

**Office of Internal Audits
Appalachian State University
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Mission Statement

The mission of the Office of Internal Audits is to help the University respond to the demands of the public and various accrediting agencies for accountability and to assist in providing evidence of prudent and effective use of state, federal and University revenue and expenditures in the accomplishment of the educational mission.

The office serves as an independent control and appraisal activity to insure that fiscal and physical resources of the University are utilized in accordance with statutory and regulatory requirements in support of the educational mission of the University.

The Office of Internal Audits is dedicated to insuring that the University's financial operations are supported by sound business practices and good internal control. This is accomplished through the use of generally accepted accounting and management principles and in compliance with federal, state, and local policies.

Purpose and Responsibilities

The Office of Internal Audits provides internal auditing for the University, its auxiliaries and subsidiaries. The office serves as independent control and appraisal activity established to review the fiscal and administrative operations of the University. It serves as a liaison with the North Carolina State Auditor's Office, the North Carolina State Controller's Office, and the Office of the President regarding financial operations of the University. In accomplishing its objectives, the office is authorized to have full, free, and unrestricted access to all University functions, records, property, and personnel.

The Office of Internal Audits functions as a staff and advisory function reporting directly to the Chancellor of Appalachian State University. Through the organizational structure, it does not have responsibilities for day-to-day operations which might conceivably place it in a position of auditing itself.

Office of Internal Audits Charter

Internal auditing serves the university administrators of Appalachian State University by reviewing and appraising the activities of the institution, the integrity of its records, and the general effectiveness of its operations. The objective of internal auditing is to assist University management in the effective discharge of their responsibilities. To this end, internal auditing furnishes them with analyses, appraisals, recommendations, counsel and information concerning activities under review.

The general objectives of internal auditing at Appalachian State University are:

- Determining that the overall system of internal control and the specific controls in each activity under audit are adequate, effective and functioning.
- Insuring that institutional policies and procedures, state and federal laws, contractual obligations and sound business practices are followed.
- Verifying the existence of assets shown on the financial records and ensuring maintenance of proper safeguards for their protection.
- Determining the adequacy and reliability of the accounting and reporting systems and procedures.

Organizational Relationship

The Office of Internal Audits is directly responsible to the Chancellor. The Office is headed by the Director of Internal Audits who reports to the Chancellor. This reporting relationship ensures the independence of the Office, promotes comprehensive audit coverage and assures adequate consideration of audit recommendations.

Official reports prepared and issued by the Office of Internal Audits as a result of a formal audit or review are issued to the Vice Chancellor responsible for the area with copies of the reports going to the manager of the area and other senior administrators as appropriate. In addition, a copy of the report and the reply from management is sent to the Chancellor.

The Director of Internal Audits serves as the University's liaison with the North Carolina State Auditor. In this capacity, he coordinates and assists with the annual financial audits upon request and is on call to assist with interim audit work during the year as a result of telephone calls to the State Auditor's fraud and abuse hotline and to handle other audit and investigative requests as needed.

The Director serves as an advisor to the Vice Chancellor and Chancellor on financial and management issues. The Director also attends meeting of the Board of Trustees.

Authority and Responsibility

The Office of Internal Audits, in the performance of audits and with stringent accountabilities of safekeeping and confidentiality, is granted unlimited access to all facilities, personnel and records maintained, either electronically or manually, by all units of the university and its affiliated organizations.

Independence

It is understood that the Office of Internal Audits is independent of the areas audited. It does not participate in the direct operation of any activity of the university other than internal auditing. The independence and objectivity of the internal auditing function must be maintained at all times.

Scope of Audits

Internal audits and reviews are not limited in scope by campus management. Audit responsibilities extend to all campus-managed entities, all area of operations and include all systems (manual and electronic, in use or under development) that support the activities of the campus.

Standards

In the performance of its responsibilities, the Office of Internal Audits adheres to the Standards for the Professional Practice of Internal Auditing, Code of Ethics, and Statement of Responsibilities of The Institute of Internal Auditors, Inc.

Guidelines of the Information Systems Audit and Control Association, the Association of College and University Auditors and the National Association of College and University Business Officers are also followed in internal audits and reviews.

Internal or University Functions Performed by the Office of Internal Audits

Resource Manual – The development and publishing of the Resource Manual of Administrative Policies and Procedures is the responsibility of the Office of Internal Audits. The manual includes policies enacted into law by the North Carolina General Assembly are included in the “The General Statutes of the State of North Carolina,” the Board of Governors and the president of the consolidated University of North Carolina, the Board of Trustees of Appalachian State University and the University Administrative Cabinet.

Indirect Cost Rate – An indirect cost rate for the University is negotiated by this office with the federal Department of Health and Human Services. The indirect cost rate is for use on grants and contracts.

Bank Reconciliations - The Office of Internal Audits reconciles all bank statements and the North Carolina State Treasurer's statement for the University.

Audit Plan, Audit Selection and Execution of the Audit

At the end of each fiscal year, a risk assessment analysis is performed on the academic and administrative departments throughout the university (see matrix below). A risk factor (high, medium or low) is assigned to each department based on various factors. Some of the criteria to determine the risk factors are prior year audits, control risk, employee turnover, organizational restructuring, materiality and volume of revenues and expenditures. The departments that have been assigned a high risk factor are incorporated into the audit plan. The office conducts a full scale financial and compliance audit on the departments with a high risk factor. The remaining departments that have been assigned a medium to low risk factor may receive an internal control review. Once the risk assessment is performed, an audit plan is devised and submitted to the chancellor for his review. This audit plan is utilized in determining which audits to conduct during the fiscal year.

Risk Assessment Matrix

Department	Change in Management	Effects of Inadequate Controls or Controls Not Applied	Prior Year Audit Findings or Review Requested by Management	Materiality: Revenues or Expenses Exceed \$500,000	Risk Level Hi, Med, Low

The staff of the Office of the Internal Audits performs internal audits of the financial activities of the University. The basic audit examination includes but is not limited to the following:

- Reviewing and appraising the soundness, adequacy and application of accounting, financial and operating controls.
- Determining the extent of compliance with University, state and federal policies, and procedures.

- Determining the extent to which University assets are accounted for, and safeguarded from losses of all kinds.
- Determining the reliability of accounting and other financial data developed within the University.

Types of Audits

Information Systems Audit – As new and/or modified systems become operational, the staff may conduct system audits of computer applications and major administrative systems. Attention is given to the system requirements to insure that adequate internal controls are incorporated, that procedures are followed in processing the system, that system documentation is complete and accurate, and the needs of users are met.

Financial and Operational Audits - The audit examination is made in accordance with generally accepted auditing standards and includes tests of the accounting records and other auditing procedures that are considered necessary in the circumstances. The basic audit examination includes determining the reliability of accounting and other financial data developed within the University.

Compliance Audits – These types of audits evaluate the adequacy and effectiveness of how the university is in compliance with policies and procedures established by the University, Federal and State guidelines and statutes.

Reporting and Internal Audit Findings

After an internal audit is completed, an exit conference is held with the manager/director of the audited department and the appropriate Vice Chancellor. The manager/director is asked to respond to the audit report findings and recommendations with a written audit reply within fifteen days of the conference.

The Office of Internal Audits will conduct a follow-up review of the audited department to verify that the recommended procedures are in place and operating effectively. This will be done prior to the next scheduled state audit as the State Auditor requires a copy of all internal audit reports.

If the follow-up review indicates continued deficiencies, the Office of Internal Audits will attempt to have them corrected at the manager/director level. If this is not successful, the problem will be referred to the appropriate Vice Chancellor and the Chancellor.

In the event there are repeat audit findings on the next internal audit, the Director of Audits will work with the Vice Chancellor and the manager/director on the corrective action and resolution. The Director of Internal Audits will issue a memorandum to the Chancellor advising of the situation and the final resolution of the problem.

Conclusion

The Office of Internal Audits is dedicated to facilitate the university's management in meeting its academic mission. The core objectives of the office is to assist the university in accomplishing its goals and objectives in the most efficient and effective manner. The office's resources are committed to assimilate the institution's culture and history in order to assess the institution's risk as it pertains to administrative decisions.