# Table of Contents

SECTION 1000 AUTHORITY, ORGANIZATION AND STANDARDS ........................................ 4

1100 Internal Audit Charter and Vision ....................................................................... 4

1100.1 Mission, Vision, Values .................................................................................. 4

1100.2 Audit Charter ............................................................................................... 6

1200 Reporting, Authority, Independence ................................................................ 6

1200.1 Authority ..................................................................................................... 6

1200.2 Organization and Applicability .................................................................... 7

1200.3 Independence and Personnel ........................................................................ 9

1300 Professional Standards, Ethics, and Disclosures ............................................. 9

1300.1 Employee Conduct and Ethics ...................................................................... 9

1300.2 Mandatory Disclosures ............................................................................... 10

1300.3 Errors, Irregularities, or Wrongdoing .......................................................... 11

1400 Personnel and Training .................................................................................. 11

1400.1 Staffing and Personnel Matters .................................................................... 11

1500 Request for Information ................................................................................ 13

1500.1 Request from External Parties ...................................................................... 13

SECTION 2000 INTERNAL AUDIT FUNCTION, THE ENGAGEMENT, AND COMMUNICATING RESULTS ................................................................. 14

2100 Internal Audit Function .................................................................................. 14

2100.1 Internal Audit Activity ................................................................................ 14

2100.2 Risk Assessment, Planning, Selection and Schedule of Engagements .......... 15

2100.3 Communication and Approval .................................................................... 18

2100.4 Resource Management ............................................................................... 18

2100.5 Directing the IA Activity ............................................................................ 18

2100.6 Coordination with Other Departments ........................................................ 18

2100.7 Reporting to Senior Management and the Board ...................................... 19

2100.8 External Service Providers .......................................................................... 19

2200 Engagement Planning ..................................................................................... 20

2200.1 Planning the Audit ...................................................................................... 20

2200.2 Application of USG Policy for Planning ..................................................... 20

2200.3 Communication with the Client .................................................................. 20

2200.4 Audit Plan and Program Development ........................................................ 21

2200.5 Planning Documentation ............................................................................. 23
Appendix B: List of Part B Potential Additional Items for Section 1000 ........................................ 38
Appendix C: List of Part B Potential Additional Items for Section 2000 ........................................ 39
Appendix D: List of Part B Potential Additional Items for Section 3000 ........................................ 40
Appendix E: Sample System-wide Audit Charter ............................................................................. 41
Appendix F: Role of Internal Audit in State Auditor’s Exit Conference ........................................... 45
Version History and Change Control: ............................................................................................... 47
Introduction

Internal Auditing is conducted in diverse legal and cultural environments within organizations that vary in purpose, size, complexity, and structure; and by persons within or outside the organization. The Internal Audit (IA) is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. IA consists of both system-office employees and institutional audit staff who collectively make-up the University System of Georgia (USG) IA. IA staff across the system accomplish their objectives by bringing a systematic, disciplined approach to evaluate and recommend improvements, the effectiveness of risk management, control, and governance processes. IA is authorized by the BOR and the Chancellor in the effective fulfillment of their responsibilities and in meeting the objectives of the University’s or institutional strategic plans.

Policy Statement

This manual is intended to be a basic reference document for all IA organizations across the USG. For interpretation of this manual, the words shall and must mean that the area or topic included in the manual is applicable to all audit departments across the system. Conversely, the word should is used to convey that an area, although strongly suggested, although the particular topic or area may not be applicable or implemented across all audit departments. To ensure the manual’s usefulness, it should be kept up to date to reflect changes in audit standards, organizational needs, and the overall audit environment. The purpose of this manual is to further supplement existing USG policies and rules. Information in this manual does not replace or supersede existing laws, rules, or other USG policies.

Manual Changes and Updates

Suggestions for revisions or discrepancies to the manual are welcomed and should be brought to the USG Chief Audit Officer (USG CAO) or appropriate designee. Any updates or will be posted on the USG intranet for comment or review before disseminated to wider audiences.

SECTION 1000 AUTHORITY, ORGANIZATION AND STANDARDS

1100 Internal Audit Charter and Vision

1100.1 Mission, Vision, Values

Mission Statement
The IA function within the USG mission is to support management in meeting its governance, risk management, compliance, and internal control responsibilities while helping to improve organizational and operational effectiveness and efficiency. The IA function is a core activity that provides management with timely information, advice and guidance that is objective, accurate,
balanced and useful. The IA function promotes an organizational culture that encourages ethical conduct.

Individuals in IA across the USG accomplish the mission by:

- Reviewing the accuracy and propriety of financial and operating information and the means used to identify, measure, classify and report such information.
- Examining established systems to ensure compliance with policies, plans, procedures, laws, and regulations which could have a significant impact on operations.
- Validating the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
- Assessing operational practices and organizational efficiencies.
- Evaluating operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.
- Reviewing the status of information technology policies and procedures, verifying that required hardware, software and process controls have been implemented and that the controls are functioning properly.
- Consulting and providing guidance on financial and operational processes, controls, related risks, and exposure; providing guidance and advice on control and risk aspects of new policies, systems, processes, and procedures.
- Conducting special audits and/or reviewing specific operations at the request of the institutional presidents, the BOR, or other individuals.

**Vision Statement**

The vision of the USG audit function is to create an integrated team of assurance, consulting and compliance professionals that significantly contributes to the improvement of governance, risk management, compliance, and internal control within the USG.

**Values**

IA departments with the USG adhere to core values of integrity, excellence, accountability and respect. Additionally, audit staff promote competence and maintain confidentiality while adhering to all professional standards.

**Strategic Priorities**

Audit teams within the USG have three strategic priorities:

1. Anticipate and help to prevent and to mitigate high risk and significant issues
2. Foster enduring cultural change that results in consistent and quality management of USG operations
3. Build and develop a comprehensive system-wide team of highly qualified audit professionals
1100.2 Audit Charter

The IA charter is a formal document that defines the IA activity's purpose, authority, and responsibility. The IA charter establishes the IA activity's position within the organization, including the nature of the chief audit executive’s functional reporting relationship with the board; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of IA activities. Final approval of the IA charter resides with the board. Annually, the USG CAO will obtain approval for the OIAC audit charter. Institutional Chief Auditors (ICA) will obtain the USG CAO's approval for and signature on institutional audit charters.

The nature of assurance services provided to the organization must be defined in the IA charter. If assurances are to be provided to parties outside the organization, the nature of these assurances must also be defined in the IA charter. The nature of consulting services or other services provided by the IA department must be defined in the IA charter. Audit departments across the USG must develop an internal charter. The USG CAO is responsible for establishing the USO audit charter and institutional audit directors must establish the audit charter for perspective institutions. A sample audit charter can be found in the Appendix.

1200 Reporting, Authority, Independence

1200.1 Authority

Governing Authority

There are four primary documents that govern the practice of IA within the USG.

1. The first is Board Policy 7.10.2 IAs
   http://www.usg.edu/policymanual/section7/policy/7.10_auditing/#p7.10.2_internal_audit
2. The second is the Committee on IA, Risk, and Compliance Charter
   http://www.usg.edu/audit/documents/BOR_committee_IARC_charter.pdf
3. The third is the USG IA Charter
   http://www.usg.edu/assets/audit/documents/USG_Internal_Audit_Charter_2016.pdf
4. The fourth document is the Business Procedures Manual Section 16
   http://www.usg.edu/business_procedures_manual/section16/.

Collectively, these documents outline the authority of the IA function, key roles and responsibilities, core processes, and senior management expectations and guide the USG IA team in conducting the independent appraisal function.

Other relevant governing documents pertaining to enterprise risk management and compliance include:

- Board Policy 7.15 Risk Management Policy
  http://www.usg.edu/policymanual/section7/policy/7.15_risk_management_policy/
• Board Policy 7.16 Compliance Policy
  http://www.usg.edu/policymanual/section7/policy/C2032
• Board Policy 8.2.20 University System of Georgia Ethics Policy
  http://www.usg.edu/policymanual/section8/policy/8.2_general_policies_for_all_personnel/#p8.2.20_university_system_of_georgia_ethics_policy
• All IA staff should be familiar with these documents and ensure compliance with the enumerated requirements.

Scope of Authority

IA functions under the policies established by the BOR of the USG and by institutional management under delegated authority. In accordance with the authority granted by approval of the BOR and applicable federal and state statues, IA is authorized to have full, free and unrestricted access to information including records, computer files, property, and personnel. Except where limited by law, the work of IA is unrestricted. The authority of IA may be restricted by federal classified document rules, which may restrict access in certain cases until required security checks have been performed; by various Federal or State work rules, which may restrict physical access for your individual personal safety and protection (i.e., clean labs or labs with radiation isotopes); and other State authorities (such as the State Attorney General or the Georgia Bureau of Investigation). Any identified restrictions should be noted in the working papers or in the audit report.

In performing the audit function, IA has no direct responsibility for, nor final authority over any of the activities reviewed. The IA review does not in any way relieve other persons in the organization of the responsibilities assigned to them. The USG CAO and ICAs have the authority to require a written response to audit observations and recommendations contained in audits.

1200.2 Organization and Applicability

Scope and applicability

IA reports to a level within the enterprise that allows the IA activity to fulfill its responsibilities. Auditors will maintain independence and objectivity and avoid conflicts of interest when performing audit work. All auditors within the USG are required to implement and follow policies, procedures and other requirements consistent with the policies and guidelines outline is this manual.

Organization

One of the goals of the USG and institutional IA teams is to establish an effective IA program and maintain an internal independent appraisal function. Individuals in the IA function assist management by assessing the effectiveness of organizational practices, evaluating organizational policies and procedures, and by making recommendations that add value to the organization. IA examines and evaluates business and administrative activities in order to assist all levels of management and members of The BOR in the effective discharge of their responsibilities. IA teams
may furnish management with analyses or recommendations and might provide counsel or other appropriate information concerning activities, processes, and records reviewed.

The governor appoints members of the BOR to a seven-year term and regents may be reappointed to subsequent terms. The Board elects a chancellor who serves as its chief executive officer and the chief administrative officer of the USG. IA is led by the USG CAO who reports to the BOR / Committee on IA, Risk, and Compliance and to the Chancellor. University System Office audit staff report to the USG CAO. To maintain independence, ICAs have a dual reporting relationship. ICAs report to the USG CAO and institutional presidents. Listed below is a high-level organizational chart that depicts the reporting structure of the IA department.
1200.3 Independence and Personnel

**Independence and Reporting Structure**

To be effective in performing audit engagements, the audit staff must be independent and objective both in actuality and perception. Also, auditors will take great care to prevent even a perception of partiality by maintaining a professional distance from the staff of a department while performing an engagement. Questions concerning any relationships with auditees or potential auditees should be fully disclosed to the appropriate parties to include engagement clients and IA leadership. In addition, as a general expectation, auditors will not accept any gifts from an employee of the institution which would impair or be perceived to impair their professional independence or objectivity. Employees must adhere to the State of Georgia Gratuity Clause and abide by requirements outlined in the Human Resources Practices Manual and Board Policy 8.2.13.1 concerning gifts.

IA may provide assurance services where they had previously performed consulting services, provided the nature of the consulting did not impair objectivity, and provided individual objectivity is managed when assigning resources to the engagement. The chief audit executive may have roles and/or responsibilities that are outside of internal auditing, safeguards must be in place to limit impairments to independence or objectivity.

**Dual Reporting**

To permit the rendering of impartial and unbiased judgment essential to the proper conduct of audits, IA will be independent of the activities they audit. This independence is based primarily upon organizational status and objectivity and is required by industry standards. The necessity for independence and accountability is essential to the IA function to have credibility will be paramount in resolving conflicts or issues arising in the implementation of the dual reporting relationships. The IA function is free from interference in determining the scope of engagements, performing work, and communicating results. The USG CAO must disclose any interference of duties to the audit committee chair and/or the entire committee. ICAs must disclose any interference to the USG CAO.

**Appointment Changes**

Action to appoint, demote or dismiss the USG CAO requires the approval of the BOR. Action to appoint, demote, or dismiss the ICA require the concurrence of USG CAO.

**1300 Professional Standards, Ethics, and Disclosures**

**1300.1 Employee Conduct and Ethics**

**Standards and Employee Conduct**

IA activity must be formally defined in an IA charter, consistent with the Core Principles for the Professional Practice of Internal Auditing, the Definition of Internal Auditing, the Code of Ethics, and the Standards. IA shall adhere to the International Professional Practices Framework as issued
by the Institute of Internal Auditors (IIA) (http://www.theiia.org/guidance/standards-and-guidance/), which includes the Definition of Internal Auditing, the Code of Ethics and the International Standards for the Professional Practice of Internal Auditing (Standards), as well as system or institutional policies and standards related to professional or ethical conduct.

**Professional Code of Ethics**

Auditors must adhere to the IIA Code of Ethics and where applicable should adhere to any institutional or system-wide Code of Ethics requirements. The most current version of the Code of Ethics is located at (http://www.theiia.org/guidance/standards-and-guidance/ippf/code-of-ethics/). In addition, auditors shall consider the Federal Sentencing Guidelines for an effective compliance and ethics program when conducting their work. http://www.uscc.gov/guidelines/2015-guidelines-manual/archive

**Confidentiality**

Employees members may typically have access to information of a sensitive or confidential nature. Employees must be prudent in their use of information acquired in the course of their duties, as well as other information which is available to them. They must not discuss any confidential information with any parties except for official purposes. Employees shall not use confidential information for any personal gain or in a manner which would be detrimental to the institution or any employee or student of the institution.

Employees should not improperly disclose sensitive or otherwise confidential information. Employees must take adequate measures to prevent the unauthorized release of confidential materials or information in any medium, including paper copies or computer files. Sensitive, personal, or confidential information should be adequately secured from theft, reproduction, or casual observation as prescribed by the USG BPM manual and USG IT Handbook.

**Employee Conduct**

In the course of their work, employees may likely be in contact with personnel at all levels of authority and will have responsibilities to both individuals being audited and members of university administration. Auditors are expected to exhibit professional skill, maturity of behavior, and tact in their relations with all of these parties. Employees should guard against any conduct or mannerisms which may impair their objectivity or independence. Auditors should not engage in any acts that might discredit the profession of IA or the institution.

**1300.2 Mandatory Disclosures**

**Introduction and Purpose**

USG CAO and ICAs must disclose to senior management and the board nonconformance with the Code of Ethics or the Standards that impacts the overall scope or operation of the IA activity and the impact. Auditors must disclose anything that prohibits or restricts non-conformance to the audit standards. Effective implementation of this procedure will help to ensure ongoing compliance with IA professional standards. Adherence to this standard normally will occur through ICA’s disclosure
to the USG CAO and, as needed, the USG CAO’s disclosure to the audit committee chair and/or the entire audit committee.

**Definition**

“Mandatory Disclosures” refer to those limitations, constraints, impairments, conflicts of interests, or other situations that materially impact an individual’s ability to achieve the mission, objectives, or scope of the audit. All items that may materially impact the audit team member must be disclosed under the IA professional standards issued by The IIA.

**Responsibility**

ICAs are responsible for the final determination as to whether a particular situation rises to the level of a mandated disclosure. The USG CAO is also responsible for making the disclosure to the Chancellor and/or the Committee on IA, Risk, and Compliance. The USG CAO shall determine the methods by which the disclosure is made. Employees are required to bring matters that may potentially generate a mandated disclosure to the attention of the USG CAO, ICA, or other appropriate individuals.

**1300.3 Errors, Irregularities, or Wrongdoing**

Institutional management is responsible for establishing and maintaining controls to discourage perpetuation of fraud. Auditors may examine and evaluate the adequacy and effectiveness of controls. However, audit procedures alone are not designed to guarantee the detection of fraud. An error is an unintentional mistake in financial statements which includes mathematical or clerical mistakes in the underlying records and accounting data from which the financial statements or other reports are prepared, mistakes in the application of accounting principles and oversight or misinterpretation of facts that existed at the time the reports were prepared. If IA believes that a material error or an irregularity exists in an area under review, the implications of the error or irregularity and its disposition should be reviewed with the responsible management. If it has been determined that an irregularity does exist, IA will notify appropriate management that an irregularity has been identified and the audit steps needed to determine the extent of the problem. If the auditor expects suspects that an act of malfeasance has occurred, he or she must follow appropriate malfeasance reporting procedures outline in the BPM.

**1400 Personnel and Training**

**1400.1 Staffing and Personnel Matters**

**Professional Certifications and Continuing Professional Education**

To increase the professionalism and credibility of the IA function, employees in the IA department are encouraged to achieve professional certifications, particularly the following designations: Certified Internal Auditor (CIA), Certified Public Accountant (CPA), Certified Information Systems Auditor (CISA), Certified Management Accountant (CMA), Certified Fraud Examiner (CFE), or other appropriate certifications or skills.
Employees are encouraged to become members of and participate in the activities offered by professional organizations, particularly the Institute of Internal Auditors (IIA) and the Association of College and University Auditors (ACUA). Employees are also encouraged to pursue advanced degrees that increase and strengthen their skills.

**Employee Involvement, Satisfaction and Commitment**

IA strives to ensure employees are involved in decisions, are committed to the organization and team, and are adequately supported in their job responsibilities. IA seeks to ensure employees are respected and feel their contributions are valued.

**Performance Evaluation and Review**

ICAs and directors foster an environment where all employees should recognize the importance of their individual contributions and understand the impact that their contributions have on the achievement goals and objectives. The performance evaluation process is an opportunity to highlight the importance of each employee's individual contributions and provide valuable feedback that can enhance the opportunity for ongoing professional growth.

**Personnel & Human Resources Information**

Auditors within the USG should be aware of any policies and procedures applicable to managing various aspects of personnel and human resources. University System Office (USO) Human Resources information may be found at [http://www.usg.edu/hr](http://www.usg.edu/hr).

**Performance Management**

Each employee’s immediate supervisor will assess performance and the assessment might include input from other supervisors within the department. In addition to an annual assessment, each employee may also have a mid-year review. Minimally, IA employees will meet with appropriate management to review and discuss planned goals and objectives and should meet at least annually to review performance results. The USG CAO will provide formal feedback into the performance evaluations of ICAs and discuss performance goals and expectations at least semi-annually. Employee performance management is addressed in section 2.6 of the BOR University System Office Personnel Handbook. Additional information regarding the performance assessment process can be found at [http://www.bor.usg.edu/hr/performance/](http://www.bor.usg.edu/hr/performance/).

**Training and Professional Development**

Internal auditors are expected to enhance their knowledge, skills, and other competencies through continuing professional development. The minimum continuing professional education requirements for auditors should be consistent with the requirements of other professional certifications, such as the IIA, ISACA, or similar organizations. Staff of the IA department shall complete 40 hours of professional education each year (internal audit functions may adopt a calendar year, fiscal year, or other consistent measure; however, the year used for a particular staff member will default to their certifying authority’s CPE year when applicable). This continuing
education should be in a field directly related to the job duties of the staff member, and can include topics other than auditing, such as computer technology, ethics training, fraud identification, leadership, process improvement or other topics deemed timely and pertinent to their job duties at the time the class is taken. Additionally, in order to enhance employee development, employees are encouraged to participate in professional and community organizations that promote the profession of accounting and auditing or help support the mission of the University in some way (for example, working with students). Audit functions shall track CPE completion by all audit staff.

1500 Request for Information

1500.1 Request from External Parties

Public Records Request

According to O.C.G.A. §50-18-71. (a) All public records shall be open for personal inspection and copying, except those which by order of a court of this state or by law are specifically exempted from disclosure. Records shall be maintained by agencies to the extent and in the manner required by Article 5 of this chapter. (b)(1)(A) Agencies shall produce for inspection all records responsive to a request within an OPEN RECORDS ACT 2012 reasonable amount of time not to exceed three business days of receipt of a request; provided, however, that nothing in this chapter shall require agencies to produce records in response to a request if such records did not exist at the time of the request. In those instances, where some, but not all, records are available within three business days, an agency shall make available within that period those records that can be located and produced. In any instance where records are unavailable within three business days of receipt of the request, and responsive records exist, the agency shall, within such time period, provide the requester with a description of such records and a timeline for when the records will be available for inspection or copying and provide the responsive records or access thereto as soon as practicable.

In accordance with the Georgia statute, any copies would be provided at the cost provided for in O.C.G.A. §50-18-71(b). The USG CAO and institutional audit personnel will respond to Open Records Act Requests in the spirit expected of public servants and with the openness the Open Records Act anticipates; it tries to be helpful to those who are endeavoring to gain information from the government. IA must respond and maintain records documenting the response to all public records requests in accordance with state law and institutional procedures. The USG CAO and, if applicable, the ICA shall be made aware of all public records requests pertaining to audit work and/or records. Requests for sensitive or high profile information shall be coordinated through the appropriate counsel.

Contact with Outside Auditors, Legal Counsel, or Media

Generally, all initial/formal contact with outside auditors, legal counsel, or media is to be referred to the USG CAO or appropriate designee. The Chief Audit Executive or appropriate designee may work with or have general contact with outside agents. The Chief Audit Executive or designee will coordinate the retrieval and release of information with appropriate counsel, designated institutional representatives, or other institutional personnel.
SECTION 2000 INTERNAL AUDIT FUNCTION, THE ENGAGEMENT, AND COMMUNICATING RESULTS

2100 Internal Audit Function

2100.1 Internal Audit Activity

The results of the audit department demonstrate the achievement of the purpose and responsibility of the IA Charter. IA follows the definition of Internal Auditing and the Standards first and foremost, and the IA department employees embody the standards and code of ethics, and are a value added element of the institutions we serve because we provide independent, objective assurance, bring efficiency and effectiveness to the institutions governance, risk management and control processes.

The IA activity must evaluate and contribute to the improvement of governance, risk management, and control processes using a systematic and disciplined approach. This shall include review of IT Governance and ethics related objectives. IA activity must evaluate the effectiveness and contribute to the improvement of risk management processes. The evaluation shall include evaluation of risks that may impede the organization from meeting the mission and vision. The risks of IT management, the organization and overall strategy should be included. Finally, IA activity must assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.

Audit Services

The scope of the audit work across the organization is to determine whether USG’s internal systems of risk management, control, and governance processes, as designed and represented by management at all levels, and operating policies, procedures, and practices are adequate and functioning in a manner to ensure:

- Risk management processes are effective and significant risks are appropriately identified and managed.
- Ethics and values are promoted within the organization.
- Financial and operational information is accurate, reliable, and timely.
- Individual actions are in compliance with policies, standards, procedures, and applicable laws and regulations.
- Resources are acquired economically, used efficiently, and adequately protected.
- Programs, plans, and objectives are achieved.
- Quality and continuous improvement are fostered in the organization’s risk management and control processes.
- Significant legislative or regulatory compliance issues impacting the organization are recognized and addressed properly.
- Effective organizational performance management and accountability is fostered.
• Coordination of activities and communication of information among the various governance groups occurs as needed.
• The potential occurrence of fraud is evaluated and fraud risk is managed.
• Information technology governance supports USG’s strategies, objectives, and the organization’s privacy framework.
• Information technology security practices adequately protect information assets and are in compliance with applicable policies, rules, and regulations.
• Opportunities for improving management control, quality and effectiveness of services, and the organization’s image identified during audits are communicated by IA to the appropriate levels of management.

Generally, audit activities consist of three types of projects:

• **Audits** – are assurance services defined as examinations of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organization. Examples include financial, performance, compliance, systems security and due diligence engagements.

• **Special Request, Consulting and Advisory Services** – the nature and scope of which are agreed with the client, are intended to add value and improve an organization’s governance, risk management, and control processes without the auditor assuming management responsibility. Examples include reviews, recommendations (advice), facilitation, and training.

• **Investigations** – are independent evaluations of allegations generally focused on improper governmental activities including misuse of university resources, fraud, financial irregularities, significant control weaknesses and unethical behavior or actions.

2100.2 Risk Assessment, Planning, Selection and Schedule of Engagements

The ICA at each institution submits an audit plan to the USG Office of IA and Compliance (OIAC) in accordance with guidance published by the USG CAO. Based upon this input and a risk-based audit model, the OIAC develops a system-wide audit plan. The implementation of the system-wide audit plan is coordinated with the institutional IA plans and with external assurance providers to ensure major risks are addressed while minimizing duplication of effort and disruption of auditee operations. Engagements may be pursued at the system-level or at an institutional-level. The USG CAO has the authority to direct the ICAs to audit specific functions at their institutions.

IA professional standards mandate an audit risk assessment and audit plans. OIAC will meet these professional standards through maintaining a rolling risk assessment that supports a near-term/one to five months, medium-term/six to ten months, and long-term/eleven to fifteen months and beyond audit plan. The OIAC risk assessment will focus on issues that present a high degree of risk to the USG and/or USG institutions. The OIAC risk assessment will be ongoing and will include input from the BOR (BOR), USG and institutional leadership, the OIAC Audit Advisory Committee, and other sources as appropriate.
During the risk assessment process, auditors may consider:

- Audit History (time since last audit, prior audit issues, audit rating, etc.)
- Compliance Footprint (heavily regulated area, fines/penalties associated with non-compliance, reputational risk, etc.)
- Reliance on Information Technology (usability and security of information systems, business continuity, impact of system failure, etc.)
- Dollar Volume and Liquidity (funds committed to a project or program, liquidity of assets, etc.)
- Organizational Change/Unit Transitions (turnover, significant process changes, significant budget changes, significant mission changes, etc.)

ICAs complete a risk assessment and audit plan at least bi-annually for presentation to the Committee in May and November of each fiscal year. The ICA must document their specific risk assessment process, “heat map” which captures and ranks their key risks, and the audit plan. These three documents must be submitted and reviewed for appropriateness and effectiveness by the USG CAO prior to submission to the Committee for approval. The risk assessment “heat map” and associated audit plan is reviewed by senior leadership prior to submission to the BOR, USG CAO, and Committee for approval; however, non-audit leadership review is for input only given that non audit management shall not have a formal “approval” role for audit plans. As part of this process, ICAs and/or OIAC may recommend new engagements or revised timing for planned engagements. The USG CAO will consider these recommendations and may authorize revising the audit plan and engagement schedule. Examples of factors to consider include: reduced likelihood of a risk event may result in scheduling a corresponding engagement later in the engagement schedule; a higher impact risk event may result in an increased scope of work in that area; and, the breadth of an audit issue may impact whether an engagement is focused on a specific institution or system-wide.

Potential engagement scopes are summarized below. Some engagements may comprise more than one engagement type, e.g., a blend of assurance and consulting work. Institutional auditors may conduct engagements comparable in scope to the engagements listed below. However, the actual engagements performed will be determined by the approved audit plan.

ICAs are not required to assign hours in their submitted audit plans. However, institutions are expected to report direct hours using the processes defined by the USG CAO. While institutions are not required to report budgeted hours, audit plans should reflect the list of assurance engagements, consulting engagements, and other special projects insofar as those special projects use significant audit resources. Additionally, institutional auditors should strive to assign resources in the following categories:

- Indirect – 15% (administration and professional development)
- Direct – 60% (assurance and consulting engagements and “TBD” engagements as approved on the institutional audit plans)
- Advisory Services – 8% (special projects not categorized as consulting engagements)
- Investigations – 5%
- Audit Support – 7% (external audit coordination, reporting to OIAC, TeamMate, QAR, etc.)
- Reserve/Flex – 5%
Effectively addressing issues identified in the risk assessment process is the primary criterion that will be used when scheduling engagements. However, the following factors shall be considered when scheduling engagements:

- Minimizing the disruption of an institution’s normal business operation particularly during the preparation of annual financial reports, registration, or other peak operating times.
- Scheduling engagements recently audited at the end of the fiscal year in order to provide institutions enough time to take corrective action from the last audit.
- Reducing disruptions to an institution’s operations during events such as an accreditation review or a key vacancy such as the Chief Business Officer position.

The USG IA function conducts operational, financial and information technology assurance engagements of USG institutions and the USO, performs system-wide reviews of specific programs and processes, provides consulting services to the USO and to USG institutions, and conducts special reviews and investigations. Audit and assurance provided by IA can take the form of various engagement types:

- Operational Audit - Operational audits are comprehensive examinations of an operating unit or a complete organization to evaluate its performance, as measured by management’s objectives. An operational audit focuses on the efficiency, effectiveness, and economy of operations.
- Financial Audit - Financial audits determine the accuracy and propriety of financial transactions.
- Compliance Audit - Compliance audits determine whether, and to what degree, there is conformance to certain specific requirements of policy, procedures, standards, or laws and governmental regulations. The auditor must know what policies, procedures, standards, etc., are required. Compliance audits require little preliminary survey work or review of internal controls, except to outline precisely what requirements are being audited. The audit focuses almost exclusively upon detailed testing of conditions.
- Presidential Transition Audit - Presidential Transition audits are used to inform an incoming President at an institution of any major control, financial, and/or operational issues and risks that may need to be addressed at the outset of the new institutional administration.
- Information Technology Audit - Information Technology audits evaluate the accuracy, effectiveness, efficiency and security of electronic and information processing systems that are in production or under development.
- Consulting - Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organization’s governance, risk management, and control processes without the internal audit assuming management responsibility. Examples include counsel, advice, facilitation, and training.
- Special Investigations - Investigations that are designed to identify responsibility for and measure the impact of an act of wrongdoing that has allegedly occurred. This act often will
be a violation of state laws/regulations, BOR policies/procedures, or waste/inefficient use of resources.

2100.3 Communication and Approval

The USG CAO will periodically present the rolling audit plan for approval to the BOR Committee on IA, Risk, and Compliance (Committee). The USG CAO is authorized to revise the rolling audit plan but shall inform the Committee of any significant changes. The USG CAO shall provide written notification to the institution/audit area has been included on the rolling audit plan.

ICAs shall conduct rolling risk assessments and audit plans. The USG CAO shall issue guidance for use in preparing institutional audit plans. The USG CAO shall review, revise as needed, and submit the compiled institutional audit plans for approval by the Committee. The ICA (with the authorization of the USG CAO) is authorized to revise institutional audit plans. Minor revisions to institutional audit plans such as timing changes do not require approval by the USG CAO; however, ICAs must obtain approval from the USG CAO to either add or remove an engagement from the plan. The USG CAO shall inform the Committee of any significant changes.

2100.4 Resource Management

The USG CAO and the ICAs will periodically review the rolling audit plan and heat map alongside the staffing and capability of the OIAC and Institutional Auditor / departments to ensure that adequate resources are in place and available to provide management with reasonable assurance that the most significant areas of risk are mitigated and controlled. Engagement reports, audit plan completion rate, and other metrics are used to evaluate performance against budget to ensure economical and effective use of resources.

Institutional auditors should develop a plan reflecting the assignment of audit resources that appropriately addresses risks identified during the risk assessment process. The USG CAO also may direct the performance of certain engagements.

It is understood that not every key risk will be included in audit plan for a given year due to resource constraints and the expectation to audit certain functions or areas that are not captured in the risk assessment process.

2100.5 Directing the IA Activity

The USG CAO and the ICAs will establish policies and procedures for guiding and directing the IA activities of the USG. The identification purpose, authority and responsibility of IA should come primarily from the Audit Charter, the IIA standards of professional practice, the definition of Internal Auditing and the IIA’s code of ethics.

2100.6 Coordination with Other Departments

The USG CAO and ICAs will coordinate with each other and other departments with assurance and compliance, ethics, and governance duties and responsibilities. This will assure that internal and
external providers of assurance and consulting will avoid overlap or duplication of effort and ensure adequate assurance and compliance review by not omitting an important area by mistake.

2100.7 Reporting to Senior Management and the Board

The USG CAO will meet periodically with the BOR and the Audit Committee to provide updates on departmental performance relative to the mission of purpose, authority and performance of the audit plan. Furthermore, the CAO and ICA’s must keep management informed of significant risk exposures and control issues, including fraud risks. Finally, BPM 16.1.1 Institutional audit employees include information that ICAs are responsible for performing appropriate audit procedures to verify corrective action of each issue rated material within sixty (60) days of the issue being reported as closed/resolved by the institution’s management. OIAC shall verify corrective action for those institutions without an institutional IA function.

2100.8 External Service Providers

The USG CAO and ICAs are responsible for all providing assurance to the BOR and audit committee that any form of IA activity, even with externally provided in part or in whole, must ensure the work meets with the quality standards of the professional practice of IA.
2200 Engagement Planning

Internal auditors must develop and document a plan for each engagement, including the engagement’s objectives, scope, timing, and resource allocations.

2200.1 Planning the Audit

IA develops and documents a plan for every audit prior to the commencement of audit fieldwork that includes the project objectives, scope, timing, and resource allocations. ICAs may develop specific planning policies and procedures related to the audit plan.

2200.2 Application of USG Policy for Planning

Adequate audit planning requires that audit management define an appropriate preliminary audit scope that considers relevant systems, records, personnel, and the resources needed for the audit. In planning the project, auditors should consider:

- The objectives of the activity being reviewed and how the activity manages performance
- Significant risks to activity objectives, resources and operations and how risk is maintained at an acceptable level
- The adequacy and effectiveness of the activity’s governance, risk management and control processes, compared to a relevant control framework or model; and
- The opportunities for making significant improvements to the activity’s governance, risk management and control processes.

Planning Engagements:

Outside Parties – When planning an engagement for parties outside the organization, internal auditors must establish a written understanding with them about objectives, scope, respective responsibilities, and other expectations, including restrictions on distribution of the results of the engagement and access to engagement records.

Consulting – Internal auditors must establish an understanding with consulting engagement clients about objectives, scope, respective responsibilities, and other client expectations. For significant engagements, this understanding must be documented in an engagement charter or similar document.

2200.3 Communication with the Client

Notification – IA should notify the audit client that an engagement is scheduled. Auditors should review BPM procedures regarding notification requirements for planned engagements. Notification should generally be sent via written memo or e-mail to the audit client with copies to senior officials as appropriate.
**Preliminary Scope and Objectives** - The audit timing and preliminary objectives should generally be communicated to the client in writing in advance of the beginning of fieldwork. This information may be included in entrance meeting materials or other documents sent to the client.

**Client Input to Audit Project** – Typically an entrance conference should be conducted with the client in order to discuss the preliminary scope and objectives to obtain management input. If an entrance conference is not held, communication should occur to the client about the preliminary project scope and objectives and to obtain feedback on risks to be covered in the audit. If an entrance conference is held, appropriate leadership should be invited and encouraged to attend the meeting.

**2200.4 Audit Plan and Program Development**

**Preliminary Survey/Assessment** – IA should obtain and review the following types of background information about the area being audited (as applicable to audit scope):

- Objectives and goals
- Policies, plans, procedures, laws, regulations and contracts having significant impact on operations
- Consider probability of significant errors, fraud, noncompliance, and other exposures when developing the engagement objectives.
- Organizational information, such as number and names of employees, job descriptions, process flowcharts, details about recent changes, etc.
- Budget information, operating results and financial data
- Systems, records and physical properties including those controlled by a third party
- Prior audit work papers and audit reports (including reports of external auditors and other external parties), correspondence files and relevant authoritative and technical literature

Each ICA will establish document and summarize the preliminary survey/assessment in TeamMate.

Adequate criteria are needed to evaluate governance, risk management, and controls. Internal auditors must ascertain the extent to which management has established adequate criteria to determine whether objectives and goals have been accomplished. If adequate, IA must use such criteria in their evaluation. If inadequate, IA must work with management to develop appropriate evaluation criteria.

**Consulting Objectives** - Consulting engagement objectives must address governance, risk management, and control processes to the extent agreed upon with the client.

Consulting engagement objectives must be consistent with the organization's values, strategies, and objectives, and consistent with the documented risk assessment.

**Risk Assessment** - As part of the preliminary survey/assessment, the auditor should review systems and processes to identify key controls. The auditor generally uses various tools and
techniques, which may include flowcharts, questionnaires, and interviews or other inquiries, in order to identify key controls and gain an understanding of the related audit risk. The risk assessment further defines the objectives of the audit. The auditor must understand management’s assessment of risk in their area and management’s monitoring and reporting of risks.

Following the risk assessment, the audit program is developed to test these priority risk areas. The possibility of significant errors, fraud, non-compliance and other exposures should be considered in the assessment of risk.

In planning, auditors must also consider opportunities for making significant improvements to the activity’s risk assessment and control process.

**Engagement Scope** – The established scope must be sufficient to achieve the objectives of the engagement. The scope of the engagement must include consideration of relevant systems, records, personnel, and physical properties, including those under the control of third parties.

If significant consulting opportunities arise during an assurance engagement, a specific written understanding as to the objectives, scope, respective responsibilities, and other expectations should be reached and the results of the consulting engagement communicated in accordance with consulting standards.

**Consulting Engagements:**

In performing consulting engagements, auditors must ensure that the scope of the engagement is sufficient to address the agreed-upon objectives. If auditors develop reservations about the scope during the engagement, these reservations must be discussed with the client to determine whether to continue with the engagement.

During consulting engagements, auditors must address controls consistent with the engagement’s objectives and be alert to significant control issues.

**Resource Allocation** – Based on the nature of the audit, the auditor should evaluate the estimated time in the annual plan to achieve the objectives of the audit.

An important element of any audit budget generally includes time for the auditor assigned to learn about new systems and processes. Allocation of time to learn the new systems and processes should be considered. Additionally, audit management may consider the use of external resources where knowledge, expertise and staffing is lacking.

**Audit Program** - The audit program must be prepared in advance of field work and outlines:

- Objectives of the audit
- Scope, sampling methodology and degree of testing required to achieve the audit objectives in each phase of the audit
- Procedures for identifying, analyzing, evaluating and documenting information during the audit
- Technical aspects, risks, processes and transactions which should be examined
Audit management shall review the audit program for approval at the end of the preliminary survey/assessment. Adjustments to the program must be approved by audit management prior to beginning the related fieldwork.

**Special Engagements/Advisory Service Reviews/Consulting Program:**

Work programs for consulting, advisory services, or special engagements may vary in form and content depending upon the nature of the engagement. Reviews related to malfeasance and employee wrong doing shall follow BPM rules.

**2200.5 Planning Documentation**

Documentation to evidence the planning procedures may include the following:

- Description of initial notification to audit client such as a copy of engagement or notification letter or e-mail
- Preliminary survey summary memo or risk matrix, which includes the auditor’s assessment of risk, approved by audit management
- Approved audit program.

**2200.6 Supplementary Guidelines for Audit Planning**

While applying the planning policy, the auditor may also consider the following supplementary guidelines:

**Communication** - The preliminary objectives and audit timing should generally be communicated to the client in advance of the beginning of fieldwork to provide adequate preparation time for the client.

**Shared Resources** - Sharing mechanisms, such as TeamMate TeamStores, the data warehouse, shared work paper files, list-servs and internal networks that exist within and outside the system-wide program, may be utilized in order to enhance efficient planning and execution of audits.
2300 Performing the Engagement

Internal auditors must identify, analyze, evaluate, and document sufficient information to achieve the engagement’s objectives.

2300.1 Conducting an Audit

IA must identify sufficient, reliable, relevant and useful information to achieve the audit’s objectives. IA must document relevant information to support the audit conclusions reached. IA will assure working paper documentation is properly filed in TeamMate when an audit is completed. Auditors should consult the USG BPM Section 16.0 for information on conducting audit engagements. Engagements must be properly supervised to ensure objectives are achieved, quality is assured, and the staff is developed. The extent of supervision required will depend on the proficiency and experience of auditors and the complexity of the engagement. Every audit is properly supervised to ensure that IA staff are adequately guided and have the requisite knowledge and skills to meet the audit objectives as well as to minimize audit risk.

2300.2 Application of USG Policy for Conducting an Audit

Conducting an audit involves identifying, analyzing, evaluating and documenting the information pertinent to the area under audit in order to support audit results. Guidance on IIA standards can be found at: http://www.theiia.org/guidance/standards-and-guidance/

The standards that address criteria against which performance of IA is evaluated can be found at IIA Performance Standards (2000-2600).

The standards that address the characteristics of organizations and parties performing IA can be found at IIA Due Professional Care Standard 1220.

Supervision and Communication - The supervisor will generally communicate the goals and objectives, risks and other relevant information to the auditor in order to provide the guidance and understanding necessary to conduct a high quality audit. The supervisor and staff should maintain communication as needed throughout the audit to ensure that risks, findings and errors are adequately addressed and resolved.

2300.4 Work Paper Documentation

The work papers document the work the auditor has done. The work papers serve as the connecting link between the audit assignment, the auditor's fieldwork and the final report. Work papers contain the records of planning and preliminary surveys, the audit program, audit procedures, fieldwork and other documents relating to the audit. Most importantly, the work papers document the auditor's conclusions, the reasons those conclusions were reached, and whether the objectives were achieved. Work papers are also generally one element evaluated as part of a Quality Assurance Review of the IA program.

Engagement Record Access - The USG CAO must control access to engagement records. TeamMate has been selected as the official platform for storing engagement records and observations.
**Record Retention** - Records will be kept and managed in accordance with USG Records Retention Policy.

**Quality Assurance and Improvement** - Quality Assurance Policies and Procedures can be found in Section 3000 of this manual.

**Contents** - Work papers should include the audit program along with documentation supporting findings, testing, interviews and other analyses. All changes to the scope or audit program should be documented and approved by audit management. Findings and recommendations should be cross-referenced to the audit report or to their final disposition. Only relevant working papers and other documentation supporting the final report should be retained.

**Format** - Audit work papers are to be documented as the audit is occurring in the EWP (Electronic Working Papers) module of the TeamMate audit management system. Specific guidance on proper use of the EWP module can be found in TeamMate protocol documentation.

**2300.5 Work Paper Review**

All work papers should be reviewed to ensure that there is sufficient evidence to support conclusions and all audit objectives have been met. The reviewer should evaluate whether work papers appear to be accurate, objective, clear, concise, constructive and timely. Audit departments operating with a single auditor should leverage other USG IA departments to assist with work paper review.

**Timing and extent of review** - The level and frequency of review and communication during the audit depends upon the experience of the IA staff, the risk associated with the audited area and the significance of the findings. Work papers should be electronically signed off. TeamMate sign off is indicative of level of review performed.
2400 Communicating Results

IA must communicate the results of engagements. (IPPF 2400)

2400.1 Report Overview

USG Policy Manual 7.10.2 assigns the Committee on Internal Audit, Risk and Compliance of the BOR the responsibility for reviewing audit results, reports and recommendations.

The audit report is a tool to communicate the results of the engagement. Based on the nature of work, audit subject and needs of the client, the engagement team decides the best report format to present the engagement results. The audit report generally has the following three phases:

- Working Draft Report
- Discussion Draft Report
- Final Report

2400.2 Working Draft Report

The working draft report is the initial or first version of the audit report. The engagement team, specifically, the Auditor in Charge completes the working draft report and submits to the engagement manager for further review and edits. Since the working draft is only a working version of the audit report, it is an internal document that must not be distributed or shared outside of IA. ICAs, particularly one-person shops, are encouraged to share their draft for feedback with other USG IA members as a means to enhance the report quality.

2400.3 Discussion Draft Report

The discussion draft report is the next or second version of the audit report. The engagement manager edits the working draft report into the discussion draft report. The final reviewer in the IA shop completes a final review and approves the discussion draft for sharing with the audit client. The engagement team solicits feedback on the discussion draft report from the audit client. Feedback from the audit client can be obtained through face to face discussion, email discussion, edits on the face of the draft report, virtual meeting, teleconference or other suitable means.

USG BPM 16.3.5 - Exit Conference- states “at the conclusion of the end of engagement review, the engagement team develops a discussion draft that details the engagement executive summary, background, issue ratings (for assurance engagements), engagement observations, and recommendations. This discussion draft is shared with the auditee or client management prior to conducting an exit conference. At the exit conference, the engagement team reviews the discussion draft with management and any disagreements are resolved to the extent possible.”

2400.4 Final Report

The discussion draft is formally released to the audit client as draft report. The audit client in turn submits a formal management response to the audit shop. The ICA evaluates the management response whether it satisfactorily addresses the audit recommendations. If the management response
is not acceptable and further discussion proves unproductive, escalation to senior leadership may be necessary.

The ICA incorporates the management response and the management response evaluation into the draft report and releases it as the final audit report.

USG BPM 16.3.6 - Closing the Engagement – states “after the exit conference, the engagement team prepares a final draft, taking into account any revisions resulting from the exit conference and other discussions.”

The USG IA Charter states “OIAC and institutional auditors across the system work closely with senior leadership, departmental directors, institutional leadership committee members, institutional department heads, and other appropriate personnel as required to conduct audit procedures and determine final audit results. The President of the institution receiving an IA report from audit directors will respond within 30 days. This response will indicate agreement or disagreement, proposed actions, and the dates for completion for each specific finding and recommendation. If a recommendation is not accepted, the reason should be given. A final written report will be prepared and issued by the USG CAO or appropriate designee.”

2400.5 Audit Report Distribution

The USG CAO’s approval is required for release of all OIAC reports. Institutional engagement reports must be submitted to the OIAC. All significant and material issues are summarized for reporting to the BOR Committee on Internal Audit, Risk, and Compliance.

The USG CAO and ICAs must communicate results to the appropriate parties. The CAO and ICAs are responsible for reviewing and approving the final engagement communication before issuance and for deciding to whom and how it will be disseminated. When the USG CAO and ICAs delegate these duties, they retain overall responsibility. The USG CAO and ICAs are responsible for communicating the final results to parties who can ensure that the results are given due consideration. If not otherwise mandated by legal, statutory, or regulatory requirements, prior to releasing results to parties outside the organization the USG CAO and ICAs:

- Assess the potential risk to the institution;
- Consult with senior management and/or legal counsel as appropriate; and
- Control dissemination by restricting the use of the results.

The USG CAO and ICAs are responsible for communicating the final results of consulting engagements to clients. During consulting engagements, governance, risk management, and control issues may be identified. Whenever these issues are significant to the institution, they must be communicated to senior management and the board.

2400.6 Audit Findings

The findings in the audit report generally have the following sections:

- **Condition/Finding** – What is? (Opportunity for improvement supported by facts and test results)
- Criteria—What should be (Standards)
- Effect—So what? (Impact/Risk)
- Cause—Why did it happen? (Your Input)
- Recommendation—What should be done? (Auditor suggestion)
- Management Response—What you will do and when? (Your plan)
- Evaluation of Management Response - whether it satisfactorily addresses the audit recommendations

2400.7 Audit Observations Rating

USG BPM 16.3.8 - Exception Ratings - States “individual ratings are assigned to each assurance engagement observation contained in reports issued by the OIAC. ICAs may choose not to publish observation ratings but shall assign ratings to observations in TeamMate. ICAs shall use the USG IA rating system insofar as ICAs elect to publish observation ratings. All issues would be included in the audit report but “Comments” would not be presented in a full audit finding format. The scales for the USG IA rating systems are listed below.”

Report Observations Rating Scale

Advisory
Categorized by area reviewed.
Used to identify recommendations contained in a consulting engagement report.

No Issue
Engagement Team did not identify any reportable issue.
Included in report and tracked in USG IA function enterprise system.¹

Comments
Nominal or minor violations of procedures, rules, or regulations.
Minor opportunities for improvement.
Included in report and tracked in EWP but not TeamCentral.
Corrective action suggested verbally, but not required.

Significant
Significant violation of policies and procedures, and/or weak internal controls.
Significant opportunity to improve effectiveness and efficiency.
Significant risk identified.
Corrective action required.

Material
Material violation of policies/procedures/laws, and/or unacceptable internal controls, and/or high risk for fraud/waste/abuse, and/or major opportunity to improve effectiveness and efficiency.
Material risk identified.
Immediate corrective action required.

¹ Current practices do not incorporate tracking of “no issues.” However, this should be considered for future implementation.
2400.8 Overall Opinions

When an overall opinion is issued, it must take into account the strategies, objectives, and risks of the institution; and the expectations of senior management, the board, and other stakeholders. The overall opinion must be supported by sufficient, reliable, relevant, and useful information including:

- Scope, the time period to which the opinion pertains and scope limitations.
- Consideration of all related projects, including the reliance on other assurance providers.
- A summary of the information that supports the opinion.
- The risk or control framework or other criteria used as a basis for the overall opinion; and
- The overall opinion, judgment, or conclusion reached.
- The reasons for an unfavorable overall opinion must be stated.

2400.9 Criteria for Communicating

Audit engagement communications must include the engagement’s objectives and scope as well as applicable conclusions, recommendations, and action plans.

2400.10 Elements of Audit Report

The audit report may include some or all of the following elements:

- Purpose/Objective, Scope and Methodology
- Background
- Executive Summary
- Table of Contents
- Findings and Recommendation
- Conclusion
- Management Response
- Evaluation of Management Response
- Exceptions Rating Criteria
- Appendix

The USG CAO and ICAs identify the audience for the audit report. To identify the audience, the USG CAO and ICAs consider who will be the most important readers of the report and how such readers will use the report. The audience for USG IA reports generally are:

- State of Georgia Stakeholders, including the Public
- The USG BOR
- BOR Committee on Audit and Compliance
- The Chancellor
- USG Senior Executives
In addition, the USG CAO and ICAs should consider how much the audience know about the audit subject, how the audit issues impact the audience, and why the audience should care about the audit and its recommendations. In writing the audit report, the USG COA and ICAs keep the audience as the central focus viewing the audit subject from the audience’s perspective.

2400.11 Considerations for Audit Reporting

In finalizing the audit report, the USG CAO and ICAs perform overall evaluation of the engagement’s objectives, scope and results as well as the conclusions, recommendations, and action plans. Other considerations include the following.

- The final communication of engagement results must, where appropriate, contain the auditors’ opinion and/or conclusions. When issued, an opinion or conclusion must take account of the expectations of senior management, the board, and other stakeholders and must be supported by sufficient, reliable, relevant, and useful information.

- Opinions at the engagement level may be ratings, conclusions, or other descriptions of the results. Such an engagement may be in relation to controls around a specific process, risk, or business unit. The formulation of such opinions requires consideration of the engagement results and their significance.

- Auditors are encouraged to acknowledge satisfactory performance in engagement communications.

- When releasing engagement results to parties outside the organization, the communication must include limitations on distribution and use of the results.

- Communication of the progress and results of consulting engagements will vary in form and content depending upon the nature of the engagement and the needs of the client.

2400.12 Attributes of Audit Report

The USG CAO and ICAs issue audit reports that are accurate, objective, clear, concise, constructive, complete, and timely.

- **Accurate** communications are free from errors and distortions and are faithful to the underlying facts.

- **Objective** communications are fair, impartial, and unbiased and are the result of a fair-minded and balanced assessment of all relevant facts and circumstances.

- **Clear** communications are easily understood and logical, avoiding unnecessary technical language and providing all significant and relevant information.
• **Concise** communications are to the point and avoid unnecessary elaboration, superfluous detail, redundancy, and wordiness.

• **Constructive** communications are helpful to the engagement client and the organization and lead to improvements where needed.

• **Complete** communications lack nothing that is essential to the target audience and include all significant and relevant information and observations to support recommendations and conclusions.

• **Timely** communications are opportune and expedient, depending on the significance of the issue, allowing management to take appropriate corrective action.

### 2400.13 Correcting Audit Report Previously Released

If a final report that has been released is subsequently detected to contain a significant error or omission, the USG CAO and ICAs communicate corrected information to all parties who received the report.

### 2400.14 Use of Conformance with IIA Standards

Stating an audit engagement is “conducted in conformance with the International Standards for the Professional Practice of Internal Auditing” is appropriate only if the results of the quality assurance and improvement program support the statement.

### 2400.15 Disclosure of Nonconformance with IIA Standards

When nonconformance with the Definition of Internal Auditing, the Code of Ethics or the Standards impacts a specific engagement, communication of the results must disclose the:

- Principle(s) or rule(s) of conduct of the Code of Ethics or the standard(s) with which full conformance was not achieved.
- Reason(s) for nonconformance.
- Impact of nonconformance on the engagement and the communicated engagement results.

### 2400.16 Follow-Up Reporting

The USG CAO and ICAs establish and maintain a system to monitor the disposition of results communicated to management. The USG CAO and ICAs develop a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action. The USG CAO and ICAs monitor the disposition of results of consulting engagements to the extent agreed upon with the client. Internal audit functions shall ensure that finalized reports are completed in EWP and released to TeamCentral no later than 45 days after the report’s release.

USG BPM 16.3.7 - Follow-Up Review - states “follow-up is required of all audit issues classified as significant or material. Each material issue reported as closed/resolved by institution management shall be reviewed by the ICAs or the OIAC within sixty (60) days of the issue being reported as closed. Significant issues may be reviewed after being reported as closed but this review is not required. The actions taken to resolve the issues are reviewed and may be tested to ensure that the
desired results were achieved. In some cases, managers may choose not to implement an issue recommendation and to accept the risks associated with the audit issue. The follow-up review will note this as an unresolved exception. The USG CAO shall periodically report the status of audit issues to the Committee to include the status of issues not closed in a timely manner. Open or partially resolved State, OIAC and institution audit findings are maintained in the USG IA function enterprise system. Auditee management, such as the chief business officer or the ICA, update the status of each issue in the USG IA function enterprise system on at least a quarterly basis."

USG IA Charter states “the USG CAO monitors the implementation of audit recommendations system-wide. Chief Business Officers and/or ICAs will prepare a report of the implementation status of all audit recommendations, have it approved by the institutional President and submit it to the USG CAO on a periodic basis using the procedures established by the USG CAO. Implementation status of significant and material audit recommendations will be reported periodically to the Committee.”

**2400.17 Reporting on Management Acceptance of Risk**

When the USG CAO and ICAs conclude that management has accepted a level of risk that may be unacceptable to the institution, the USG CAO and ICAs discuss the matter with senior management. If they determine that the matter has not been resolved, the USG CAO and ICAs communicate the matter to the board. The identification of risk accepted by management may be observed through an assurance or consulting engagement, monitoring progress on actions taken by management as a result of prior engagements, or other means. It is not the responsibility of the USG CAO and ICAs to resolve the risk.
SECTION 3000 QUALITY ASSURANCE, IMPROVEMENT, AND ASSESSMENT

3100  Quality Assurance and Improvement Program

The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the IA activity. A quality assurance and improvement program is designed to enable an evaluation of the IA activity’s conformance with the Definition of Internal Auditing and the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the IA activity and identifies opportunities for improvement.

The scope, maturity, and complexity of the quality assurance program may vary across the USG. However, each audit function is expected to have a quality assurance and improvement program that includes a level of periodic assessment or monitoring of the performance of the IA activity. In addition to periodic assessments of the IA activity, external assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization. The chief audit executive must discuss with the board the form and frequency of external assessment. ICAs must also disclose to the board the qualifications and independence of the external assessor or assessment team, including any potential conflict of interest. The USG CAO must communicate the results of the quality assurance and improvement program to senior management and the board.

All USG IA shops are expected to adhere to Standard 1300 and develop and document a quality assurance and improvement program (QAIP). The QAIP assessment will be updated periodically and included in the annual ICA performance evaluation and communicated with appropriate institutional leadership and the USG CAO. The QAIP assessment may answer the following questions:

- How have the ICAs assessed the efficiency and effectiveness of the IA activity?
- What opportunities for improvement has the audit department identified and what is the plan for capitalizing on those opportunities?

3100.1 Requirements of the Quality Assessment and Improvement Program

The quality assurance and improvement program must include both internal and external assessments. The quality assurance activity must contain ongoing monitoring of the performance of the IA activity; and periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of IA practices. Ongoing monitoring is an integral part of the day-to-day supervision, review, and measurement of the IA activity. Ongoing monitoring is incorporated into the routine policies and practices used to manage the IA activity and uses processes, tools, and information considered necessary to evaluate conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards. Periodic assessments are conducted to evaluate conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards.

Sufficient knowledge of IA practices requires at least an understanding of all elements of the International Professional Practices Framework. Ongoing monitoring of the performance of the IA
activity is conducted by USG internal auditors via several activities which may include: Internal Risk Assessment combined with the Rolling Audit Plan and the delivery of value-added reports to the audit client. Periodic self-assessments shall be documented and completed at least annually. ICAs may partner with other ICAs within the USG to complete this activity. Results from the self-assessments along with any corrective plans will be communicated to USG CAO at the annual performance evaluation.

3100.2 External Assessments of the Internal Audit Function

External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization. The USG CAO must discuss with the board:

- The form and frequency of external assessment; and
- The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.

External assessments can be in the form of a full external assessment, or a self-assessment with independent external validation. A qualified assessor or assessment team demonstrates competence in two areas: the professional practice of IA and the external assessment process. Competence can be demonstrated through a mixture of experience and theoretical learning. Experience gained in organizations of similar size, complexity, sector or industry, and technical issues is more valuable than less relevant experience. In the case of an assessment team, not all members of the team need to have all the competencies; it is the team as a whole that is qualified.

The USG CAO uses professional judgment when assessing whether an assessor or assessment team demonstrates sufficient competence to be qualified. An independent assessor or assessment team means not having either a real or an apparent conflict of interest and not being a part of, or under the control of, the organization to which the IA activity belongs.

Each audit organization must perform a quality assurance review (QAR) every five years. Each assessment will require at least two external assessors unless the ICA obtains an exception from the USG CAO. Assessors may not be currently serving in a USG IA role. The ICA will coordinate with the USG CAO on the selection of the QAR team. In addition to reviewing compliance with IIA Standards, each QAR should review and provide specific commentary on the following areas:

- Working papers and completeness
- Integration of TeamMate and other tools in the audit process

All QAR working papers, reports and commentary may be stored in USG TeamMate using the USG-provided QAR template.
3200 Communicating Quality and Assessment Results

3200.1 Reporting on the Quality Assurance and Improvement Program

The chief audit executive must communicate the results of the quality assurance and improvement program to senior management and the board. The form, content, and frequency of communicating the results of the quality assurance and improvement program is established through discussions with senior management and the board and considers the responsibilities of the IA activity and chief audit executive as contained in the IA charter. To demonstrate conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards, the results of external and periodic internal assessments are communicated upon completion of such assessments and the results of ongoing monitoring are communicated at least annually. The results include the assessor’s or assessment team’s evaluation with respect to the degree of conformance. Upon final release of the QAR report, all results will be communicated to the USG CAO and appropriate management.

3200.1 Conformance with the International Internal Audit Standards

IA departments may note that organizations “conforms to the International Standards for the Professional Practice of Internal Auditing”. The USG CAE may state that the IA activity conforms with the International Standards for the Professional Practice of Internal Auditing only if the results of the quality assurance and improvement program support this statement. The IA activity conforms to the Standards when it achieves the outcomes described in the Definition of Internal Auditing, Code of Ethics, and Standards. The results of the quality assurance and improvement program include the results of both internal and external assessments. All IA activities will have the results of internal assessments. IA activities in existence for at least five years will also have the results of external assessments.

3100.6 Audit Quality and Disclosure of Nonconformance

When nonconformance with the Definition of Internal Auditing, the Code of Ethics, or the Standards impacts the overall scope or operation of the IA activity, the chief audit executive must disclose the nonconformance and the impact to senior management and the board. Prior to any disclosures of nonconformance, the ICA should consult with the USG CAO to discuss all issues related of nonconformance. As a result of the external assessments, ICAs may also disclose any non-conformance of the IIA standards with management and the board.
Appendix A: Determining Mandated Disclosures and Reporting

IA staff members must consider the following potential mandated disclosure situations when assessing compliance with this procedure:

1. IIA Standard 1100 – Objectivity – All professional internal auditors must maintain a level of objectivity. Impairments to objectivity must be disclosed and managed by the IA professional.

2. IIA Standard 1110 – Independence – Organizational independence of the Department of IA is assured with a dual reporting configuration. The USG CAO and the ICA must confirm the organizational independence on an annual basis.

3. IIA Standard 1130 – Impairments to Independence or Objectivity – Impairment disclosures will be managed according to the nature of the impairment. Individual impairments will be first mitigated by engagement management, scheduling reviews in such way to avoid individual impairments. Any unavoidable impairment will be disclosed to the USG CAO and may require disclosure to the engagement client, the Chancellor, or the Board. Limitations or restrictions imposed by management will minimally be disclosed in the engagement report but may also be elevated to higher levels at the USG CAO’s discretion. Structural impairments, such as the assignment of ERM or Compliance programs to the Department of IA, shall be discussed with the USG CAO and may be reflected in amendments to the charter.

4. IIA Standard 1312 – External Assessments – Activity related to external assessments will be discussed with the USG CAO. Agreement from the USG CAO will be secured prior to engaging on any official external assessment.

5. IIA Standard 1320 – Quality Assurance Reporting – The USG CAO must communicate the results of the quality assurance and improvement program to senior management and the BOR Committee on Internal Audit, Risk, and Compliance.

6. IIA Standard 1322 – Disclosure of Nonconformance – The USG CAO must disclose to the BOR Committee on IA, Risk, and Compliance or other appropriate designee when nonconformance with IIA standards, the Code of Ethics, or the Definition of Internal Auditing impacts the overall scope or operation of the OIAC. Any potential situation should be disclosed as soon as practical for consideration and appropriate action.

7. IIA Standard 2020 – Communication and Approval – The USG CAO must communicate audit plans, resource requirements (including significant interim changes), and the impact of resource limitations to senior management and the BOR Committee on Internal Audit, Risk, and Compliance. Inputs in this area should be brought to the attention of the USG CAO for consideration and appropriate action.

8. IIA Standard 2060 – Reporting to Senior Management and the Board – The USG CAO must periodically report to the BOR Committee on Internal Audit, Risk, and Compliance as to OIAC’s purpose, authority, responsibility, and performance relative to the audit plan. ICAs provide input into this process as requested and coordinated by OIAC.
9. IIA Standard 2440.C2 – Consulting Engagements – Consulting engagements that result in the identification of significant governance, risk management, or control issues must be disclosed to the Chancellor and to the BOR Committee on IA, Risk, and Compliance when those issues are significant to the USG or the engagement client. ICAs will provide input to the OIAC as appropriate when items that may be significant at the USG level become known during the course of a consulting engagement.

10. IIA Standard 2600 – Resolution of Risk Acceptance – The USG CAO must discuss management acceptance of residual risk with senior management in those instances that present an unacceptable level of risk to the USG. The USG CAO must report the matter to the BOR Committee on Internal Audit, Risk, and Compliance if senior management cannot effectively resolve the issue. ICAs will provide input as appropriate to the USG CAO as these situations present themselves during the course of the engagement after consulting with the audit client and securing the audit client agreement on the facts of the situation. ICAs, as appropriate, will discuss management acceptance of residual risk with senior management in those instances that may present an unacceptable level of risk to the institution or USG.
Appendix B: List of Part B Potential Additional Items for Section 1000

- History and Background of the IA Function
- Specific Institutional Vision, Mission, Objectives
- Institutional IA Organizational Chart
- Institution’s Audit Charter
- Institutional Code of Ethics
- Examples of situations requiring of Mandatory Disclosure
- Quality of Assurance Practices and Procedures
- Conflict of Interest Policies or Forms
- Specific Dress Code or Time Keeping Policies
- Training Manuals
- Information related to other appropriate office practices and policies
- Record Retention Policies
- Disaster Recovery, Back-up, and Incident response policies
- Confidentiality Agreements
- Staffing and On-boarding Procedures
- List of Investigative Procedures
Appendix C: List of Part B Potential Additional Items for Section 2000

- Departmental project management or resource plans and procedures
- Specific institutional communication plans
- Working Paper Templates and Guidelines
- Sample Engagement Memo
- Report Format Template
- Specific Planning Documents
- Institutional Policies and Procedures Specific to Audit Engagements
- Sample Status Memos and Templates
Appendix D: List of Part B Potential Additional Items for Section 3000

- Specific Quality Assurance Documents
- Sample Disclosure or Conflict of Interest Forms
- Internal Quality Review Specific Guidelines and Procedures
Appendix E: Sample System-wide Audit Charter

UNIVERSITY SYSTEM OF GEORGIA (USG)  
SYSTEM-WIDE INTERNAL AUDIT CHARTER

Introduction
Internal Audit (IA) within the USG system provides independent and objective assurance and consulting services to the BOR, the Chancellor, and institution leadership in order to add value and improve operations. The IA activity helps USG institutions accomplish their objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, compliance, and internal control processes.

Role of the Internal Audit Function
In order to add value and improve operations, the system-wide audit function provides independent and objective assurance and consulting services to across the system. IA professionals accomplish their objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, compliance, and internal control processes. Audit staff provide recommendations to improve systems, processes, and internal controls designed to safeguard resources, promote system and institutional mission toward academic excellence, and ensure compliance with state and federal regulations. Audit teams evaluate and assess established policies, procedures, and sound business practices.

OIAC and the institutional IA staffs will provide IA services for the USG. All ICAs at institutions having an IA function shall have a direct reporting relationship to the President of that institution and to the USG CAO. The USG CAO shall have the authority to direct the institutional IA functions to audit specific areas at their institutions as needed to fulfill the system-wide audit plan. The USG CAO will report all significant audit issues directly to the Chair of the Committee on Internal Audit, Risk, and Compliance (Committee) and to the Chancellor.

Organizational Responsibilities
The USG CAO has the responsibility to develop a system-wide audit plan for approval by the Committee based on a documented risk assessment that encompasses all components of the System. The system-wide IA plan includes input from ICA. The Committee will approve this plan while the USG CAO may approve minor changes to the Audit Plan as needed. The USG CAO will coordinate audit plan implementation with ICAs and with the State Department of Audits and Accounts.

The USG CAO is responsible for providing functional coordination and guidance for System-wide audit activities to include:

- Meet with appropriate component officials to review the status of institution audit work and available resources.
- Approve institutional IA charters.
• Review audit results from all institutional internal audits and the State Department of Audits and Accounts.
• Monitor the implementation of audit recommendations system-wide. Chief Business Officers and/or ICAs will prepare a report of the implementation status of all audit recommendations, have it approved by the institutional President and submit it to the USG CAO on a periodic basis using the procedures established by the USG CAO. Implementation status of significant and material audit recommendations will be reported periodically to the Committee.
• Periodically prepare a summary of IAs and highlight matters of interest for audits conducted at each institution and present such data to the Committee and to the Chancellor.
• Attend meetings of the Committee and Board as required.
• Ensure that all audits conducted by the University System Office have been thoroughly reviewed and discussed with appropriate institutional officials prior to being released to the Chancellor or to the Committee Chair.
• Provide formal input to the performance evaluations of institutional chief auditors in consultation with the respective institutional president.

Institutional IA function may also include the following:
• Conduct audits for management in order to contribute to the improvement of governance, risk management, internal controls, and compliance;
• Perform audit planning and quality assurance activities in order to ensure their contributions to the improvement of governance, risk management, internal controls, and compliance;
• Manage and oversee professional and administrative audit staff;
• Coordinate audits involving external auditors and other regulatory personnel to help ensure appropriate cooperation with external agencies;
• Recommend policy, business procedures, and other process improvements impacting the institutional operations.
• Prepare and submits audit findings and reports to appropriate management;
• Perform special investigations, management reviews, special projects, or other assignments as assigned by institution management or the USG CAO;
• Assist senior management and administrators in the interpretation and application of policies, rules, and regulations;
• Analyze operational issues impacting enterprise-wide processes and organizational areas;
• Advise on issues pertaining to financial management and fraud prevention;
• Manage and investigate hotline and ethics complaints consistent with procedures outlined in the BPM.

All IA professionals and system-wide IA functions shall comply with the International Standards for the Professional Practice of Internal Auditing as published by the Institute of Internal Auditors (IIA). All USG internal auditors, including institutional and System Office auditors, shall comply with the IIA Code of Ethics.

**Definition of Audit Engagement Scope**
The scope of internal auditing encompasses the examination and evaluation of the adequacy and effectiveness of the organization’s system of governance, risk management, compliance, internal control and the quality of performance in carrying out assigned responsibilities. The scope will vary by institution or area and may include:

- Review the effectiveness of governance processes to include the:
  - Promotion of ethical behavior within the organization;
  - Efficiency of organizational performance management and accountability;
  - Communication of risk and control information to appropriate areas of the organization; and,
  - Coordination of activities and information among the Board, external and internal auditors, and management.

- Review the effectiveness of risk management processes to include the:
  - Alignment of organizational objectives in support of the system-wide and institutional missions;
  - Identification and assessment of significant risks;
  - Alignment of risk responses with the acceptable level of risk appetite; and,
  - Capturing and communication of relevant system-wide or institutional risk to enable staff, management, and the Board to carry out their responsibilities.

- Review the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information.

- Review established systems and processes to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on operations and reports and whether the System is in compliance.

- Review the means of safeguarding assets and, as appropriate, verify the existence of such assets.

- Review and appraise the economy and efficiency with which resources are employed.

- Review operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.

- Review the status of Information Technology policies and procedures, verifying that required hardware, software and process controls have been implemented and that the controls are functioning properly.

- Conduct special audits at the request of the Committee Chair, the Chancellor or institution presidents.

- Investigate reported occurrences of fraud, waste, and abuse and recommend controls to both prevent and detect such occurrences.

- Analyze and review institutional or system-wide public private ventures and cooperative organizations.

- Provide consulting services at the request of institution management consistent with the IIA standards governing consulting engagements that contribute to the improvement of governance, risk management, compliance, and/or internal controls within the USG or within a USG institution.
Reporting Procedures
ICAs across the system work closely with senior leadership, departmental directors, institutional leadership committee members, institutional department heads, and other appropriate personnel as required to conduct audit procedures and determine final audit results. The President of the institution receiving an IA report from audit directors will respond within 30 days. This response will indicate agreement or disagreement, proposed actions, and the dates for completion for each specific finding and recommendation. If a recommendation is not accepted, the reason should be given. A final written report will be prepared and issued by the USG CAO or appropriate designee.

Authorization
To the extent permitted by law, the OIAC/institutional IA has full access to all activities, records, properties, and personnel within the USG. The OIAC/institutional IA is authorized to review and appraise all operations, policies, plans, and procedures. Documents and other materials provided to the OIAC will be handled in the same prudent manner as handled by those employees normally accountable for them.

Appointment Changes
Action to appoint, demote or dismiss the USG CAO requires the approval of the BOR. Action to appoint, demote, or dismiss ICAs require the concurrence of the USG CAO.

Approved by the Board of Regents of the University System of Georgia on insert approval date here:

_________________________________________  ______________________
Kessel Stelling, Jr.  Date
Chair of the Board of Regents

_________________________________________  ______________________
Don L. Waters  Date
Chair of the Committee on IA,
Risk, and Compliance

_________________________________________  ______________________
Henry “Hank” M. Huckaby  Date
Appendix F: Role of Internal Audit in State Auditor's Exit Conference

ROLE OF INTERNAL AUDIT IN EXIT CONFERENCES

IA is expected to have a presence at the entrance and exit conferences of external audits conducted by the State of Georgia Department of Audits and Accounts.

At the exit conference, the role of IA should be to assess the results of the audit in terms of institutional risks by listening carefully to the information the auditor presents and by asking direct questions that would help to unveil unfavorable trends or financial weaknesses. It is suggested that you request a copy of the financial report in advance to prepare for the meeting.

The Office of IA and Compliance has provided specific questions to assist the auditor in the exit interview. The responses to these questions should be summarized using the following template. Based upon the initial responses, you may have follow-up questions, which should also be documented.

New risks identified in the exit conference should be incorporated into the risk assessment and rolling audit plan of IA, as appropriate.

Notes:

(a) Deficits
7.1.2 Accounting and Reporting - 7.1.2.2 Deficits
When any situation develops that would create a deficit at an institution, the president shall take the appropriate corrective action. If the president determines that he/she cannot take adequate corrective action to eliminate the deficit, he/she shall inform the Chancellor and/or the USG chief fiscal officer immediately.

Other questions to ask related to analyzing financial deficits:
What is the institutions overall financial position? Is the balance sheet strong or weak? Is the cash position strong? How does equity look after taking into consideration Investment in Capital Assets, net of Debt? What is the debt position? On the Statement of Revenues and Expenses, do any revenue or expense categories look out of line with prior year numbers? How is the profitability trending?

(b) Significant Adjustments
For Cash Flows, find out if the auditor had to make significant adjustments. Some institutions may struggle with the concept of cash flows and this statement will provide a quick look at how cash is trending. Significant adjustments to the Schedule of Federal Awards as presented to the auditors may indicate a lack of understanding on how restricted fund activity works.

EXIT CONFERENCE SUMMARY

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<th>INSTITUTION:</th>
<th>Enter the institution name</th>
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<td>AUDIT ENGAGEMENT:</td>
<td>Describe the fiscal year audited and engagement type, i.e., full audit, FDMR, AUP, or other</td>
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EXIT CONFERENCE  
DATE:  
Enter the actual date and time of the exit

PARTICIPANTS

STATE AUDITORS:  
List the state audit team participating in person or by phone

INTERNAL AUDITORS:  
List your name and any other IA staff (USO and institutional) participating in person or by phone

NAMES/TITLES OF PARTICIPANTS:  
List others participating in person or by phone. Please ensure that your president is aware of the exit conference and is available to attend as it is the Chancellor’s requirement that presidents attend state audit exit conferences.

(1) Has any situation developed that would create a deficit (a) in Net Assets in the Statement of Net Assets (GAAP Basis) - or - a deficit in the Fund Balances in the Balance Sheet (Statutory Basis)? If yes, are the President and the Chief Business Officer aware of the deficits? What corrective action has been taken?

It rarely will be the case that a state audit “discovers” a deficit. However, there may be trends identified in terms of cash balances, operating losses, etc. that reveal weakening financial performance. State auditors traditionally will not opine on trends but nevertheless may offer some insights or perspectives that are useful when understanding the institution’s financial state.

(2) Did the auditor (b) have to make significant adjustments to the financial statements - or - have prior year financial statements been restated?

The state audit team usually will provide a list of adjustments made as a part of the exit conference documentation. You do not need to ask this question if the answer is evident from a review of the adjustments. The adjustments usually are broken down by material and immaterial changes. Feel free to ask questions about the adjustments if you do not understand the nature of the changes made; however, most changes involve debiting and crediting the wrong accounts resulting in an adjustment that does not impact the bottom line net financial position.

(3) Has senior management been made aware of significant adjustments made and/or significant deficiencies/material weaknesses identified during the engagement?

Once again, there is no need to ask this question if the state audit team covers audit issues as a part of the exit conference. The state audit team usually will provide documentation listing material, significant, other matters, etc. prior to the meeting. Please review and ensure you understand the issues raised. Also please ensure that your president is aware of the issues and that the issues are discussed during the meeting.

OTHER NOTES
Version History and Change Control:

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<td>1.0</td>
<td>Internal Audit Working Drafting Team</td>
<td>Developed initial document for public review and comment</td>
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<tr>
<td>October 27, 2016</td>
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<td>Integrating suggestions from feedback reports</td>
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<td>Provided draft to USG CAO for review.</td>
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<tr>
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<td>Provided feedback to internal OIAC team.</td>
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