Item 1.3. University of Louisiana System's request for approval of revised Internal Audit Charters for the System and related campuses.

EXECUTIVE SUMMARY

The Internal Audit Charters set forth the purpose, authority, and responsibility of the internal audit activity for the University of Louisiana System and its individual campuses. The Charters have been modified to reflect compliance with the revised International Standards for the Professional Practice of Internal Auditing (Standards) from the Institute of Internal Auditors.

RECOMMENDATION

It is recommended that the following resolution be adopted:

NOW, THEREFORE, BE IT RESOLVED, that the Board of Supervisors for the University of Louisiana System hereby approves the request for approval of revised Internal Audit Charters for the System and related campuses.
University Internal Audit Charter

Background and Introduction

The Office of Internal Audit was first established and filled in December 1988 to serve McNeese State University and its various departments. It provides a central point for coordination of and oversight for activities that promote accountability, integrity, efficiency, and compliance. This charter sets forth the purpose, mission, authority, and responsibility of the internal audit activity at McNeese State University. The charter establishes the internal audit activity's position within the University; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.

Act 49 of the 2008 Regular Legislative session requires any State agency with an appropriation level of thirty million dollars or more to have an internal auditor. Later, in the 2015 Regular Legislative session, Act 314 (L.R.S. 17:3351) was established to further require each internal audit function to be in conformance with the Institute of Internal Auditors (IIA) International Standards for the Professional Practice of Internal Auditing (Standards) and became effective on August 1, 2015.

Purpose and Mission

The purpose of the internal audit activity is to provide independent, objective assurance and consulting services designed to add value and improve the University's operations. The mission is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight. It helps the University accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Standards for the Professional Practice of Internal Auditing

The activities of the Office of Internal Audit shall be conducted in accordance with the International Standards for the Professional Practice of Internal Auditing as required by Act 314 of the 2015 Regular Session. With the adoption of the International Professional Practices Framework (IPPF), the Office of Internal Audit prescribes to the mandatory elements of the IPPF which include the Core Principles for the Professional Practice of Internal Auditing, the definition of Internal Auditing, the Standards, and Code of Ethics promulgated by the Institute of Internal Auditors. The Director of Internal Audit (Chief Audit Executive) will report periodically to the University President and through the System Director of Internal and External Audit, to the Board of Supervisors of the University of Louisiana System (Board) regarding the internal audit activity's conformance to the Code of Ethics and the Standards.

Although not mandatory, internal auditing staff may obtain guidance in particular engagement situations from other Standards where needed on an audit by audit basis such as: Information Systems Audit and Control Association's "Standards for Information Systems Auditing"; American Institute of Certified Public Accountants "Statements on Auditing Standards"; United States General Accounting Office's "Government Auditing Standards", etc. The Office of

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Internal Audit is further committed and prescribes to the guiding principles of integrity, fairness, and objectivity.

Authority

The Office of Internal Audit staff report to the University's Director of Internal Audit, who operates under the general administrative (i.e., day-to-day operations) oversight of the University President and reports functionally to the Board through the University of Louisiana System's Director of Internal and External Audit. This reporting relationship promotes independence and ensures adequate consideration of audit findings and planned actions. To establish, maintain, and ensure that the University's internal audit activity has sufficient authority to fulfill its duties, the Board of Supervisors will:

- Approve the internal audit activity's charter.
- Approve the risk based internal audit plan.
- Approve the internal audit activity's budget and resource plan.
- Receive communications from the Director of Internal Audit on the internal audit activity's performance relative to its plan and other matters.
- Approve decisions regarding the appointment and removal of the Director of Internal Audit.
- Approve the remuneration of the Director of Internal Audit.
- Make appropriate inquiries of management and the Director of Internal Audit to determine whether there is inappropriate scope or resource limitations.

The Director of Internal Audit will have unrestricted access to, communicate, and interact directly with the System Director of Internal and External Audit, the Finance Committee of the Board of Supervisors, and the Board of Supervisors, including in private meetings without management present.

The Director of Internal Audit and staff of the internal audit activity are authorized to:

- Have unrestricted access to all functions, records, manual and automated systems, properties, and personnel of the University.
- Audit or review any function, activity, or unit of the University and the accounts of all organizations required to submit financial statements to the University.
- Have direct access to the President of the University and shall present to the President any matter considered to be of sufficient importance to warrant attention or that has been brought to the internal audit activity for review.
- Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives.
- Obtain the necessary assistance of personnel in units of the University where they perform audits, as well as other specialized services from within or outside the University.

Independence and Objectivity

The Director of Internal Audit will ensure that the internal audit activity remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing and
report content. If the Director of Internal Audit determines that independence or objectivity may be impaired in fact or appearance, details of the impairment will be disclosed to appropriate parties.

Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no quality compromises are made, and that they do not subordinate their judgment on audit matters to others.

To provide for the independence of the internal audit activity, campus internal audit personnel will report to the University's Director of Internal Audit, who reports functionally to the Board of Supervisors through the System Director of Internal & External Audit and administratively to the President of the University. The University President has authority to handle all personnel matters regarding Internal Audit.

Internal audit reviews and appraisals do not in any way substitute for nor relieve other persons in the university of the responsibilities assigned to them. The Director of Internal Audit and staff of the internal audit activity have no direct authority over, nor responsibility for any of the activities reviewed and are not authorized to:

- Perform any operational duties for the University or its affiliates including the development and installation of policies and procedures, preparation of records, making management decisions or engaging in any other activity that could be reasonably construed to compromise the independence of the internal audit staff.
- Initiate or approve accounting transactions external to the internal audit activity.
- Direct the activities of any University employee not employed by the internal audit activity, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.
- Assess specific operations for which he/she had responsibility within the previous year.

Where the Director of Internal Audit has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity. Internal auditors will:

- Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties.
- Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.
- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgments.

At least annually, the Director of Internal Audit will confirm to the University President and, through the System Director of Internal & External Audit, the Board of Supervisors of the University of Louisiana System the organizational independence of the internal audit activity. The Director of Internal Audit will also disclose to those parties any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating results.

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Scope of Internal Audit Activities

The scope of the internal audit activities encompass, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments to the Board, management, and outside parties on the adequacy and effectiveness of governance, risk management, and control processes of the University. Internal audit assessments include evaluating whether:

- Risks relating to the achievement of the University's strategic objectives are appropriately identified and management.
- The actions of the University's officers, directors, employees, and contractors are in compliance with the University's policies, procedures, and applicable laws, regulations, and governance standards.
- The results of operations or programs are consistent with established goals and objectives.
- Operations or programs are being carried out effectively and efficiently.
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact the University.
- Information and the means used to identify, measure, analyze, classify, and report such information are reliable and have integrity.
- Resources and assets are acquired economically, used efficiently, and protected adequately.

The Director of Internal Audit will report periodically to senior management and the Board regarding:

- The internal audit activity's purpose, authority, and responsibility.
- The internal audit activity's plan and performance relative to its plan.
- The internal audit activity's conformance with The IIA's Code of Ethics and Standards, and action plans to address any significant conformance issues.
- Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the Board.
- Results of audit engagements or other activities.
- Resource requirements.
- Any response to risk by management that may be unacceptable to the University.

The Director of Internal Audit also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed. The internal audit activity may perform advisory and related client service activities, the nature and scope of which will be agreed with the client, provided the internal audit activity does not assume management responsibility.

Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during engagements. These opportunities will be communicated to the appropriate level of management.
Responsibility

The University's Director of Internal Audit and staff of the internal audit activity have responsibility to:

- Develop a flexible annual audit plan and submit that plan to the University President and the University of Louisiana System Board of Supervisors (Board) for approval. The plan is to be developed based on internal audit's assessment of risk with input from management, ULS Board members, and the ULS Director of Internal and External Audit regarding areas of concern and areas of increased risk.
- Communicate to senior management and the Board the impact of resource limitations on the internal audit plan.
- Review and adjust the annual internal audit plan, as necessary, in response to changes in the University's business, risks, operations, programs, systems, and controls.
- Communicate to senior management and the Board any significant interim changes to the internal audit plan.
- Ensure each engagement of the internal audit plan is executed, including the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the documentation of work programs and testing results, and the communication of engagement results with applicable conclusions and recommendations to appropriate parties.
- Follow up on engagement findings and corrective actions, and report periodically to senior management and the Board any corrective actions not effectively implemented.
- Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
- Ensure that Internal Audit staff collectively possess or obtain the knowledge, skills, and other competencies needed to meet the requirements of the internal audit charter.
- Establish a Quality Assurance and Improvement Program by which the Director of Internal Audit assures the operations of internal auditing activities are acceptable.
- Perform consulting services, beyond internal auditing's assurance services, to assist management in meeting its objectives.

- Evaluate and assess significant functions and new or changing services, processes, operations, and control processes coincident with their development, implementation, and/or expansion.
- Assist in the investigation of significant suspected fraudulent activities within the University and notify management and the Board of the results.
- Manage the University's reporting hotline and investigate concerns as deemed appropriate.
• Consider the scope of work of the external auditors and regulators, as appropriate, for the purpose of providing optimal audit coverage.
• Establish and ensure adherence to polices and procedures designed to guide the internal audit department.
• Ensure adherence to the University's relevant policies and procedures, unless such policies and procedures conflict with the internal audit charter. Any such conflicts will be resolved or otherwise communicated to senior management and the Board.
• Submit written and timely reports to the President of the University and appropriate members of management at the conclusion of each engagement to acknowledge satisfactory performance or to set forth observations and/or recommendations for correction or improvement. A copy of each internal audit report will be forwarded to the Board’s Director of Internal and External Audit.
• Act as the University's designated liaison for the State of Louisiana Ethics program in monitoring and providing ethics education to all personnel.
• Ensure conformance of the internal audit department with the Standards, with the following qualifications:
  o If the internal audit department is prohibited by law or regulations from conformance with certain parts of the Standards, the chief audit executive will ensure appropriate disclosures and will ensure conformance with all other parts of the Standards.
  o If the Standards are used in conjunction with requirements issued by other authoritative bodies (e.g., AICPA, GAO, etc.) the chief audit executive will ensure that the internal audit department conforms with the Standards, even if the internal audit department also conforms with the more restrictive requirements of other authoritative bodies.

Quality Assurance and Improvement Program

The Office of Internal Audit will maintain a Quality Assurance and Improvement Program (QAIP) as required by the Institute of Internal Auditors (IIA) International Standards for the Professional Practice of Internal Auditing, University of Louisiana System Internal Audit Charter, and Act 314 of the 2015 Regular Legislative Session (L.R.S. 17:3351). This QAIP is outlined in the Internal Audit Manual and will include both internal and external assessments. The External Assessments will comprise of and internal assessment with an Independent Validation by an external qualified auditor. The external assessments are required to be completed every 5 years. The Director of Internal Audit will communicate results to senior management and the Board of the assessments.

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