee or auditors deem appropriate.

Internal Control and Compliance

- Consider the effectiveness of the internal control system and compliance with laws and regulations, including computerized information system controls and security.
- Understand the scope of internal and external auditors’ review of internal control over financial reporting.
- Make recommendations to improve the internal control and compliance systems to ensure the safeguarding of assets and preventing and detecting errors and fraud. The components of the control system are:
 1. control environment—creating a culture of accountability; risk assessment—performing analyses of program operations to determine if risks exist;
 2. control activities—taking actions to address identified risk areas;
 3. information and communication—using and sharing relevant, reliable, and timely information; and
 4. monitoring—tracking improvement initiatives and identifying additional actions needed to further improve program efficiency and effectiveness.
- Review and evaluate risk assessments performed by management of the Board and its institutions.

Fraud

- Ensure that the Board, and the management and staff of the Board, and its institutions take all reasonable steps to prevent, detect, and report fraud, waste, and abuse.
- Formally and regularly inform management of their responsibility for preventing, detecting, and reporting fraud, waste, and abuse.
- Establish a process for employees, taxpayers, and other citizens to confidentially report suspected illegal, improper, wasteful, or fraudulent activity.
- Inform the Comptroller of the Treasury of assessments of controls to reduce risks of fraud.
- Promptly report indications of fraud to the Comptroller of the Treasury.

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Other

- Review and assess the adequacy of the Audit Committee’s charter annually, requesting Board approval for proposed changes.
- Ensure the receipt, retention, and resolution of complaints regarding accounting, internal controls, or auditing matters.
- Review the Board’s policies regarding employee conduct to ensure they are readily available to all employees, easy to understand and implement, enforced, and provide a confidential means of reporting violations.
- Review the Board’s policy regarding conflict of interest to ensure that “conflict of interest” is clearly defined, guidelines are comprehensive, annual signoff is required, and potential conflicts are adequately resolved and documented.

Membership

Tennessee Code Annotated, Section 49-8-201, includes the requirements for the appointment and terms of public members of the Tennessee Board of Regents. From this membership, the Audit Committee and its chair shall be appointed annually by the Board Chairman pursuant to Board bylaws and shall consist of at least one member, preferably the chair of the committee, who shall have accounting and financial management expertise and other members who are generally knowledgeable in financial, management, and auditing matters. In addition to the Regents appointed to the committee, the Board may select one or more certified public accountants or other qualified citizens who are not members of the Board to serve on the Audit Committee. The committee shall have at least three but not more than seven members.

Independence

Each member shall be free of any relationship that would give the appearance of a conflict or that would interfere with his or her exercise of independent judgment.

Education

The Board’s senior management and the System-wide Internal Auditing office are responsible for providing the committee with educational resources related to accounting principles, internal controls, applicable policies, and other information that may be requested by the committee to maintain appropriate financial and compliance literacy.

Meetings

The Audit Committee shall meet as necessary, but at least annually. The committee may invite Board management, auditors, or others to attend and provide relevant information. Meeting

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agendas will be provided to members in advance, along with appropriate briefing materials. Minutes will be prepared. A majority of the members of the committee shall constitute a quorum for the transaction of business. The committee shall also meet at the request of the Comptroller of the Treasury.

The Audit Committee shall follow the public notice requirements of the Board. All meetings of the Committee shall be subject to the open meetings provisions of *Tennessee Code Annotated*, Title 8, Chapter 44, except that, as provided by *Tennessee Code Annotated*, Section 4-35-108(b), the committee may hold confidential, nonpublic executive sessions to discuss:

1. Items deemed not subject to public inspection under *Tennessee Code Annotated*, Sections 10-7-503 and 10-7-504, and all other matters designated as confidential or privileged under this code;
2. Litigation;
3. Audits or investigations;
4. Information protected by federal law, and
5. Matters involving information under *Tennessee Code Annotated*, Section 4-35-107(a), where the informant has requested anonymity.

Source: Committee on Audit Meeting, November 23, 2004; Committee on Audit Meeting, June 29, 2006; Committee on Audit Meeting, September 11, 2007; Committee on Audit Meeting, November 17, 2009; Committee on Audit Meeting, November 16, 2010.

A. Introduction

Risk analysis is a planning tool used by internal audit to determine which areas within the institution's audit universe should be audited in the next fiscal year. Selected key factors are quantified and weighted appropriately for each subject area in the universe and a numerical score is computed to determine the risk ranking. Areas with the highest scores are considered the riskiest and should be audited before areas with lower scores. The methodology described in this section complies with *Internal Auditing Performance Standard 2010 – Planning*, which states “the audit executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organization's goals.”

B. Methodology for Audit Planning

Risk Assessment and Ranking – Using the Risk Assessment and Ranking worksheet in the Audit Plan and Year-End Status Report templates, complete the procedures in this section. The following audits are scheduled without going through the analysis and ranking process.

- Required by Statute
 - Required by the Tennessee Board of Regents
 - Required by Other Authorities
 - Required by Contract or Agreement
 - Requested by Senior Management
 - Requested by the Audit Committee
 - In Progress at Year-End
1. Identify the audit universe for the institution. Consider the operations of the institution and the major and sub-processes identified by management during their risk assessment to identify the audit universe. For each audit area in the institution's universe, identify the type of audit and the major functional area using the key code provided in Section C.
 2. Determine the percentage weight of each risk factor (Audit History, Internal Controls, Changes, Size, Sensitivity and Exposure, and Management's Risk Assessment) for a total of 100%. If it is necessary to add another risk factor, it should be identified and explained on the schedule in the “Other” column. The weight value may be adjusted as needed based on each institution's unique mission and characteristics.
 3. Score each audit area for each of the risk factors on a scale of one to five points, using the following risk value descriptions. Internal audit should obtain input from senior management or other appropriate sources. Additional information on each risk factor is provided in Section D.

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| Risk Description | Risk Value |
|----------------------------|-------------------|
| Low Risk | 1 |
| Moderately Low Risk | 2 |
| Moderate (or Unknown) Risk | 3 |
| Moderately High Risk | 4 |
| High Risk | 5 |

4. Formulas included in the worksheet multiply the weighted value of each risk factor by the score given to each audit area and calculate the points for each audit area to determine a total risk score. A maximum risk score would be 5.00 points.
5. Sort the audit areas according to their total risk score from highest to lowest and assign a number rank (e.g., 1 through 30), with 1 being the area with the highest score. For audit areas with the same risk score, use the same number rank followed by a “T” to indicate a tie. Professional judgment should be used to determine the timing of audit areas with the same risk score.

Time Calculation - Calculate the total number of audit hours available in a planning cycle by considering the number of audit staff available and scheduled work hours. Reduce the total scheduled hours by the hours estimated for administrative tasks, leave, continuing professional education, and any other non-audit use of hours. The hours remaining are available for audit work and should be used to determine how many audit areas may be completed during the audit plan period.

Internal Audit Plan – To prepare the Internal Audit Plan, identify the audit areas that may be completed during the audit plan period and enter these areas from the Risk Assessment and Ranking worksheet, along with the Rank, Audit Type, and Functional Area. The Internal Audit Plan should also include the Estimated Hours, the Estimated Completion Date, and the Cumulative Hours for the audit plan period.

Internal Audit Plan Summary – In addition to the Internal Audit Plan, an Internal Audit Plan Summary report is completed to reflect the planned audits by audit type and by functional area for the audit plan period.

C. Types of Audits and Major Functional Areas

The following key audit types should be used to classify planned audits. Management of institutions within the system identified the following major functional areas, which should be used as an additional classification for planned audits.

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Audit Types:

| | |
|---|--------------------------------|
| R | Required |
| A | Risk-Based (Assessed) |
| S | Special Request |
| I | Investigation |
| P | Project (Ongoing or Recurring) |
| M | Management's Risk Assessment |
| C | Consultation |
| F | Follow-up Review |

Functional Areas:

| | |
|----|--------------------------------|
| AD | Advancement |
| AT | Athletics |
| AX | Auxiliary |
| FM | Financial Management |
| IA | Instruction & Academic Support |
| IS | Institutional Support |
| IT | Information Technology |
| PP | Physical Plant |
| RS | Research |
| SS | Student Services |

D. Risk Factors

The following risk factors may be used in the analysis of audit areas. Professional judgment is required to assess these risk factors.

1. Audit History
 - a. Time since last audit.
 - b. Results of last audit (number of findings, severity, and action taken by management to resolve).
 - c. External audit or monitoring coverage and results.
2. Internal Controls
 - a. Quality of internal control system now (rely on results of last internal or external audit, follow-up audit results, and any known changes to internal controls).
 - b. Level of decentralization for operations.
 - c. Tone of top management (years of experience, past performance, communication style, adequate staffing in area).
 - d. Extent of reliance on technology and complexity of operations.
3. Changes (major changes since the last audit)
 - a. Key personnel or unusual turnover.
 - b. Organizational changes.
 - c. Accounting and other critical operating systems.
 - d. Operations (mission, rapid growth or decline).
 - e. Programs (new programs, changes in funding levels, increased regulatory requirements).
4. Size
 - a. Revenues
 - b. Expenditures
 - c. Assets
 - d. Volume of Transactions

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- e. Enrollment
 - f. Staffing
5. Sensitivity and Exposure
- a. Extent of government or outside regulation.
 - b. Political exposure, adverse publicity, or legal liability.
 - c. Inherent risk of loss of resources (potential for fraud, misappropriation, or abuse).
6. Management’s Risk Assessment
- a. Whether the audit area has been included in management’s risk assessment process.
 - b. Results of the assessment (number and severity of risk factors).
 - c. Results of management’s control assessment (methods and frequency of monitoring controls).
 - d. Time since last assessment.
7. Other (if applicable, specify any additional factor in the worksheet).

E. Submission of Audit Plan

The audit plan submitted to the Director of System-wide Internal Audit should include all four reports discussed in Section B (Risk Assessment and Ranking, Time Calculation, Internal Audit Plan, and Internal Audit Plan Summary). The audit plans of the institutions will be combined by the Office of System-wide Internal Audit and presented to the Audit Committee for approval.

Appendix A is an example of a completed Internal Audit Plan, including Risk Assessment and Ranking, Time Calculation, Internal Audit Plan, and Internal Audit Plan Summary.

Significant deviations from the Internal Audit Plan should be communicated to the Director of System-wide Internal Audit.

F. Year-End Status Report and Year-End Status Summary

Report on Year-End Status of the Internal Audit Plan - At the end of the fiscal year, each institution prepares a Report on Year-End Status, which reflects all audits, investigations, projects, and special requests for the year, including engagements that are in progress at year-end. The report should also include each engagement’s Estimated Hours, Actual Hours, and Completion Date/Completion Status (Completed, Deferred, In Progress, etc.). Footnotes should be included to explain the reasons for any deferred or any unplanned engagements. For items in progress at year-end, the anticipated completion date should be included.

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Summary Report on Year-End Status of the Internal Audit Plan - Each institution should also complete a Summary Report on Year-End Status to reflect the number of audits planned and completed. The report will identify completed audits by audit type and by functional area. The Year-End Status summaries of the institutions will be combined by the Office of System-wide Internal Audit to report the annual activity of the audit function to the Audit Committee.

Appendix B is an example of a completed Report on Year-End Status Report of the Internal Audit Plan and a Summary Report on Year-End Status of the Internal Audit Plan.

G. Documentation Standards

Each internal audit office should maintain a file for three years documenting the development of the audit plan, the calculation of available audit hours and the year-end status of the audit plan. Audits requested by the Audit Committee, the President, or senior management should be noted in the file.

A. General

The professional standards promulgated by the Institute of Internal Auditors (IIA) require internal auditors to document relevant information to support conclusions and engagement results. Additionally, audit executives are required to control access to these records and develop retention requirements for them.

The purpose of this section is to provide guidance for complying with IIA Standard 2330 while also facilitating supervisory review, staff development, and other internal audit management activities. The requirements of this section are aligned with American Institute of Certified Public Accountants (AICPA) and Government Accountability Office (GAO) standards.

B. Definition and Form

Working papers are the auditor's record of compliance with applicable auditing standards and serve as the link between the auditor's fieldwork and the audit report. Working papers are documents and other items that, as a whole, provide a systematic record of work performed in carrying out an audit engagement. The working papers make up the record of evidence and relevant information sufficient to support the information, conclusions and results of the engagement included in the auditor's report. In addition, working papers are useful management and supervisory tools, as well as sources of supplementary audit information.

Working papers may be a physical and/or electronic file that includes programs, correspondence, schedules, analyses, reports, photographs, tapes, disks, and other documents and items prepared or collected as part of the engagement. Working papers may be created and organized manually or through the use of specialized automated working paper software.

C. Contents of Working Papers

The overall objective of working papers is to show that an adequate audit engagement was conducted following professional standards. Therefore, working papers must contain documentation of the following:

Engagement Planning – This will include background information, opening conference, survey of internal controls, audit program, and other information relevant to the planning stage of the audit.

Objectives and Scope of Work – The stated objectives of the audit program should address the risks associated with the activity under review. Objectives must be defined prior to the start of the engagement and designed to address the specific issue/risk that prompted the engagement. After identifying the risks, the auditor must determine the

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Section V – Working Paper Techniques

engagement scope (nature, timing, and extent). The audit program steps must clearly support these objectives.

Examining and Evaluating Information – Working papers must demonstrate that auditors executed their fieldwork in accordance with the audit program and audit objectives, documented their work, and supported their conclusions. If any deviation from the audit program is necessary, an explanation should be included in the working papers.

Due Professional Care – Working papers should document that auditors assisted management by evaluating internal controls and recommending necessary improvements to controls to promote conformance with established or acceptable policies and procedures. Working papers should also document that auditors performed work designed to assess the risk of fraud and were alert to specific fraud opportunities or indicators.

Communications with Management – Working papers must include documentation of correspondence, meetings, discussions, or other communications with management. Examples of such communications may include entrance and exit conference agendas, engagement letters, findings, reports, questionnaires, memoranda, emails, and notes from meetings or discussions.

Supervision of the Engagement – Working papers should indicate the degree of the supervisor's involvement in planning, fieldwork, reporting, and communication activities. Appropriate documentation of supervisory review should be evident in the working papers. In internal audit departments with only one auditor, the auditor should use checklists or other self-review techniques to document and assure compliance with professional standards (see item F below regarding working paper reviews).

Communicating Results and Follow-up – The working papers must document the transmittal of the audit report to management to communicate the internal auditors' results or conclusions, and where appropriate, the internal auditors' opinion. The working papers should include documentation of management's responses to any audit findings or other significant issues when necessary, along with evidence of the auditors' follow-up activities of such issues. The working papers will document the distribution of the report, including any subsequent reports issued to amend significant errors or omissions in the original report.

Engagement Management – Working papers should normally include a time budget as well as documentation of significant problems encountered, and notes for future improvement.

D. Organization

1. Working papers should be logically organized to facilitate supervisory review and for referencing the supporting evidence from the audit report. A table of contents should be included when appropriate.
2. Individual documents within the working papers will be labeled with the name of the engagement, and cross-referenced to demonstrate how audit program steps, work performed, and audit conclusions relate to one another.
3. Care will be taken to include only documents needed to support the results of the engagement. Informational documents about the audited entity (but not directly related to the audit results) may be maintained separately in a permanent file. Permanent files are discussed in a separate section of this policy.

E. Preparation

Working papers must contain sufficient information to enable an experienced auditor with no involvement in the engagement to understand and verify the evidence supporting the conclusions and results of the engagement. Therefore, audit tests, narratives, and other types of working paper documents should be clear, concise, accurate and complete and should normally include the following types of information.

Purpose: If it is not implicitly obvious, each individual document (tests, narratives, flow-charts, exhibits, etc.) should be labeled to show its purpose as it relates to the audit. The stated purpose will usually relate directly to an audit program step. This generally applies to all fieldwork documents and many planning documents.

Scope: Audit tests should clearly state the time period and items included in the test.

Conclusion: Tests, analyses, narratives, etc. must support the auditor's conclusion. The conclusion will be consistent with the stated purpose.

Some individual working papers also require documentation of the **source** and the **sample selection method**:

Source: Unless it is otherwise obvious, individual items should be labeled with their sources. Items commonly labeled with their source include exhibits, schedules, analysis, and reports created by someone other than the auditor.

Sample Selection Method: Detailed audit tests should clearly state the population from which the sample was selected along with the type of sample and the method for selecting the sample. Occasionally, the nature of the audit objective or test may require

testing of the full population; in these cases, it should be stated that 100% of the population was tested.

F. Working Paper Review

Working papers should be prepared by the auditor who performs the work and reviewed by the management of the internal audit activity. The reviewer should ensure that the work performed is sufficient, the engagement conclusions are adequately supported, and working papers satisfy the professional quality standards described and/or referred to in this manual. An in-charge auditor, supervisor, manager, director, or some combination of these as applicable and appropriate, may perform reviews. In a one-person department or when the director of a multi-person department has performed the work, the auditor should prepare and complete an audit checklist to document performance of a self-review. See Appendix C for examples of checklists. Also, see Appendix D for a list of typical review activities and considerations.

Specific concerns raised by the reviewer during a working paper review should be documented in writing and returned to the auditor that prepared the working paper. Such concerns are commonly called review points or review notes. The purpose of the points or notes is to request correction of errors in the working papers, to note insufficiencies in the work performed, or to request additional or clarifying information. The auditor who performed the work should answer all review points or notes and make any requested corrections. The reviewer should determine whether the points have been sufficiently answered. The review points or notes and answers may be retained in the working papers, destroyed, or kept separately for staff development purposes.

G. Maintenance of Working Papers

Custody – Working papers should remain in the custody of the internal auditor performing the engagement, and after completion of the audit, should remain in the custody of the internal audit department. Electronic audit files, whether on desktop or laptop computers, flash drives or other electronic devices, should be safeguarded with appropriate security protocols. Working papers should never be left where they might be accessible to others. Care must be taken at all times not to divulge information that is to be kept confidential in accordance with Board or institution policies or state or federal laws.

Appropriate care should be taken with all entity records obtained in connection with an audit, whether hard or electronic copies, to ensure records are protected while in the custody of internal audit and returned timely and intact to appropriate institutional personnel. Particular care should be taken with sensitive entity records that may contain personally identifiable information such as student records or personnel records. It may be helpful to maintain a log of records obtained and returned to account for all records handled during an audit.

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Internal audit departments are expected to cooperate with the Comptroller of the Treasury, Division of State Audit and will grant them access to working papers as needed. Tennessee state law excludes internal audit working papers from open records requests (Tennessee Code Annotated 4-3-304(7) and (9)). Additionally, it is not required to show working papers to institutional personnel outside of internal audit. However, in some cases it may be appropriate to provide copies of documents to members of management or others upon request. Internal auditors should consult the Director of System-wide Internal Audit and senior management before releasing working papers to anyone outside of the institution. In the case of a subpoena or other request for internal audit working papers involving legal proceedings, internal auditors should also consult legal counsel.

Confidential Audit Information – State law (Tenn. Code Ann. § 10-7-504 (a)(22) and § 49-14-103 (a)) state working papers of internal auditors are confidential records. Working papers include audit information, correspondence, documents and data received, obtained or created by internal auditors as part of an internal audit or investigation.

State law (Tenn. Code Ann. § 49-14-103 (a)) and TBR Policy 4:01:05:50, Preventing and Reporting Fraud, Waste or Abuse require the internal auditor to establish a process for confidential reporting of fraud, waste or abuse allegations (FWA). Correspondence (letters, emails) and other information (including verbal information) received that report allegations of FWA are considered confidential working papers of the internal auditor. FWA information reported to management, but immediately referred to the internal auditor for investigation is also considered confidential. The auditor will retain the identifying information of individuals requesting anonymity only in the working papers and will not share it without the individual's permission, except as noted below.

Although every attempt will be made to keep information confidential, circumstances such as an order of a court or subpoena may result in disclosure. Also, if TBR or one of its institutions has a separate legal obligation to investigate the complaint (e.g., a complaint of illegal harassment or discrimination), TBR and its institutions cannot guarantee anonymity or complete confidentiality.

Some allegations submitted to Internal Audit as FWA may not be considered matters that constitute FWA. Internal auditors must use their professional judgment in these circumstances to request that a different institutional office review or investigate such matters. When contact information is provided, the person reporting the information will be notified by Internal Audit that the matter will be referred to another office for review. Examples of such issues, other than illegal harassment or discrimination mentioned above, include complaints regarding general matters, academic programs or individual behavioral issues that do not constitute FWA.

All investigations will be conducted in as strict confidence as possible, with information sharing limited to persons on a “need-to-know” basis. As necessary and appropriate, internal auditors may provide information and documents considered confidential working papers to management. Such correspondence retains its status as confidential working papers of the

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internal auditor. The auditor should label such correspondence as “Confidential Audit Information” or another similar label that is clearly understood by staff at the institution.

The internal auditor should refer any public records request to management. The internal auditor may respond to requests for working papers and should provide appropriate references to state law in any response.

Retention – Internal audit must develop a suitable retention schedule for working papers that complies with Board policies and state or federal laws. The minimum retention period is five years from completion, unless more than two audits are completed within a five-year period. In that case, the two most recent sets of working papers should be retained while older sets may be destroyed. Notwithstanding this guidance, working papers related to cases of unresolved legal proceedings or other extenuating circumstances should be retained until the related issues are resolved.

Permanent Files – Certain data gathered in relation to an audited entity may be of continuing interest for informational or background purposes. These items may be included in a permanent file. Audit directors at each institution may determine specific items suitable for inclusion in permanent files. Permanent files are not intended to be permanent in that they will never change; the files should be updated periodically and documents that are no longer of any use should be discarded or destroyed.

A. Introduction

IIA Standard 2400, *Communicating Results*, requires internal auditors to communicate the results of an audit engagement. IIA Standard 2410, *Criteria for Communicating*, lists several criteria required to be included in the communication. At a minimum, the communication must cover the engagement's objectives and scope as well as applicable conclusions, recommendations, and action plans.

The TBR policy 4:01:05:00, *Internal Audit*, requires the results of routine internal audits to be presented in a written report documenting the objectives, scope, and conclusions of the audit. The final report must be accurate, objective, clear, concise, constructive, complete, and timely.

B. Report Contents and Form

To comply with TBR policy and the IIA *Standards*, a written audit report should include a cover letter to the chief executive of the institution, executive summary, objectives, scope, results, and when applicable, recommendations and action plans. Other sections that may be considered for inclusion in the report are title page, transmittal letter, table of contents, background/introduction, prior audit results, observations or opportunities for improvement, exhibits, and best practices. Below is a brief description of these sections.

1. Title Page – The title page should include institution, title and audit period or the last date of testwork. The title should be descriptive of the area reviewed and should be the same or similar to that listed on the annual audit plan.
2. Cover Letter – A signed cover letter must be included in the report. Per the IIA Practice Advisory 2410-1, *Communication Criteria*, “The term ‘signed’ means that the authorized internal auditor’s name is manually or electronically signed in the report or on a cover letter.” It further states, “If engagement reports are distributed by electronic means, a signed version of the report should be kept on file by the internal audit activity.” The cover letter should be dated the date the report is released.
3. Transmittal Letter – A transmittal letter may be prepared that conveys the report from the institution’s chief executive or internal audit director to the Director of System-wide Internal Audit, but is not part of the report.
4. Table of Contents – A table of contents will assist the reader and is recommended for long reports.
5. Executive Summary – The executive summary is a condensed representation of the completed audit report and should be a balanced summary of information in the report. It

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should be brief while relaying the significant issues as concisely as possible. An executive summary should include key staff person(s), auditor(s), summarized objectives, total questioned losses or total questioned costs, total recoveries or total repayments, summarized findings and/or observations, and an overall conclusion or assessment. The executive summary may also contain relevant background information and a summary of key observations, recommendations, and action plans. A sample executive summary is included as Appendix E.

6. Background – The background section should identify the unit or activity audited, reason for the audit (scheduled or requested), and other relevant descriptive or explanatory information regarding the unit or activity. Other sections that may be included in the background section or in a separate section include:

Status of Prior Audit Results – The status of observations, conclusions, and recommendations from prior audit reports should be considered for inclusion in the report.

Best Practices – Acknowledgement of satisfactory performance or best practices may be included in this section, if appropriate; however, the auditor may choose to reserve this information for the conclusion.

7. Objectives – The objectives are short purpose statements identifying the goals the audit is expected to accomplish. The conclusion or opinion (optional) sections should address the purpose statements in the objectives.
8. Scope – The scope statements identify the audited activities and describe the nature and extent of work performed to accomplish the audit objectives. Additionally, the time period and testing methods used may be presented in the scope. The scope should also identify any limitations of the examination and disclose areas which were not covered.

IIA Attribute Standard 1321, *Use of ‘Conducted in Accordance with the Standards’*, encourages auditors to report that audit activities are “*conducted in accordance with the Standards for the Professional Practice of Internal Auditing*”. The scope is an appropriate place to insert this statement if the internal audit function complies with the IIA *Standards* as assessed through the quality assurance improvement program. If full compliance has not been achieved, a statement to this effect should be made in the report.

9. Results – Based on the results of audit tests performed and evidence gathered during the audit, the report should include a conclusion that addresses each purpose statement in each objective. Conclusions may include audit findings, observations or improvement opportunities, recommendations, and management’s action plans. An audit opinion may also be included here, if desired, as an alternative to a separate opinion section. If a separate opinion section will be included, the satisfaction of audit objectives may be addressed in that section rather than in the conclusion section.

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The internal auditor communicates those matters necessary to support or prevent misunderstanding of the audit conclusions and recommendations, particularly findings or observations. The internal auditor may communicate less significant matters or recommendations informally or verbally, but should document that communication in the working papers.

When audit results indicate agreement between requirements or expectations that must be met and current activities, the auditor may acknowledge such satisfactory performance.

When audit results indicate the lack of agreement between requirements or expectations that must be met and current activities, such negative audit conclusions may be categorized as: a) findings, or b) observations or opportunities for improvement.

- a. Findings – Findings are statements of fact, which are unfavorable and describe less than satisfactory conditions that need correction of prior actions or prospective processes or procedures. Findings are determined by comparing “what should be with what is.” A significant variance between requirements or expected actions and current activities indicate corrective action is needed, resulting in a finding. If more than one finding exists, each should be numbered. Consideration should be given to the order of findings in the report, generally with the most significant findings reported before those of lesser significance.

Specific attributes should be identified when considering a finding: criteria, condition, cause and effect. IIA Practice Advisory 2410, *Communicating Criteria*, defines these terms as follows:

- Criteria – The standards, measures, or expectations used in making an evaluation and/or verification (the correct state.)
- Condition – The factual evidence that the internal auditor found in the course of the examination (the current state.)
- Cause – The reason for the difference between the expected and actual conditions (why).
- Effect – The risk or exposure the organization and/or others encounter because the condition is not consistent with the criteria (impact.) In determining the degree of risk or exposure, internal auditors should consider the effect findings and recommendations might have on the organization’s operations.

The cause and effect (actual or potential) are often the most significant or pertinent attributes for management to understand and may result in enthusiastic, positive action. It may be beneficial to present these at the beginning of the finding to ensure

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the reader has information that is helpful in determining the importance and significance of the issue.

- b. Observations or Opportunities for Improvement – An observation may describe a weakness affecting internal or accounting controls, which could lead to a finding if not addressed. An observation may also represent a variance between the correct state and the current state of activities; however, the use of an observation should be limited to those cases where the variance is substantially less significant, less severe or less prevalent than a matter warranting a finding. The auditor’s professional judgment must be used to evaluate these distinctions. An opportunity for improvement may highlight more efficient or effective processes or procedures that management should consider implementing. These matters may be communicated informally or included in the audit report if management action is needed and an action plan to improve the situation is desired. When more than one observation or improvement opportunity exists, the items should be numbered.
10. Recommendations – For each finding in the audit report, the auditor should make a recommendation to management that provides a reasonable means to correct the unfavorable condition or to improve operations. A recommendation should not only request correction of the existing condition, but should also include action to prevent the problem from happening again. Depending upon the situation, the recommendation may be specific or general.
11. Management’s Action Plans – Management’s action plans must be included with each finding and should begin by stating, “*We concur with the finding and recommendation*” or “*We do not concur with the finding and recommendation.*” The plan should address the cause and identify the actions management will take to correct the finding and/or implement the recommendation. Management should also assign responsibility and include a target or completion date in the plan.
- If the internal auditor and management disagree about the finding and/or recommendation, the audit report may state both positions and the reasons for disagreement. This should only occur after every effort has been made to obtain agreement with the finding and/or recommendation.
12. Exhibits and Attachments – All exhibits and attachments should be clearly labeled and properly introduced. When possible, the information should be placed on the page where the topic is discussed. Use of graphics, charts, or tables is encouraged to improve the readability, content, and visual appeal of the report.

C. Reviewing and Editing

Reviewing and editing is an essential and expected part of the internal audit management’s responsibility. Quality communication requires an accurate, objective, clear, concise, constructive, complete, and timely report. After appropriate review, the final audit report should be distributed to management. If a significant error or omission is discovered after distribution of the final report, corrected information should be distributed to all who received the document.

D. Distribution of the Report

According to IIA Standard 2440, “*Disseminating Results*,” the internal auditor must communicate results to the appropriate parties. The final step in the audit report process is distribution of the report. The internal auditor should ensure that the report is distributed to personnel with the authority to make the changes sought in the audit report and to other appropriate staff of the institution involved in the review or with a need to know the results of the review. The names of the recipients may be included on the audit cover letter to the Chancellor, President, or technology college Director, but at a minimum should be documented in the working papers.

An electronic copy of each report should be transmitted by the internal audit director to the Director of System-wide Internal Audit. After review by the Director and presentation of report results to the Audit Committee, an electronic copy of each report is filed with the State Comptroller’s Office. Additional distribution of reports may be required for certain audits. Refer to the submission and distribution requirements for audit reports in Appendix I. When transmitting electronic copies of the report to the Director of System-wide Internal Audit, the naming conventions described in Appendix F should be used.

Distribution of the report to parties outside the institution should be handled in accordance with IIA Standard 2410.A3, under *Criteria for Communicating*, by including in the communication the limitations on distribution and use of the results. Additionally, IIA Standard 2440.A2, under *Disseminating Results*, that if not otherwise mandated by legal, statutory, or regulatory requirements, prior to releasing results to parties outside the organization the internal auditor must assess the potential risk to the organization, consult with senior management and/or legal counsel as appropriate; and control dissemination by restricting the use of the results. Additionally, to clarify distribution procedures the following language should be included in all audit reports:

This report is intended solely for the internal use of (college or university) and the Tennessee Board of Regents. It is not intended to be and should not be used for any other purpose. The distribution of the report to external parties must be approved by the Office of Internal Audit and handled in accordance with institutional policies.

E. Reports on Fraud, Waste or Abuse

Because of the sensitive nature of fraud, waste or abuse audits, additional care should be exercised during the report preparation process. Fraud reports may vary in form to meet the specific circumstances of the situation as outlined below in the Special Reports section. Legal counsel may be consulted regarding the draft report before finalization. Audit reports addressing fraud, waste or abuse should be distributed internally as directed by the Chancellor, President or technology college Director. An electronic copy will be submitted to the Director of System-wide Internal Audit, which will also be filed with the State Comptroller's Office.

F. Special Reports

Auditors may be asked to provide management advisory or consulting services or may perform investigative audits. A report is usually issued at the conclusion of these projects. The format of special reports may vary in both form and content to fulfill the objectives of the assignment or request, which may cover unique subject areas and have specialized purposes. Below is a suggested format for such reports:

1. Background– The background should identify the subject area, explain the purpose of the study/project, provide relevant background information on the importance or impact of the subject area, and list any limitations on the extent of the work done.
2. Details of the Review – The main section of this type of report contains the results of the research and analysis. This section may be organized in a variety of ways depending on the objectives of the assignment. Information may be presented by department/division, subject area, chronological sequence, objectives, allegations received or other appropriate categories. Typically, such a report may include explanations of the current conditions within the area, best practices in the field, policy or regulatory requirements or other comparative data.
3. Conclusion – Important points of the report should be summarized or repeated, and any recommendations should be presented. Benefits from adopting the recommendations should be stated and quantified, if possible. If any significant issues related to risk management, control, or governance have arisen, proper communications should be included.

The special project report will be distributed internally as directed by the Chancellor, President, or technology college Director. Distribution to the TBR may be optional for consulting projects; however, all investigation reports will be sent to the Director of System-wide Internal Audit.

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Section VII – Quality Assurance and Improvement Program

A. Introduction

The Director of System-wide Internal Audit (Director of SWIA) is responsible for establishing an internal audit activity whose scope of work includes the activities in the Institute of Internal Auditors (IIA) *International Standards for the Professional Practice of Internal Auditing*, (the *Standards*) and the IIA *Definition of Internal Auditing* and the IIA *Code of Ethics*. To ensure the internal audit activity conforms with this professional guidance,, IIA *Standard 1300* requires the Director of SWIA to develop and maintain a quality assurance and improvement program (QAIP.)

IIA Standard 1300, Quality Assurance and Improvement Program, states “The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity.”

The QAIP is designed to enable an evaluation of the internal audit activity’s conformance with the IIA *Definition of Internal Auditing*, the IIA *Standards*, and the IIA *Code of Ethics*. The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement. The implementation of a QAIP should be sufficiently comprehensive to encompass all aspects of operation and management of an internal audit activity.

B. Requirements of the QAIP

A QAIP is an ongoing and periodic assessment of the entire internal audit activity. Per Practice Advisory 1310-1, these assessments “are composed of rigorous, comprehensive processes; continuous supervision and testing of internal audit and consulting work; and periodic validations of conformance with the IIA *Definition of Internal Auditing*, the IIA *Code of Ethics*, and the IIA *Standards*” including ongoing measurement and analysis of performance metrics. If opportunities for improvement are noted, the Director of SWIA will implement the improvements.

Assessments evaluate and conclude on the quality of the internal audit activity and lead to recommendations for improvement. QAIP’s should include an evaluation of:

1. Conformance with the *Definition of Internal Auditing*, the *Code of Ethics*, and the *Standards*, including timely corrective actions to remedy any significant instances of nonconformance.
2. Adequacy of the internal audit activity’s charter, goals, objectives, policies, and procedures.
3. Contribution to the organization’s governance, risk management, and control processes.
4. Compliance with applicable laws and regulations and government or industry standards.

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5. Effectiveness of continuous improvement activities and adoption of best practices.
6. The extent to which the internal audit activity adds value and helps to improve the organizations operations.

At least once a year, the Director of SWIA will communicate summary information to the Audit Committee on the results of any quality self-assessments performed during the year.

C. Internal Assessments

Internal assessments must include both ongoing monitoring of the performance of the internal audit activity, as well as periodic reviews performed through self-assessment or by other persons within the organization with sufficient knowledge of internal audit practices.

Ongoing Monitoring – Ongoing monitoring is an integral part of day-to-day supervision, review, and measurement of the internal audit activity. Ongoing monitoring is incorporated into the routine policies and practices used to manage the internal audit activity and uses processes, tools, and information considered necessary to evaluate conformance with the IIA *Definition of Internal Auditing*, the IIA *Code of Ethics*, and the IIA *Standards*. Tools used in ongoing monitoring may include:

1. Engagement supervision (See Appendix D for typical review considerations)
2. Checklists and procedures (See Appendix C for examples of checklists)
3. Feedback from audit customers and other stakeholders (See Appendix H for example of survey)
4. Peer reviews of working papers by staff not involved in the respective audits
5. Analyses of other performance metrics

Periodic Reviews – Periodic reviews are assessments conducted to evaluate conformance with the IIA *Definition of Internal Auditing*, the IIA *Code of Ethics*, and the IIA *Standards*. The IIA *Quality Assessment Manual*, or a comparable set of guidance and tools, should serve as the basis for periodic internal assessments. These periodic assessments may include:

1. Interviews and surveys of stakeholder groups
2. Self-assessment performed by members of the internal audit activity
3. An assessment by a Certified Internal Auditor (CIA) or other competent audit professional, currently assigned elsewhere in an organization
4. A combination of self-assessment and review by a CIA or other competent audit professional
5. Benchmarking of the internal audit activity's practices and performance metrics against relevant best practices of the internal audit profession

A periodic internal assessment performed within a short time before an external assessment may serve to facilitate and reduce the cost of the external assessment, but should not be used to communicate any assurances on the outcome of the subsequent external quality assessment. The report may offer suggestions and recommendations to enhance the internal

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audit activity's practices. Conclusions are developed as to the quality of performance and appropriate actions are initiated to achieve improvements and conformity to the standards as necessary. The Director of SWIA establishes a structure for reporting results of internal assessments that maintains credibility and objectivity.

If the external assessment takes the form of a self-assessment with independent validation, the periodic internal assessment may serve as the self-assessment portion of this process.

Periodic Internal Reviews

At least twice within the five years between external assessments, each TBR audit shop will perform a periodic internal review by completing a self-assessment checklist maintained by System-wide Internal Audit. This checklist is based on the IIA Standards, Definition of Internal Auditing and Code of Ethics, as well as the *IIA Quality Assessment Manual*. Based on the results of the self-assessment, each institutional internal audit director will complete a report, which includes an opinion stating the internal audit activity generally conforms, partially conforms, or does not conform with the *Standards*, the *Definition of Internal Auditing* and the *Code of Ethics*. As appropriate, the report should include best practices, nonconformance with standards, recommendations for improvement and related corrective actions with implementation dates. If a validation review will not be performed by a competent audit professional assigned elsewhere in the institution or an internal auditor from another TBR institution's audit office, the institutional internal audit director will issue the report to the Director of SWIA and to the senior management of the institution.

Periodic Internal Review with Validation

An internal audit director may elect to have a competent audit professional currently assigned elsewhere in the institution or an internal auditor from another TBR institution's audit office validate the results of their periodic internal review. Under this option, the institutional internal auditor will complete the procedures and report as stated above, but will not issue the report until after the validating review has been completed. The validating auditor will review documents, interview personnel and perform other procedures to the extent necessary to determine if the results of the periodic internal review are reasonable and accurate. Once the validating review has been completed, the validator will prepare a statement indicating their concurrence or non-concurrence with the opinion and other results of the self-assessment review. The institutional internal audit director will issue the report containing the validator's statement to the Director of SWIA and to the senior management of the institution.

D. External Assessments

External assessments must be conducted at least once every five years by a qualified, independent reviewer or review team from outside the organization. The reviewer or review team must be competent in the profession of internal audit as well as the external review

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process. The reviewer or review team must not have any real or perceived conflicts of interest.

External assessments cover the entire spectrum of audit and consulting work performed by the internal audit activity and should not be limited to assessing the quality assurance and improvement program. The scope should include benchmarking, identification, and reporting leading practices that could assist the internal audit activity in becoming more efficient and/or effective. This may be accomplished through either a full external assessment by a qualified, independent external reviewer or team or a comprehensive internal self-assessment with independent validation by a qualified, independent external reviewer or team (see item E below).

External assessments contain an expressed opinion as to the entire spectrum of assurance and consulting services performed by the internal audit activity including its conformance with the IIA *Definition of Internal Auditing*, the IIA *Code of Ethics*, and the IIA *Standards* and as appropriate, includes recommendations for improvement. These assessments may have considerable value to the Director of SWIA and other members of the internal audit activity, especially when benchmarking and best practices are shared. Formal communication of the external assessment must be given to senior management and the board.

The Director of SWIA is to ensure that the scope clearly states the expected deliverables of the external assessment in each case. The Director of SWIA should involve senior management and the board in determining the approach and selection of an external quality assessment provider.

The external assessment consists of a broad scope of coverage that should include the following:

1. Conformance with the IIA *Definition of Internal Auditing*, the IIA *Code of Ethics*, and the IIA *Standards*; as well as the internal audit activity's charter, audit plans, policies, procedures, practices and applicable legislative and regulatory requirements.
2. Expectation expressed by the board, senior management and operational managers.
3. Integration of the internal activity into the organization's governance process, including the relationships between and among the key groups involved in the governance process.
4. Tools and techniques employed by the internal audit activity.
5. Mix of knowledge, experience, and disciplines within the staff, including the staff's focus on process improvement.
6. Determination as to whether or not the internal audit activity adds value and helps management improve the organization's effectiveness.

The results of the review should be discussed with the Director of SWIA during and at the end of the assessment process. Written reports are communicated to the Director of SWIA. The Director of SWIA must communicate the results of the quality assurance and

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improvement program to senior management and the Audit Committee (IIA Standard 1320). The final report should include:

1. An opinion on the internal audit activity's conformance with the IIA *Definition of Internal Auditing*, the IIA *Code of Ethics*, and the IIA *Standards*.
 - a. Conformance means the practices as a whole satisfy the requirements of the elements mentioned above.
 - b. Nonconformance means the impact and severity of the deficiencies in the practices are so significant they impair the internal audit activity's ability to discharge its responsibilities.
2. An assessment and evaluation of the use of best practices.
3. Recommendations for improvement.
4. Responses from the Director of SWIA that include an action plan and implementation dates.

E. External Assessments: Self-Assessment with Independent Validation

An external assessment by a qualified, independent reviewer or review team may be troublesome for smaller internal audit activities or there may be circumstances in other organizations where a full external assessment by an independent team is not deemed appropriate or necessary. In these situations, a self-assessment with independent (external) validation may be utilized.

In selecting an external validator/reviewer, the Director of SWIA should ensure the reviewer and/or review team consists of individuals who are competent in internal auditing and the external assessment process. The evaluation of the competency of the reviewer and/or the review team should consider the experience and credentials of the selected reviewer(s) taken as a whole. The evaluation should also consider the size and complexity of the organizations that the reviewer(s) have been associated with in relation to the Tennessee Board of Regents (TBR) system. The reviewer(s) should be independent and should not have any real or apparent conflict of interest with the TBR system or its institutions. The reviewer(s) should not be part of or under the control of any institution in the TBR system.

If an external validator/reviewer is chosen, the self-assessment process should emulate an external assessment and be well documented. The results of the self-assessment should be documented in a draft report, which includes the Director of SWIA's judgment on conformance with the IIA *Definition of Internal Auditing*, the IIA *Code of Ethics*, and the IIA *Standards*.

The reviewer(s) performs sufficient tasks to validate the results and express the indicated level of conformance with the IIA *Definition of Internal Auditing*, the IIA *Code of Ethics*, and the IIA *Standards*. The reviewer will review the draft report of the self-assessment. If the reviewer(s) are in agreement with the draft report, the reviewer(s) may add appropriate wording to the report, concurring with the self-assessment process and opinion. If the

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reviewer(s) are not in agreement with the self-assessment draft report, the reviewer(s) may add dissenting wording to the report, specifying the points of disagreements. Alternatively, the reviewer may prepare a separate independent validation report to accompany the report of the self-assessment.

The report of the self-assessment with the independent validation is signed by the external reviewer or review team and issued to the Director of SWIA, who will provide the results to senior management and the Audit Committee.

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Section VIII – Conducting Investigations

A. Authority

Through the Audit Committee Charter, the committee has the authority to conduct or authorize audits or investigations into any matter within its scope of responsibility. The Audit Committee employs the Director of System-wide Internal Audit to report directly to the committee and the Board of Regents. The Director coordinates audit activities with the Tennessee Comptroller of the Treasury, with the campus internal auditors and with any other external auditors.

Internal auditors perform administrative investigations to provide information regarding allegations of improper activities to senior management, the Audit Committee, and the Board. Internal auditors have access to all necessary records, properties and employees of the institution under review to investigate any allegations. An investigation may include gathering and verifying information, examining records and other documents, observing activities and processes and conducting interviews. Results of investigations should include any findings, observations and recommendations. Administrative actions regarding recovery of misappropriated funds or property, disciplinary action regarding employees, or changes in operations are the responsibility of management.

The results of all administrative investigations are provided to the Comptroller of the Treasury, Division of State Audit. In the case of criminal activities, results of investigations should be provided to the District Attorney for consideration of criminal charges. Results of investigations should be provided to the Attorney General for consideration of civil action when appropriate. In some situations, it may be appropriate to coordinate investigations with law enforcement authorities during the course of the review. The TBR General Counsel should be consulted before submitting any reports for consideration of criminal or civil actions and before involving external law enforcement authorities.

B. Background

Tennessee Board of Regents (TBR) Guideline B-080, *Reporting and Resolution of Institutional Losses*, as well as TBR policy 04:01:05:50, *Preventing and Reporting Fraud, Waste or Abuse*, reference the role of the internal auditors during investigations of fraud, waste, abuse, or institutional losses. The policy on fraud, waste or abuse includes definitions of those terms. Fraud encompasses irregularities and illegal acts characterized by *intentional deception*. Persons inside or outside the institution may instigate fraud. Fraudulent acts may be perpetrated to benefit the institution or to the detriment of the institution. Waste and abuse involve deficient or improper behavior when compared to reasonable or normal business practices, but may not necessarily involve fraud. Waste is characterized by mismanagement or other inefficient or ineffective uses of institutional resources. Abuse is characterized by misuse of one's position or authority in carrying out institutional business.

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While there may be overlap in some situations, irregularities concerning an employee's moral, ethical, or behavioral conduct should normally be resolved by institutional or departmental management and Human Resources.

C. Responsibility of Internal Auditors

It is management's responsibility to establish and maintain an effective internal control system, which should be designed to deter fraud. Internal auditors are responsible for assisting management by examining and evaluating the adequacy and the effectiveness of the internal control system. IIA Standard 2060 requires the CAE to periodically report to senior management and the board on significant risk exposures, including fraud risks.

Internal auditors must exercise due professional care when performing audits and be alert to the indicators of fraud. However, per the IIA *Standards*, internal auditors are not expected to have knowledge equivalent to that of a person whose primary responsibility is detecting and investigating fraud. Audit procedures alone do not guarantee that fraud will be detected.

Within the TBR system, allegations of fraud, waste or abuse may originate from various sources such as phone calls, Comptroller's Hotline calls, web-based reports, emails, management observations or auditor observations during audit engagements. TBR Policy 4:01:05:50, *Preventing and Reporting Fraud, Waste or Abuse*, provides guidance for management on the prevention and detection of fraud, waste or abuse and provides guidance for management and employees on their responsibilities for reporting known or suspected incidents of fraud, waste or abuse and for cooperating during investigations of such incidents.

System internal auditors are responsible for reporting allegations received to System-wide Internal Audit, who subsequently reports matters to the Comptroller of the Treasury, Division of State Audit, in accordance with state law. Tennessee Code Annotated, Section 8-19-501, requires the reporting to the Comptroller's Office immediately any shortages of moneys and unauthorized removal or state property, whether caused by malfeasance or misfeasance.

System internal auditors should communicate to management, staff, students, and others, the methods available for reporting instances of fraud, waste or abuse to facilitate and encourage the reporting of such matters. Tennessee Code Annotated, Section 49-14-103(a), requires that the internal auditor establish a process where students, employees, taxpayers or other citizens may confidentially report suspected illegal, improper, wasteful or fraudulent activity.

All information regarding such allegations should remain confidential. Tennessee Code Annotated, Section 49-14-103(a), states information received as a report of fraud, waste or abuse or any on-going investigation of these activities are considered working papers of the internal auditor and are confidential. Internal auditors will make every attempt to keep such information confidential, except that in some circumstances, such as an order of a court or subpoena, may result in disclosure. Also, if TBR or one of its institutions has a separate legal obligation to investigate the complaint (e.g., complaints of illegal harassment or

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discrimination), TBR and its institutions cannot ensure anonymity or complete confidentiality.

D. Monthly Investigation Logs

Each institution audit office should maintain an ongoing investigation log in the format provided by TBR System-wide Internal Audit. At the end of each month, the log should be submitted to the TBR Investigator for reporting information to the Audit Committee. The institutional internal auditor will assign each case a unique case number. The case number will include the acronym for the institution followed by two digits that represent the fiscal year in which the case was reported. The remaining numbers should be a sequential series of numbers that uniquely identify the case (e.g., APSU11-1001, APSU11-1002, APSU11-1003).

The log should contain a summary inventory of the investigation activity for the current month and for the current fiscal year. The purpose of the log is to record and track key actions on a case. The log should be updated as the status of cases change, but at least at the end of each month. Reported, estimated or confirmed losses, as applicable, should be reported and updated monthly.

Because investigation logs contain summary information related to open cases, these documents should be securely maintained with other confidential working papers.

E. Considerations for Planning and Testwork

Investigations performed as a result of reports of allegations should be properly planned, adequately staffed and performed in a professional manner. Appropriate institutional management should be informed about allegations received on a need-to-know basis, while also protecting the confidentiality of the source of information received. Investigations should be performed in a manner to cause the least disruption to operations. If necessary, legal, investigative or expert advice should be obtained prior to proceeding with the investigation.

Allegations - Internal auditors should consider the following upon receipt of allegations.

1. Verify or gauge the validity of the allegations by:
 - a. considering the credibility of the complainant and the information provided;
 - b. considering whether enough information is available to begin making inquiries;
 - c. contacting the complainant, if needed and contact information is provided, to obtain additional or clarifying information; and
 - d. performing preliminary steps to assess documents, processes or activities related to the allegations.

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2. Determine the appropriate investigating office by considering whether the allegations identify:
 - a. institutional losses, fraud, waste or abuse;
 - b. programmatic, academic affairs or student affairs issues;
 - c. discrimination or harassment issues;
 - d. personal behavioral issues;
 - e. safety or security issues; or
 - f. other matters where consultation with legal counsel or other senior management is needed to identify the course of action.

3. Make the necessary notifications when it is determined the allegations have validity and should be investigated by internal audit:
 - a. appropriate senior management on a need-to-know basis;
 - b. General Counsel and/or institutional legal counsel;
 - c. System-wide Internal Audit, who will notify the Comptroller of the Treasury, the Audit Committee and system office management as needed. SWIA maintains an Audit Committee Decision Matrix to assist with determining when matters should be reported to the Audit Committee and management.

Planning - The investigation should be planned to address the allegations received and any significant related issues noted during the course of the review. The internal auditor should identify the:

1. Scope of the investigation, including the period to be covered.
2. Investigative procedures and interviews.
3. Timing of the testwork and interviews.
4. Staff who are independent of the operations and qualified to conduct the review.
5. Assistance, if any, needed from the Office of System-wide Internal Audit.
6. Other assistance needed.

As an investigation progresses, information may come to the internal auditor's attention that indicates the planned scope, investigative procedures, timing and related matters must be altered. Significant changes should be communicated to the Director of System-wide Internal Audit and appropriate management.

An entrance conference with key management may not be necessary in all situations, but should be considered to explain the scope, planned testwork schedule, reporting process and information and assistance needed. Even when an entrance conference is not conducted, it may be appropriate to communicate the same information to key management involved to ensure an understanding exists about the investigation process. Information should be shared on a need-to-know basis.

In the case of unannounced visits to a department or institution in relation to an investigation, the internal auditor should identify their office and position and explain the assistance or

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information needed. In such cases, the auditor should be sensitive to the circumstances and expect to also provide identification if requested.

Testwork and Evidence – Appropriate tests should be performed to either validate or disprove the allegations received. In some situations, it may not be possible to reach a conclusion regarding the allegations; in these situations, the auditor may present the pertinent evidence obtained but should make it clear in the working papers and the report that the information was not conclusive regarding the allegation.

Appropriate evidence should be obtained, labeled and documented in the working papers to support the conclusions of the investigation. Working papers should include sufficient information to describe the procedures performed, the purpose of the tests, the source of documents used during the tests, any sampling procedures or 100% testing used, and conclusions regarding tests. Copies of documents should be considered for inclusion in the working papers as needed or anticipated in the case of legal proceedings.

In some situations, it may be necessary to retain original documents during an investigation. In these cases, management should be provided a copy of the documents retained and the originals should be placed in the working papers without placing any marks on the documents (a clear sheet protector may be used). A cover page indicating the source and any other relevant explanation is appropriate for such documents.

F. Retrieving Electronic Equipment and Data to Preserve Evidence

In some instances, it may be beneficial to take possession of institution equipment to gather evidence. Once it has been determined by consultation with General Counsel, System-wide Internal Audit and management that a valid reason exists for taking possession of an institutional computer, these procedures should be followed.

1. If the employee is present, management should inform them that the computer must be removed along with any other instructions for the employee.
2. Photograph all computers and peripherals before they are touched, including close-up photographs of any monitors that are turned on.
3. Record the date, time, and the computer's state of operation when it is retrieved, as well as any other applicable information. It is best to record this information in your notes and also on an index card or other tag that should be attached to the outside of the computer. Once the equipment is tagged, take another photograph of the computer.
4. If the computer is running, disconnect it from the power source. Do not conduct a normal shutdown of the system since this could possibly alter evidence on the system. Recover the entire unit, not just the hard drive.

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5. Prepare a chain of custody form to document movement of evidence. Receipts for the evidence by other authorities should be attached to the form.
6. Secure the unit until it can be forensically examined and a bit for bit copy of the hard drive made using specialized software. The System-wide Internal Audit Office should be consulted in advance to coordinate such an examination.
7. Results of the examination should be reviewed with General Counsel. If possible criminal activity is discovered, any examination must be stopped and the proper authorities contacted. If the suspected evidence possibly relates to child pornography, the Federal Bureau of Investigation must be notified. TBR System-wide Internal Audit will coordinate activities with the Comptroller of the Treasury as needed to assist institution internal auditors with these procedures.

Refer to Appendix G of this manual for a Chain of Custody form to document the retrieval of electronic equipment or data.

G. Using Surveillance as a Tool during an Investigation

The 2009 Fraud Examiners Manual, published by the Association of Certified Fraud Examiners, defines surveillance simply as the “planned observation of people, places, or objects (3.305).” The manual also states “carefully planned and properly executed surveillance can be of tremendous value in an investigation, conversely, lack of preparation, poor timing, and unsound surveillance can destroy an otherwise good case (3.306).” Used in a timely manner with great care, surveillance, both by visual and electronic methods, is a valuable tool that can produce results that cannot be achieved by other investigation tools.

With certain cases, such as theft of money, property or time, surveillance may be the best tool to substantiate allegations. However, due to the sensitivity of surveillance and the cost of resources used during surveillance, other investigation tools should be considered which might be more cost beneficial and still provide evidence that is useful in resolving the case. Using an institution’s pre-existing resources, such as videotape, time-clock recordings, or computer usage does not fall within the authorization required by this procedure.

1. Implementing Surveillance During an Investigation

Adequate probable cause must exist and be adequately documented in order to use surveillance. Probable cause has been defined in the 2009 Fraud Examiners Manual as “reasonable grounds to believe (2.413).” Justification for surveillance must be legally sound and defensible. Failure to exercise professional due care could damage the reputation of the internal audit function, as well as jeopardize the investigation.

The 2009 Fraud Examiners Manual states that when public employers conduct a workplace investigation, their interest is substantially different from law enforcement. The manual

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further states, “The goal of public employers is to ensure that their offices run efficiently, not to enforce the law (2.414).” Although consideration of criminal activity may be necessary in investigations, the primary nature of internal audit investigations is from an administrative viewpoint. Any potential criminal matters will be referred to appropriate law enforcement authorities.

2. Approval of Surveillance During an Investigation

When considering the use of surveillance during an investigation, the auditor requesting surveillance should submit a memorandum to the Director of System-wide Internal Audit, clearly stating the (1) information on which the request for surveillance is based, (2) information that is expected to be obtained by the surveillance, and (3) identities of targets or suspects, if any. The Director will consult with General Counsel and as needed, the Audit Committee Chairperson for the Tennessee Board of Regents prior to approving the surveillance. The memorandum should be documented in the audit working papers.

3. Documentation of Surveillance During an Investigation

The auditor conducting surveillance should keep a detailed log and notes of the times, locations and observations made. This log, along with any photographs or other recordings, should be documented in the audit working papers.

Note: Citations regarding surveillance procedure are page references to the 2009 Fraud Examiners Manual, published by the Association of Certified Fraud Examiners.

H. Conducting Interviews

During the course of an investigation, it will be necessary to conduct interviews to determine the specifics of the case. The auditor may consider recording interviews or having a third person, preferably another member of the audit staff, take notes. This process allows the interviewer to concentrate on performing the interview as opposed to documenting it and provides a witness to the information provided.

All interviews are non-custodial and voluntary. However, TBR Policy 4:01:05:50, *Preventing and Reporting Fraud, Waste, or Abuse*, indicates individuals involved in such matters should cooperate by providing the information requested and failure to do so may result in disciplinary action. It should be noted that an individual who misappropriates state money or property faces the possibility of criminal or civil, as well as administrative action. Because of the possibility of criminal action in such instances, the internal auditor should be cognizant of the constitutional right against self-incrimination. Therefore, if an interviewee indicates they want to remain silent, the auditor should stop the interview and inform management.

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If an interviewee indicates their wish to have an attorney present, the interview should stop and consult the TBR General Counsel or institution legal counsel. If an interviewee indicates their wish to have someone else present during the interview, the person should refrain from answering questions on behalf of the interviewee.

Interviews of employees are classified as “information gathering interviews” or “admission seeking interviews.”

1. Information Gathering Interviews

Information gathering interviews are designed to gather facts that help the auditor determine the specifics of the case. These interviews may be informal and may not need to be witnessed. However, when interviewing a member of the opposite gender, it is suggested that a witness of the same gender sit in on the interview.

2. Admission Seeking Interviews

Admission seeking interviews are designed to encourage an employee to admit to an action. These interviews should always be witnessed and documented.

It may be helpful to have the interviewee sign a statement attesting to the facts described by the interviewee. The statements should only include the facts as stated by the interviewee, or an agreed upon understanding of the facts as stated by the interviewee. The statement should be signed and dated by the interviewee, interviewer, and any witnesses. The interviewee signs to attest to the factual content of the statement. The interviewer and the witness sign to attest that the interviewee signed the statement.

I. Communication of the Results of Investigations

Written or oral interim communications may be provided to management regarding the status of investigations, but such communications should be clear about the scope of any interim report. Internal auditors should exert caution in providing assurance regarding any activity where work is still in progress. A final report should be given to senior management and the board detailing the results of the investigation. The report should address each of the significant allegations received as the basis for the investigation and should summarize findings, observations and recommendations relevant to the review.

The internal auditor should be sensitive to the fact that once released, internal audit reports may be considered public documents. In addition, management will rely on the information reported to support their administrative decisions. The subjects of an investigation may be identified if there is sufficient evidence or signed statements regarding our statements or conclusions, but should be omitted if uncertainty regarding the allegations remains at the end of the investigation. Reports should be written with these considerations in mind. The report

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may indicate that pertinent information has been omitted because it is deemed privileged or confidential.

The internal auditor should consider submitting a draft of the proposed final communications on investigations to legal counsel for review. In those cases in which the internal auditor wants to invoke attorney-client privilege, consideration should be given to addressing the report to legal counsel. For more specific information on attorney-client privileged communications, consult TBR General Counsel.

Once an investigation is concluded, internal auditors should assess the facts known in order to: 1) determine if controls need to be implemented or strengthened and 2) design engagement tests to help disclose the existence of similar activities in the future.

Note: This procedure is intended as a guide to assist the internal auditor in conducting fraud, waste or abuse investigations. Since each investigation is unique, it is not practical to address each aspect of such a review in this procedure. However, additional guidance may be found in professional reference materials. The 2009 Fraud Examiner's Manual is available from the Association of Certified Fraud Examiners and a copy is available in the Office of System-wide Internal Audit. The Institute of Internal Auditors (IIA) has a practice guide, Internal Auditing and Fraud, dated December 2009, which is available on their website. For any investigation, it may be helpful to consult with the TBR Director of System-wide Internal Audit or the TBR Investigator.

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Section IX – TBR Related Policies, Guidelines, and Laws

- A. TBR Policy 04:01:05:00, *Internal Audit*
(<http://www.tbr.edu/WorkArea/linkit.aspx?LinkIdentifier=id&ItemID=7780&libID=7804>)
- B. TBR Policy 04:01:05:50, *Preventing and Reporting Fraud, Waste, or Abuse*
(<http://www.tbr.edu/WorkArea/linkit.aspx?LinkIdentifier=id&ItemID=7766&libID=7790>)
- C. TBR Guideline B-080, *Reporting and Resolution of Institutional Losses*
(<http://www.tbr.edu/policies/default.aspx?id=1710>)
- D. Higher Education Accountability Act of 2004
(<http://www.tbr.edu/WorkArea/linkit.aspx?LinkIdentifier=id&ItemID=6501>)
- E. Audit Committee Act of 2005
(<http://www.tbr.edu/WorkArea/linkit.aspx?LinkIdentifier=id&ItemID=8088&libID=8112>)
- F. Financial Integrity Act, 2008 Revision
(<http://www.tbr.edu/WorkArea/linkit.aspx?LinkIdentifier=id&ItemID=8085&libID=8109>)

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Appendices



Instructions for Audit Plan & Related Documents - July 2011

- 1 Schedules for Audit Plan, Risk Assessment & Ranking, and Time Calculation--Please refer to the Internal Audit Manual section on "Audit Risk Analysis and Audit Plan" to complete these forms.
- 2 Note that the audit universe depicted in this example is not exhaustive. Consider the operations of your institution and the major and sub-processes identified by management during their assessment of risks to identify your audit universe.
- 3 For each auditable area in your universe, identify the type of audit and the major functional area using the key code provided. If it is necessary to add a type or area, please contact the Director of SWIA.
- 4 You may have different forms you have used in the past but for consistency in the presentation to the Audit Committee and other Board members, please use these
- 5 You may use footnotes on any of the schedules in the darkened area, as needed for clarification.
- 6 Risk Assessment & Ranking-You may alter the weights for the risk factors as needed for your institution and you may add another risk factor, if relevant to your assessment. Please specify the factor in the Other column.
- 7 Management's Risk Assessment-You may assign an overall risk value based on your judgment after considering management's assessment of risk in a particular area or you may establish weights for risks determined by management. (One example is to assign a risk value of 5 to red risks, 3 to yellow risks, and 1 to green risks. If multiple risks are considered, total the values assigned to each and divide by the total number of risks to obtain an average risk value.)
- 8 Audit Plan Summary--While you may list as many potential audit areas as warranted for risk assessment, this schedule contains broad groups of areas, which will be used to consolidate the audit plans to give the committee an overview of the number of audits planned at each institution. I need you to complete the summary, ensuring it agrees with the total number of audits planned.
- 9 Using the Audit Plan Summary--This tab contains a schedule for presentation to the Audit Committee and a worksheet. Do not enter data or copy information to the schedule section (starts at cell A1) because the cells contain formulas to count the number of audits and hours from the worksheet. Go to cell F57 to locate the worksheet. First step- copy & paste the relevant audit plan information (columns Rank through Cumulative Hours) from the Audit Plan tab to the worksheet. Before copying & pasting, check to make sure that the worksheet contains enough rows for the data. If it is necessary to add rows to the worksheet, the formulas in the schedule will need to be changed. Once the data is copied to the worksheet, the schedule should automatically update. Compare the Audit Summary totals to make sure they agree with your Audit Plan.

TBR University
Calculation of Available Audit Hours
For the Fiscal Year Ended June 30, 2012

| | Director | Staff 1 | Total |
|-------------------------------------|-----------------|----------------|--------------|
| Weeks Per Year | 52 | 52 | |
| Days Per Week | 5 | 5 | |
| Total Days | 260 | 260 | |
| Holidays | 12 | 12 | |
| Sick Leave Days | 12 | 12 | |
| Annual Leave Days | 24 | 24 | |
| Maximum Non-Working Days | 48 | 48 | |
| Minimum Working Days | 212 | 212 | |
| Hours Per Day | 7.5 | 7.5 | |
| Minimum Working Hours | 1590 | 1590 | |
| Administrative Duties | 350 | 250 | |
| Continuing Professional Education | 100 | 100 | |
| Quarterly Board/TBR/Other Meetings | 60 | 10 | |
| Total Non-Audit Hours | 510 | 360 | |
| Estimate-Hours Available for Audits | 1080 | 1230 | 2310 |
| | | | |

TBR University
Internal Audit Plan
Risk Assessment and Ranking
For the Year Ended June 30, 2012

| Audit | Type | Functional Area | Prior Audit 20% | Internal Controls 20% | Change 10% | Size 15% | Sensitivity 15% | Mgmt's Risk Assess. 20% | Other | Total | Rank | | | | | |
|--|------|-----------------|-----------------|-----------------------|------------|----------|-----------------|-------------------------|-------|-------|-----------|------|------|------|------|-----------|
| State Audit Follow-Up | F | FM | | | | | | | | | Required | | | | | |
| Risk Assessment-May 2012 | M | SS | | | | | | | | | Required | | | | | |
| Risk Assessment-May 2012 | M | IT | | | | | | | | | Required | | | | | |
| Risk Assessment-May 2012 | M | AD | | | | | | | | | Required | | | | | |
| Risk Assessment-May 2012 | M | RS | | | | | | | | | Required | | | | | |
| Risk Assessment-May 2012 | M | IS | | | | | | | | | Required | | | | | |
| Student Assistance Fund | R | AT | | | | | | | | | Required | | | | | |
| Inventory Observations | R | FM | | | | | | | | | Required | | | | | |
| IT Governance Review | R | IT | | | | | | | | | Required | | | | | |
| Investigations | I | PP | | | | | | | | | Required | | | | | |
| Follow-up to Sponsored Prog | F | RS | | | | | | | | | Required | | | | | |
| Interim Self-Assessment | R | IS | | | | | | | | | Required | | | | | |
| Procard Reviews | P | FM | | | | | | | | | Mgmt Req. | | | | | |
| Faculty Transcripts Maintenanc | P | IA | | | | | | | | | Mgmt Req. | | | | | |
| Student Fee Reviews | P | FM | | | | | | | | | Mgmt Req. | | | | | |
| General Consulting | C | IS | | | | | | | | | Required | | | | | |
| Grants Management | A | FM | | | | | | | | | In Prog | | | | | |
| PCI-DSS* | A | FM | 5 | 1 | 3 | 0.6 | 3 | 0.3 | 3 | 0.45 | 4 | 0.6 | 2.82 | 0.56 | 3.51 | 1 |
| Physical Plant Services | A | AX | 5 | 1 | 2 | 0.4 | 3 | 0.3 | 5 | 0.75 | 3 | 0.45 | 2.64 | 0.53 | 3.43 | 2 |
| Disbursements | A | FM | 3 | 0.6 | 2 | 0.4 | 2 | 0.2 | 5 | 0.75 | 5 | 0.75 | 2.80 | 0.56 | 3.26 | 3 |
| Personnel | A | IS | 3 | 0.6 | 1 | 0.2 | 3 | 0.3 | 5 | 0.75 | 5 | 0.75 | 2.88 | 0.58 | 3.18 | 4 |
| Perkins Loans | A | IS | 4 | 0.8 | 3 | 0.6 | 1 | 0.1 | 4 | 0.6 | 3 | 0.45 | 2.59 | 0.52 | 3.07 | 5T |
| Travel | A | AD | 2 | 0.4 | 3 | 0.6 | 2 | 0.2 | 4 | 0.6 | 5 | 0.75 | 2.58 | 0.52 | 3.07 | 5T |
| Procard | A | FM | 2 | 0.4 | 3 | 0.6 | 3 | 0.3 | 4 | 0.6 | 4 | 0.6 | 2.80 | 0.56 | 3.06 | 6 |
| Accounts Receivable | A | FM | 3 | 0.6 | 2 | 0.4 | 3 | 0.3 | 3 | 0.45 | 5 | 0.75 | 2.75 | 0.55 | 3.05 | 7T |
| Receipts | A | AT | 2 | 0.4 | 2 | 0.4 | 2 | 0.2 | 5 | 0.75 | 5 | 0.75 | 2.73 | 0.55 | 3.05 | 7T |
| EDP Systems (App. Reviews) | A | IT | 4 | 0.8 | 2 | 0.4 | 2 | 0.2 | 3 | 0.45 | 4 | 0.6 | 2.84 | 0.57 | 3.02 | 8 |
| Investments | A | FM | 3 | 0.6 | 2 | 0.4 | 2 | 0.2 | 3 | 0.45 | 5 | 0.75 | 2.62 | 0.52 | 2.92 | 9 |
| Payroll | A | FM | 1 | 0.2 | 2 | 0.4 | 2 | 0.2 | 5 | 0.75 | 5 | 0.75 | 2.75 | 0.55 | 2.85 | 10T |
| Craft Center | A | AX | 4 | 0.8 | 2 | 0.4 | 1 | 0.1 | 5 | 0.75 | 2 | 0.3 | 2.48 | 0.50 | 2.85 | 10T |
| Research Procedures - labs, safety | A | AX | 5 | 1 | 3 | 0.6 | 3 | 0.3 | 1 | 0.15 | 2 | 0.3 | 2.47 | 0.49 | 2.84 | 11T |
| Scholarships | A | RS | 5 | 1 | 1 | 0.2 | 1 | 0.1 | 4 | 0.6 | 2 | 0.3 | 3.22 | 0.64 | 2.84 | 11T |
| Sponsored Programs | A | SS | 1 | 0.2 | 2 | 0.4 | 2 | 0.2 | 5 | 0.75 | 5 | 0.75 | 2.67 | 0.53 | 2.83 | 12 |
| Maintenance/Tuition & Rel. Fees | A | FM | 1 | 0.2 | 2 | 0.4 | 2 | 0.2 | 5 | 0.75 | 5 | 0.75 | 2.62 | 0.52 | 2.82 | 13T |
| Student Records | A | IS | 4 | 0.8 | 1 | 0.2 | 3 | 0.3 | 3 | 0.45 | 3 | 0.45 | 3.10 | 0.62 | 2.82 | 13T |
| Equipment/Capital Leases | A | FM | 3 | 0.6 | 3 | 0.6 | 3 | 0.3 | 3 | 0.45 | 2 | 0.3 | 2.57 | 0.51 | 2.76 | 14 |
| Library Services | A | IA | 5 | 1 | 2 | 0.4 | 3 | 0.3 | 3 | 0.45 | 1 | 0.15 | 2.11 | 0.42 | 2.72 | 15 |
| Bank Reconciliation | A | FM | 4 | 0.8 | 2 | 0.4 | 2 | 0.2 | 4 | 0.6 | 1 | 0.15 | 2.66 | 0.53 | 2.68 | 16 |
| Postal Services | A | AX | 5 | 1 | 2 | 0.4 | 1 | 0.1 | 2 | 0.3 | 3 | 0.45 | 2.00 | 0.40 | 2.65 | 17 |
| Recruiting | A | RS | 4 | 0.8 | 2 | 0.4 | 2 | 0.2 | 2 | 0.3 | 3 | 0.45 | 2.44 | 0.49 | 2.64 | 18 |
| Contracts | A | FM | 3 | 0.6 | 1 | 0.2 | 1 | 0.1 | 5 | 0.75 | 3 | 0.45 | 2.67 | 0.53 | 2.63 | 19T |
| University Advancement | A | IS | 3 | 0.6 | 1 | 0.2 | 1 | 0.1 | 4 | 0.6 | 4 | 0.6 | 2.66 | 0.53 | 2.63 | 19T |
| Emergency systems & procedures | A | PP | 5 | 1 | 2 | 0.4 | 2 | 0.2 | 2 | 0.3 | 1 | 0.15 | 2.59 | 0.52 | 2.57 | 20 |
| Inventories | A | FM | 4 | 0.8 | 3 | 0.6 | 2 | 0.2 | 2 | 0.3 | 1 | 0.15 | 2.47 | 0.49 | 2.54 | 21T |
| Financial Aid | A | SS | 1 | 0.2 | 1 | 0.2 | 1 | 0.1 | 5 | 0.75 | 4 | 0.6 | 3.45 | 0.69 | 2.54 | 21T |
| University Police | A | IT | 4 | 0.8 | 1 | 0.2 | 1 | 0.1 | 1 | 0.15 | 5 | 0.75 | 2.63 | 0.53 | 2.53 | 22 |
| Telecommunications | A | FM | 4 | 0.8 | 2 | 0.4 | 1 | 0.1 | 3 | 0.45 | 2 | 0.3 | 2.34 | 0.47 | 2.52 | 23 |
| Fitness Center | A | AX | 4 | 0.8 | 2 | 0.4 | 1 | 0.1 | 3 | 0.45 | 2 | 0.3 | 2.24 | 0.45 | 2.50 | 24 |
| Purchasing | A | FM | 3 | 0.6 | 1 | 0.2 | 1 | 0.1 | 4 | 0.6 | 3 | 0.45 | 2.66 | 0.53 | 2.48 | 25 |
| Accounts Payable | A | FM | 2 | 0.4 | 2 | 0.4 | 2 | 0.2 | 3 | 0.45 | 3 | 0.45 | 2.77 | 0.55 | 2.45 | 26T |
| Printing Services | A | FM | 5 | 1 | 2 | 0.4 | 2 | 0.2 | 2 | 0.3 | 1 | 0.15 | 2.00 | 0.40 | 2.45 | 26T |
| Information Technology Services | A | IT | 1 | 0.2 | 2 | 0.4 | 3 | 0.3 | 3 | 0.45 | 3 | 0.45 | 3.13 | 0.63 | 2.43 | 27 |
| Marketing services | A | AD | 5 | 1 | 1 | 0.2 | 1 | 0.1 | 2 | 0.3 | 2 | 0.3 | 2.39 | 0.48 | 2.38 | 28 |
| Residential Life | A | SS | 1 | 0.2 | 2 | 0.4 | 2 | 0.2 | 5 | 0.75 | 2 | 0.3 | 2.51 | 0.50 | 2.35 | 29T |
| Photo Services | A | PP | 5 | 1 | 2 | 0.4 | 2 | 0.2 | 1 | 0.15 | 1 | 0.15 | 2.24 | 0.45 | 2.35 | 29T |
| Athletic Revenue & Expenses | A | AT | 2 | 0.4 | 1 | 0.2 | 1 | 0.1 | 4 | 0.6 | 3 | 0.45 | 2.94 | 0.59 | 2.34 | 30 |
| Long-Distance/Cellular/1-800 Lines | A | IS | 3 | 0.6 | 2 | 0.4 | 2 | 0.2 | 2 | 0.3 | 2 | 0.3 | 2.63 | 0.53 | 2.33 | 31 |
| Technology Access Fee | A | IS | 1 | 0.2 | 2 | 0.4 | 1 | 0.1 | 4 | 0.6 | 3 | 0.45 | 2.78 | 0.56 | 2.31 | 31 |
| Facilities Rental | A | IS | 3 | 0.6 | 3 | 0.6 | 1 | 0.1 | 2 | 0.3 | 1 | 0.15 | 2.67 | 0.53 | 2.28 | 33 |
| Student Health Services | A | SS | 1 | 0.2 | 1 | 0.2 | 2 | 0.2 | 2 | 0.3 | 5 | 0.75 | 3.10 | 0.62 | 2.27 | 34T |
| Student Counseling Services | A | SS | 5 | 1 | 1 | 0.2 | 2 | 0.2 | 1 | 0.15 | 1 | 0.15 | 2.85 | 0.57 | 2.27 | 34T |
| Academic Advising | A | IA | 5 | 1 | 2 | 0.4 | 1 | 0.1 | 1 | 0.15 | 1 | 0.15 | 2.24 | 0.45 | 2.25 | 35 |
| Enrollment | A | SS | 1 | 0.2 | 1 | 0.2 | 2 | 0.2 | 3 | 0.45 | 4 | 0.6 | 2.88 | 0.58 | 2.23 | 36 |
| Student Career Services | A | SS | 5 | 1 | 1 | 0.2 | 1 | 0.1 | 1 | 0.15 | 1 | 0.15 | 2.67 | 0.53 | 2.13 | 37 |
| Ath Acad & Fin Aid Eligibility | A | AT | 1 | 0.2 | 1 | 0.2 | 1 | 0.1 | 2 | 0.3 | 5 | 0.75 | 2.79 | 0.56 | 2.11 | 38 |
| Cash Counts | A | FM | 3 | 0.6 | 2 | 0.4 | 1 | 0.1 | 1 | 0.15 | 2 | 0.3 | 2.70 | 0.54 | 2.09 | 39 |
| Contracted Services | A | AX | 1 | 0.2 | 1 | 0.2 | 1 | 0.1 | 4 | 0.6 | 3 | 0.45 | 2.60 | 0.52 | 2.07 | 40 |
| Tax Deferred Annuities | A | IT | 1 | 0.2 | 1 | 0.2 | 1 | 0.1 | 3 | 0.45 | 3 | 0.45 | 2.58 | 0.52 | 1.92 | 41 |
| Camps & Clinics | A | AT | 1 | 0.2 | 2 | 0.4 | 2 | 0.2 | 2 | 0.3 | 2 | 0.3 | 2.56 | 0.51 | 1.91 | 42 |
| Interdisciplinary Stu & Ex. Ed. | A | IA | 2 | 0.4 | 2 | 0.4 | 1 | 0.1 | 1 | 0.15 | 2 | 0.3 | 2.52 | 0.50 | 1.85 | 43 |
| Student Disability Services | A | SS | 1 | 0.2 | 1 | 0.2 | 2 | 0.2 | 1 | 0.15 | 3 | 0.45 | 2.70 | 0.54 | 1.74 | 44 |
| Research | A | RS | 2 | 0.4 | 1 | 0.2 | 1 | 0.1 | 2 | 0.3 | 1 | 0.15 | 2.51 | 0.50 | 1.65 | 45 |
| Faculty Credentials | A | IA | 1 | 0.2 | 1 | 0.2 | 1 | 0.1 | 1 | 0.15 | 3 | 0.45 | 2.55 | 0.51 | 1.61 | 46 |
| Eagle Card | A | SS | 2 | 0.4 | 1 | 0.2 | 1 | 0.1 | 1 | 0.15 | 1 | 0.15 | 2.68 | 0.54 | 1.54 | 47 |
| Fund. Formula (req'd but not this yr.) | R | SS | | | | | | | | | | | | | | Not rated |

* Value indicates auditor's assessment of risk factor for the specified area, using a rating from 1 to 5, a higher number indicates higher risk.
Note: Risk factors are weighted based on the institution's mission and characteristics.

- Audit Types:**
R - Required
A - Risk-Based (Assessed)
S - Special Request
I - Investigation
P - Project (Ongoing or Recurring)
M - Management's Risk Assessment
C - Consultation
F - Follow-up Review
- Functional Areas:**
AD - Advancement
AT - Athletics
AX - Auxiliary
FM - Financial Management
IA - Instruction & Academic Support
IS - Institutional Support
IT - Information Technology
PP - Physical Plant
RS - Research
SS - Student Services

**TBR University
Internal Audit Plan
Fiscal Year Ended June 30, 2012**

| Rank | Type | Area | Audit | Estimated Hours | Cumulative Hours | Estimated Completion Date |
|----------------------------|------|------|---|-----------------|------------------|---------------------------|
| Required by TBR | F | FM | State Audit Follow-Up | 75 | 75 | September 2011 |
| Required by TBR | M | SS | Risk Assessment-Student Services May 2012 | 25 | 100 | May 2012 |
| Required by TBR | M | IT | Risk Assessment-Infor. Tech. May 2012 | 25 | 125 | May 2012 |
| Required by TBR | M | AD | Risk Assessment-Univ. Advance. May 2012 | 25 | 150 | May 2012 |
| Required by TBR | M | RS | Risk Assessment-Research May 2012 | 25 | 175 | May 2012 |
| Required by TBR | M | IS | Risk Assessment-Enterprise-wide May 2012 | 25 | 200 | May 2012 |
| Required by OVC | R | AT | Student Assistance Fund | 50 | 250 | August 2011 |
| Required by State Audit | R | FM | Inventory Observations | 110 | 360 | August 2011 |
| Required by Standards, TBR | R | IT | IT Governance Review | 75 | 435 | March 2012 |
| Required by TBR, TTU | I | PP | Investigations | 300 | 735 | Various |
| Required by TBR | F | RS | Follow-up to Sponsored Prog | 25 | 760 | May 2012 |
| Required by TBR | R | IS | Interim Self-Assessment | 75 | 835 | May 2012 |
| Management Request | P | FM | Procard Reviews | 85 | 920 | June 2012 |
| Management Request | P | IA | Faculty Transcripts Maintenance | 75 | 995 | June 2012 |
| Management Request | P | FM | Student Fee Reviews | 100 | 1095 | June 2012 |
| Required | C | IS | General Consulting | 100 | 1195 | June 2012 |
| In Progress | A | FM | Grants Management | 300 | 1495 | October 2011 |
| 1 | A | FM | PCI-DSS Compliance | 250 | 1745 | December 2011 |
| 2 | A | AX | Physical Plant Services | 300 | 2045 | January 2012 |
| 3 | A | FM | Disbursements | 200 | 2245 | June 2012 |
| 4 | A | IS | Personnel | 300 | 2545 | |

Estimate-Hours Available For Audits = 2310 (Director and Assistant Director)

T--Tie

Audit Types:

R - Required
A - Risk-Based (Assessed)
S - Special Request
I - Investigation
P - Project (Ongoing or Recurring)
M - Management's Risk Assessment
C - Consultation
F - Follow-up Review

Functional Areas:

AD - Advancement
AT - Athletics
AX - Auxiliary
FM - Financial Management
IA - Instruction & Academic Support
IS - Institutional Support
IT - Information Technology
PP - Physical Plant
RS - Research
SS - Student Services

TBR University
Internal Audit Plan Summary
For the Year Ended June 30, 2012

| Audits by Type of Review | Planned | |
|---------------------------------|-----------------|--------------|
| | Quantity | Hours |
| Required | 4 | 310 |
| Risk-Based (Assessed) | 4 | 1050 |
| Special Request | 0 | 0 |
| Investigation | 1 | 300 |
| Project (Ongoing or Recurring) | 3 | 260 |
| Management's Risk Assessment | 5 | 125 |
| Consultation | 1 | 100 |
| Follow-up Review | 2 | 100 |
| | 20 | 2245 |

| Audits by Major Functional Area | Planned | |
|--|-----------------|--------------|
| | Quantity | Hours |
| Advancement | 1 | 25 |
| Athletics | 1 | 50 |
| Auxiliary | 1 | 300 |
| Financial Management | 7 | 1120 |
| Instruction & Academic Support | 1 | 75 |
| Institutional Support | 3 | 200 |
| Information Technology | 2 | 100 |
| Physical Plant | 1 | 300 |
| Research | 2 | 50 |
| Student Services | 1 | 25 |
| | 20 | 2245 |

Audit Types:

R - Required
A - Risk-Based (Assessed)
S - Special Request
I - Investigation
P - Project (Ongoing or Recurring)
M - Management's Risk Assessment
C - Consultation
F - Follow-up Review

Functional Areas:

AD - Advancement
AT - Athletics
AX - Auxiliary
FM - Financial Management
IA - Instruction & Academic Support
IS - Institutional Support
IT - Information Technology
PP - Physical Plant
RS - Research
SS - Student Services

Instructions for Year-End Status of the Internal Audit Plan & Related Documents

Reporting on the Year-End Status of the Internal Audit Plan:

- 1 **Report on Year-End Status Report of the Internal Audit Plan**--The year-end status report includes much of the same information as the internal audit plan. The main differences are the inclusion of columns to report actual hours and date completed and the removal of columns for cumulative hours and estimated date of completion. *In this status report, completed audits have been separated from incomplete audits to simplify the completion of the status summary report. For audits scheduled to be completed, but were not completed due to a lack of time, use the term "cancelled" in the "date completed" column. The term "cancelled" should be explained in a footnote as "This audit was cancelled due to priority given to other projects."*
- 2 **Summary of Report on Year-End Status Report of the Internal Audit Plan**--In addition to the planned audits and hours included on the Audit Plan Summary, additional columns have been added for actual audits and audit hours. Also, the summary requires totals for the completed audits and totals for audits in progress. Please complete the summary, ensuring it agrees with the total number of planned and completed audits and hours.
- 3 **Using the Status Plan Summary**--This tab contains a schedule for presentation to the Audit Committee and a worksheet. Do not enter data or copy information to the schedule (starts at cell A1) because the cells contain formulas to count the number of audits and hours from the worksheets.
- 4 **Planned Audits & Hours** - To enter the planned audits and hours, go to cell G56 to locate the worksheet. First step-copy & paste the relevant audit plan information (columns Rank through Cumulative Hours) from the Audit Plan tab to the worksheet. Before copying & pasting, check to make sure that the worksheet contains enough rows for the data. If it is necessary to add rows to the worksheet, the formulas in the schedule will need to be revised. Once the data is copied to the worksheet, the schedule should automatically update. Compare the Audit Summary totals to make sure they agree with the Audit Plan.
- 5 **Actual Audits and Hours**--To enter the actual audits and hours, go to cell M120 to locate the worksheet. First step-copy & paste the relevant audit plan information (columns Rank through Audit Name, then separately paste Actual Hours) from the Year-End Status Report tab to the worksheet. Before copying & pasting, check to make sure that the worksheet contains enough rows for the data. If it is necessary to add rows to the worksheet, the formulas in the schedule will need to be changed. Once the data is copied to the worksheet, the schedule should automatically update. Compare the Status Summary totals to make sure they agree with the Year-End Status Report.

TBR University
Report on Year-End Status of the Internal Audit Plan
Fiscal Year Ended June 30, 2011

| Rank | Type | Area | Audit | Estimate Hours | Actual Hours | Date Completed |
|-------------------------|------|------|---------------------------------------|----------------|--------------|--------------------------|
| Required by Law | F | FM | State Audit Follow-Up | 75 | 38 | Sep-10 |
| Required by State Audit | R | FM | Inventory Observations | 110 | 144 | Aug-10 |
| Required by TBR | M | AT | Risk Assessment-Athletics | 50 | 20.5 | May-11 |
| Required by TBR | M | FM | Risk Assessment-Financial Management | 75 | 24 | Oct-10 |
| Required by TBR | M | IS | Risk Assessment-Enterprise-wide | 50 | 20.5 | May-11 |
| Required by OVC | R | AT | Student Assistance Fund | 50 | 36 | Aug-10 |
| Required by TBR, TTU | I | PP | Investigation 10-01 | 250 | 336 | Nov-10 |
| Required by TBR, TTU | I | PP | Investigation 10-02 (5) | 0 | 12.5 | Jan-11 |
| Required by TBR, TTU | I | AX | Investigation 10-03 (5) | 0 | 23.5 | Mar-11 |
| Required by TBR, TTU | I | SS | Investigation 10-04 | 0 | 22.5 | Jun-10 |
| Required by TBR, TTU | I | PP | Investigation 9-02 (5) | 0 | 16.5 | Jun-10 |
| Required by TBR | F | RS | Follow-up to Sponsored Programs | 50 | 48 | Jun-11 |
| Required by TBR | F | FM | Follow-up to Web Check | 20 | 3.5 | May-11 |
| Required by TBR | F | AT | Follow-up to Sports Camps and Clinics | 100 | 22 | Jun-11 |
| Management Request | P | IA | Faculty Transcript Maintenance | 75 | 39 | Ongoing Consultation (5) |
| Management Request | P | FM | Pro Card Reviews | 45 | 89.5 | Ongoing Consultation (5) |
| In Progress | A | RS | Sponsored Programs | 100 | 23 | Oct-10 |
| In Progress | A | FM | Tax Deferred Annuities | 100 | 87.5 | Aug-10 |
| In Progress | S | AX | Pepsi Vending | 100 | 54 | Oct-10 |
| Consulting | C | IS | General Consulting | 100 | 104.5 | Ongoing Consultation (5) |
| 1 | A | FM | Grants Management | 400 | 114 | In Progress (1) |
| 2 | A | FM | Disbursements | 200 | 0 | canceled (3) |
| 3 | A | FM | Procard | 200 | 0 | canceled (3) |
| Required by TBR | R | SS | Funding Formula Data Elements | 150 | 0 | canceled (4) |
| Management Request | P | FM | Student Fee Reviews (2) (5) | 0 | 1350 | May-11 |
| Required by TBR | M | PP | Risk Assessment - Physical Plant (2) | 0 | 7.5 | May-11 |
| Required by TBR | F | PP | Follow-up to Special Invest. 10-01(2) | 0 | 5 | May-11 |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| Totals | | | | 2300 | 2641.5 | |

Estimate-Hours Available For Audits = 2410 (2 audit staff, including Director)
T--Tie

Audit Types:

- R - Required
- A - Risk-Based (Assessed)
- S - Special Request
- I - Investigation
- P - Project (Ongoing or Recurring)
- M - Management's Risk Assessment
- C - Consultation
- F - Follow-up Review

Functional Areas:

- AD - Advancement
- AT - Athletics
- AX - Auxiliary
- FM - Financial Management
- IA - Instruction & Academic Support
- IS - Institutional Support
- IT - Information Technology
- PP - Physical Plant
- RS - Research
- SS - Student Services

Footnotes:

(1) This audit is currently in progress, with anticipated completion date in FY 2012.

TBR University
Summary of Report on Year-End Status of the Internal Audit Plan
For the Year Ended June 30, 2011

| Audits by Type of Review | Planned | | Actual | |
|---------------------------------|-----------------|--------------|-----------------|---------------|
| | Quantity | Hours | Quantity | Hours |
| Required | 3 | 310 | 2 | 180 |
| Risk-Based (Assessed) | 5 | 1000 | 2 | 110.5 |
| Special Request | 1 | 100 | 1 | 54 |
| Investigation | 1 | 250 | 5 | 411 |
| Project (Ongoing or Recurring) | 2 | 120 | 3 | 1478.5 |
| Management's Risk Assessment | 3 | 175 | 4 | 72.5 |
| Consultation | 1 | 100 | 1 | 104.5 |
| Follow-up Review | 4 | 245 | 5 | 116.5 |
| Audits Completed at Year-End | 20 | 2300 | 23 | 2527.5 |
| Audits in Progress at Year-End | 0 | 0 | 1 | 114 |
| Total | 20 | 2300 | 24 | 2641.5 |

| Audits by Major Functional Area | Planned | | Actual | |
|--|-----------------|--------------|-----------------|---------------|
| | Quantity | Hours | Quantity | Hours |
| Advancement | 0 | 0 | 0 | 0 |
| Athletics | 3 | 200 | 3 | 78.5 |
| Auxiliary | 1 | 100 | 2 | 77.5 |
| Financial Management | 9 | 1225 | 7 | 1736.5 |
| Instruction & Academic Support | 1 | 75 | 1 | 39 |
| Institutional Support | 2 | 150 | 2 | 125 |
| Information Technology | 0 | 0 | 0 | 0 |
| Physical Plant | 1 | 250 | 5 | 377.5 |
| Research | 2 | 150 | 2 | 71 |
| Student Services | 1 | 150 | 1 | 22.5 |
| Audits Completed at Year-End | 20 | 2300 | 23 | 2527.5 |
| Audits in Progress at Year-End | 0 | 0 | 1 | 114 |
| Total | 20 | 2300 | 24 | 2641.5 |

Audit Types:

R - Required
A - Risk-Based (Assessed)
S - Special Request
I - Investigation
P - Project (Ongoing or Recurring)
M - Management's Risk Assessment
C - Consultation
F - Follow-up Review

Functional Areas:

AD - Advancement
AT - Athletics
AX - Auxiliary
FM - Financial Management
IA - Instruction & Academic Support
IS - Institutional Support
IT - Information Technology
PP - Physical Plant
RS - Research
SS - Student Services

Institution
Audit:
Audit Check List
Audit Period:

WP _____
Date _____
Acct _____

Completed

1. All working papers are complete:
 - a. Working papers have a proper heading (Audit Name, Subject, Period). _____
 - b. Working papers contain preparer's initials and date. _____
 - c. Working papers include complete references. _____
 - d. Working papers contain appropriate scope, source, purpose, explanatory notes and conclusions, as needed. _____
 - e. Working papers contain descriptions of the sampling methodology used, as needed. _____

2. All steps in the audit program have been initialed, dated and referenced appropriately. _____
3. The table of contents has been completed and included in the working papers. _____
4. All findings and other audit exceptions are adequately supported. _____
5. The audit report has been submitted to the President/TTC Director, other appropriate management and to TBR. _____
6. A copy of the audit report has been included in the working papers and referenced to supporting working papers as necessary. _____
7. The final list of non-finding items (observations/weaknesses) has been provided to the President/TTC Director and other appropriate management. _____
8. Carry-forward suggestions or improvements for the next audit have been included in the working papers or permanent file. _____
9. Follow-up audit for any findings has been scheduled. _____
10. Electronic and hard-copy working papers have been appropriately filed and/or backed-up. _____

Institution _____
 Department _____
 Audit Period: _____

WP: _____
 Date: _____
 Auditor: _____

Audit Checklist/Route Sheet

Name of Audit: _____
 Auditor(s): _____

Reason for Audit: Risk-Based Special Request Investigation Other

Engagement explanation: _____

| | | | |
|-------------------|-------------------------------|--------|--------|
| Start Date: _____ | Budgeted Hours in Audit Plan: | 75.0 | |
| End Date: _____ | Actual Hours: | 37.5 | |
| | Variance Over (Under) Budget: | (37.5) | -50.0% |

| | Start Date | End Date | Initials |
|--|------------|----------|----------|
| Planning | _____ | _____ | _____ |
| Engagement Letter provided to Management w/Scope | _____ | _____ | _____ |
| Entrance Conference held | _____ | _____ | _____ |
| Fieldwork | _____ | _____ | _____ |
| Report Writing & Audit Wrap-up | _____ | _____ | _____ |
| Working papers reviewed by preparer before submitting to Director for review | _____ | _____ | _____ |
| Findings/Observations/Recommendations adequately supported, discussed with management & input/responses obtained** | _____ | _____ | _____ |
| Audit Program - All steps completed, initialed & dated | _____ | _____ | _____ |
| Exit Conference held (if necessary) | _____ | _____ | _____ |
| Working Papers & Draft Report saved & backed-up | _____ | _____ | _____ |
| Working Papers & Draft Report submitted to Director | _____ | _____ | _____ |
| Working Papers reviewed by Director | _____ | _____ | _____ |
| Draft Report reviewed by Director | _____ | _____ | _____ |
| Draft Report submitted to Legal Counsel (if necessary) | _____ | _____ | _____ |
| Draft Report submitted to Management for written responses | _____ | _____ | _____ |
| Report Distribution List prepared & placed in working papers | _____ | _____ | _____ |
| Final Report printed, signed & bound | _____ | _____ | _____ |
| Report transmitted to appropriate personnel (see Distribution List) | _____ | _____ | _____ |
| Adobe of signed Report saved & backed-up. Adobe of Report and Word version of Executive Summary sent to SWIA Admin Asst. | _____ | _____ | _____ |
| Working Papers updated with signed, referenced report, then filed | _____ | _____ | _____ |

* Working papers include a proper heading, initials of the preparer & date prepared, accurate & complete references, sources, objectives, sampling techniques, & conclusions as needed. Table of Contents completed.

** Applicable sections of any statutes, policies, or other regulations cited sufficiently referenced & documented.

Typical Supervisory Review Considerations

Planning

- Audit program objectives support the standard assurance areas
- Program steps support objectives
- Internal controls are documented
- Risks of potential control weaknesses are noted
- Risks of fraud, waste or abuse are considered and noted
- Tests are adequately designed to test controls
- Tests are adequately designed to test for incidences of fraud
- Tests are adequately designed to determine the effect of known weaknesses
- Overall scope and time period are adequate and appropriate to support objectives

Fieldwork

- Audit program shows disposition of each audit step
- All findings are referenced to supporting audit tests
- Each working paper is sufficiently labeled, initialed and dated
- Each working paper is referenced to a program step
- Each working paper is sufficiently explained (source, purpose, scope, conclusion, notes)
- Working papers do not contain blanks or other indicators of missing information
- Audit test populations and sampling methods are clearly documented
- Audit tests are adequate and support the auditor's conclusions
- Scope and nature of audit tests aligns with audit objectives
- Test results indicating potential fraud were noted and followed up

Conclusions/Communications with Management

- Findings are adequately descriptive and include the condition, criteria, cause and effect
- Recommendations adequately address the finding and acknowledge input from appropriate management
- All exceptions were followed up with appropriate disposition noted in working papers (finding, observation, weakness, discussed with management, housekeeping item, etc.)
- The reasons for dropping or downgrading findings are documented
- The audit report includes all findings, with lesser exceptions appropriately segregated in the report or included in a separate memo to management
- Findings and conclusions in the audit report or management letter are supported by the working papers

Engagement Management

- Time budgets are completed
- Notes of problems, future improvements are included
- Meeting agendas, memos, etc. relating to opening and exit conferences are included
- Working papers include a copy of the final report and other communications with management
- Draft reports are cleared from the file, or if kept, clearly labeled.
- Findings are scheduled for later follow-up

**Institution
Name of Audit
Period Covered
Executive Summary**

| | |
|---|--|
| Key Staff Person: Name or Title | Auditor: Name |
| <p>Introduction or Background (Brief statement regarding unit/program/activity under audit including any <u>relevant</u> facts such as description of organization, services performed, volume/extent of activity, value of assets, liabilities, revenue or expenditures. When applicable, FWA allegations may be included here or in a separate section.)</p> | |
| <p>Objectives (Brief statement regarding main objectives. If numerous objectives, they should be summarized.)</p> | |
| <p>Total Questioned Costs or Losses: \$XX or None (Questioned costs result when an expenditure is inappropriate or ineligible for payment or its eligibility is questionable. Losses result when the institution has been deprived from the use of an asset.)</p> | <p>Total Recoveries: \$XX or Not Applicable (Recoveries may come from an individual, insurance company or other sources).</p> |
| <p>Findings (or a statement that the report does not contain any findings) 1.</p> | |
| <p>Observations (or Opportunities for Improvement, if preferred) (Use this section if applicable. It may include issues needing correction or positive comments on practices/best practices.) 1.</p> | |
| <p>Audit Conclusion (Brief statement on overall results of audit or investigation, particularly addressing audit objectives and whether they were achieved. When applicable, management's comments should be summarized here or in the findings section above.)</p> | |

Instructions: The heading should use this format so that the institution's name is first. The heading should not be placed in a Header because files are merged into a comprehensive quarterly document. The font size should be consistent with the other font used for the summary below.

The purpose of this document is to provide summary information for management and the audit committee. The information should be consistent with that in the full report but should not restate all of the information in the full report. However, it should include useful, relevant information that sufficiently explains the issues or results. When possible, it should be limited to one page. Elements may be reformatted to the auditor's preferences, but these elements should be included.

Tennessee Board of Regents
System-wide Internal Audit File Naming Conventions

REPORTS AND EXECUTIVE SUMMARIES

Internal Audit Reports (Adobe)

Institution-Type of Report-Description of Report-Release Date(MMDDYYYY)

Examples: APSU-IAR-OVC Opportunity Fund-12082009.pdf
TTU-IAR-FU to State Audit FYE2009-09292010.pdf

Internal Audit Investigations (Adobe)

Institution-Type of Report and Tracking Number-Description of Report-Release Date(MMDDYYYY)

Examples: ETSU-INV0902-Travel Claim Fraud-01082010.pdf
TSU-CRR0902-Bursar's Cash Loss-02102010.pdf
ETSU-INV0902-FU-Travel Claim Fraud-07082010.pdf

Internal Audit Reports on Comptroller Hotline Calls (Adobe)

If an investigation originated from a Comptroller's Office Hotline call, use the same information as noted above for internal audit investigation reports, except at the end add FWAH and the Comptroller's Hotline Reference Number (from original hotline transmittal) to distinguish it from other sources. (In this example, the Comptroller's Office assigned case number 10-073 to the call, but the institution's case number is 10-1004).

Institution-Type of Report and Tracking Number-Description of Report-Release Date(MMDDYYYY)-FWAH and Comptroller's Reference Number

Example: UOM-INV1004-Purchasing Card-01082010-FWAH10073.pdf

Internal Audit Executive Summaries (Word Version)

Institution-Type of Report-EXS-Description of Report-Release Date(MMDDYYYY)

Examples: APSU-IAR-EXS-OVC Opportunity Fund-12082009.doc(x)
ETSU-INV0902-EXS-Travel Claim Fraud-01082010.doc(x)
TSU-CRR0902-EXS-Bursar's Cash Loss-02102010.doc(x)
TTU-IAR-EXS-FU to State Audit FYE2009-09292010.pdf
UOM-INV1004-EXS-Purchasing Card-01082010-FWAH10073.doc(x)

Tennessee Board of Regents
System-wide Internal Audit File Naming Conventions

Internal Audit Investigation Notifications (Adobe)

Institution-INVCase Number-Notification-Date Received(MMDDYYYY)

Example: APSU-INV1402-Notification-07082013

Internal Audit Investigation Administrative Closure Memos (Adobe)

These memos are considered working papers since no report is to be released and should be labeled as “Confidential.”

Institution-INVCase Number-ACM-Date Closed(MMDDYYYY)-if applicable, FWAH and Comptroller’s Reference Number

Example: APSU-INV1402-ACM-08232013
APSU-INV1402-ACM-08232013-FWAH10073

OTHER DOCUMENTS

Monthly Investigation Logs (Excel)

Institution-Type of Document-Date (MMYYYY)

Example: ChSCC-ILOG-082010.xls

Internal Audit Plans (Excel)

Institution-Type of Document-Fiscal Year

Example: JSCC-APLAN-FY2010.xls
JSCC-RAPLAN-FY2010-MMDD20YY.xls (Revised Audit Plan)

Year-End Status Reports on Internal Audit Plans (Excel)

Institution-Type of Document-Fiscal Year

Examples: NeSCC-YESR-FY2010.xls

Tennessee Board of Regents
System-wide Internal Audit File Naming Conventions

Risk Assessment Documents

Institution-Type of Document-Date (MMDDYYYY)

Example: NeSCC-IA Letter MRA-01042012.doc(x)

NOTES AND ACRONYM LEGEND

Acronym Legend:

IAR=Internal Audit Report

INV=Internal Audit Investigation

CRR=Case Resolution Report

FU=Follow-Up

ACM=Administrative Closing Memo

FWAH=Comptroller's Fraud, Waste or Abuse Hotline

EXS=Executive Summary

ILOG=Monthly Investigation Log

APLAN=Internal Audit Plan

RAPLAN=Revised Internal Audit Plan

YESR=Year-End Status Report on Internal Audit Plan

IA Letter MRA=Internal Auditor's Letter for Management's Risk Assessment

Notes:

1. Use dashes between naming elements, except do not use a dash between INV and tracking number or FWAH and tracking number. Do not use spaces between dashes.
2. For descriptions of audit reports, use 1 to 3 descriptive words or commonly known abbreviation or acronym. For executive summaries, use the same description used for the related report.
3. Release Date should be in this format (MMDDYYYY).
4. Adobe versions of reports must include the auditor's signature.

Tennessee Board of Regents
System-wide Internal Audit File Naming Conventions

INSTITUTION LEGEND

APSU=Austin Peay State University
ETSU=East Tennessee State University
MTSU=Middle Tennessee State University
TSU=Tennessee State University
TTU=Tennessee Tech University
UOM=University of Memphis
ChSCC=Chattanooga State Community College
ClSCC=Cleveland State Community College
CoSCC=Columbia State Community College
DSCC=Dyersburg State Community College
JSCC=Jackson State Community College
MSCC=Motlow State Community College
NaSCC=Nashville State Community College
NeSCC=Northeast State Community College
PSCC=Pellissippi State Community College
RSCC=Roane State Community College
STCC=Southwest State Community College
VSCC=Volunteer State Community College
WSCC=Walters State Community College
TBR=Tennessee Board of Regents
Athens=Tennessee College of Applied Technology @ Athens
Chattanooga= Tennessee College of Applied Technology @ Chattanooga
Covington= Tennessee College of Applied Technology @ Covington
Crossville= Tennessee College of Applied Technology @ Crossville

Tennessee Board of Regents
System-wide Internal Audit File Naming Conventions

Crump= Tennessee College of Applied Technology @ Crump
Dickson= Tennessee College of Applied Technology @ Dickson
Elizabethton= Tennessee College of Applied Technology @ Elizabethton
Harriman= Tennessee College of Applied Technology @ Harriman
Hartsville= Tennessee College of Applied Technology @ Hartsville
Hohenwald= Tennessee College of Applied Technology @ Hohenwald
Jacksboro= Tennessee College of Applied Technology @ Jacksboro
Jackson= Tennessee College of Applied Technology @ Jackson
Knoxville= Tennessee College of Applied Technology @ Knoxville
Livingston= Tennessee College of Applied Technology @ Livingston
McKenzie= Tennessee College of Applied Technology @ McKenzie
McMinnville= Tennessee College of Applied Technology @ McMinnville
Memphis= Tennessee College of Applied Technology @ Memphis
Morristown= Tennessee College of Applied Technology @ Morristown
Murfreesboro= Tennessee College of Applied Technology @ Murfreesboro
Nashville= Tennessee College of Applied Technology @ Nashville
Newbern= Tennessee College of Applied Technology @ Newbern
Oneida= Tennessee College of Applied Technology @ Oneida/Huntsville
Paris= Tennessee College of Applied Technology @ Paris
Pulaski= Tennessee College of Applied Technology @ Pulaski
Ripley= Tennessee College of Applied Technology @ Ripley
Shelbyville= Tennessee College of Applied Technology @ Shelbyville
Whiteville= Tennessee College of Applied Technology @ Whiteville



**Tennessee Board of Regents
Office of System-wide Internal Audit**

CHAIN OF CUSTODY

Date: _____ Case: _____

RECEIVED BY SYSTEM WIDE INTERNAL AUDIT

School: _____ Location: _____

Name of individual who released the evidence: _____

Individual's Title: _____

Description of Evidence: _____

Individual's Signature: _____ Date: _____

Auditor's Signature: _____ Date: _____

RETURNED TO SCHOOL

Auditor: _____ Returned Location: _____

Receiving Individual: _____ Title: _____

Description of Evidence Returned: _____

Individual's Signature: _____ Date: _____

Auditor's Signature: _____ Date: _____

Sample of Client/Customer Survey

**Institution
Internal Audit Department
Client Satisfaction Survey**

Department: _____

Audit Subject _____

Please circle the response that best reflects your rating of the audit in the following areas:

| | Excellent | Good | Fair | Poor | N/A |
|---|------------------|-------------|-------------|-------------|------------|
| Independence | | | | | |
| 1. Objectivity of the auditors | 4 | 3 | 2 | 1 | 0 |
| Professional Proficiency | | | | | |
| 2. Technical proficiency of auditors | 4 | 3 | 2 | 1 | 0 |
| 3. Professionalism of auditors | 4 | 3 | 2 | 1 | 0 |
| 4. Communication skills of auditors | 4 | 3 | 2 | 1 | 0 |
| Scope and Performance of Work | | | | | |
| 5. Notification of the audit purpose and scope | 4 | 3 | 2 | 1 | 0 |
| 6. Audit focused on key areas | 4 | 3 | 2 | 1 | 0 |
| 7. Duration of the audit | 4 | 3 | 2 | 1 | 0 |
| 8. Feedback sought on exceptions during the audit | 4 | 3 | 2 | 1 | 0 |
| Audit Report | | | | | |
| 9. Timeliness of the audit report | 4 | 3 | 2 | 1 | 0 |
| 10. Accuracy of the audit findings | 4 | 3 | 2 | 1 | 0 |
| 11. Value of the audit recommendations | 4 | 3 | 2 | 1 | 0 |
| 12. Clarity of the audit report | 4 | 3 | 2 | 1 | 0 |
| 13. Overall value of the audit | 4 | 3 | 2 | 1 | 0 |

14. Was there anything about the audit you especially liked? _____

15. Was there anything about the audit you especially disliked? _____

16. Additional comments: _____

Please sign and return this survey to the Internal Audit Department.

Signature: _____

Date _____

Tennessee Board of Regents

Internal Audit Report Submission and Distribution Requirements

Please submit all audit reports to System-wide Internal Audit (SWIA). Distribution to state or other TBR offices will be handled by SWIA. The Comptroller of the Treasury, Division of State Audit, receives an electronic copy of each internal audit report issued.

Internal Audit & Investigation Reports¹:

- Adobe Copy of Signed Report
- Word Copy of Executive Summary²
- Reports prepared in response to a Comptroller Hotline call are provided electronically to Greg Cothron, State Audit Staff Attorney

Internal Audit Follow-Up Reports on State Audit Findings:

- Adobe Copy of Signed Report
- Word Copy of Executive Summary²
- Provided to Legislative Fiscal Review and TBR Business and Finance

CCTA/Funding Formula Audit Reports

- Adobe Copy of Signed Report
- Word Copy of Executive Summary²
- Provided to TBR Research Office and THEC

Presidents' and Chancellor's Expense Audit Reports

- Adobe Copy of Signed Report
- Word Copy of Executive Summary²

Note: For internal audit or investigation reports with management recommendations, a follow-up date should be determined and communicated to SWIA with the electronic submission of the report. The determination to perform a follow-up and the date for its completion is at the discretion of the internal auditor, but should normally be scheduled within a year of the report on the issue. The date may be revised when necessary, but revised dates should also be provided to SWIA. A status report on audit recommendations is provided to the Audit Committee each quarter, in accordance with their request to be apprised of the resolution of these matters.

¹ On occasion, an investigation matter may be appropriately reported in a Case Resolution Report or a memorandum, rather than an audit report. In these instances, the same submission procedures for audits and investigations should be followed.

² Do not use headers and footers in the Executive Summary.