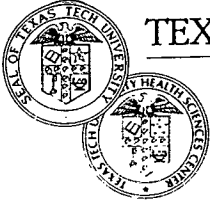


ANNUAL REPORT

For the Year Ending August 31, 1999



TEXAS TECH UNIVERSITY

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Office of Internal Audit

Box 41104
Lubbock, TX 79409-1104
(806) 742-3220

October 25, 1999

The Honorable George W. Bush, Governor
Members of the Legislative Budget Board
State Auditor's Office

This report fulfills the requirements set out in V.T.C.A., Government, Chapter 2102, Internal Auditing, Sec. 2102.009. ANNUAL REPORT. The report enumerates the activities of the Office of Internal Audit of Texas Tech University and Texas Tech University Health Sciences Center. It provides information of our audit plan, a copy of our most recent peer review, a list of completed audits, a list of our most significant findings and recommendations of the current year, along with their status, and a list of our other activities. Our work was directed primarily toward reliability of information, compliance with laws and regulations, and safeguarding of assets. We also directed our attention toward the economic and efficient use of resources and the reported results of operations or programs.

We believe the work of our office has contributed to the efficient and effective operation of Texas Tech University and Texas Tech University Health Sciences Center. During the year ended August 31, 1999, we completed 44 audits. One of these audits resulted in findings and recommendations that we consider most significant.

For further information about the contents of this report or any internal audit report mentioned herein, please contact us.

Sincerely yours,

Frances Grogan, CPA
Director of Internal Audit

copies: Members of the Board of Regents
John T. Montford, Chancellor
Texas Tech University
Texas Tech University Health Sciences Center
Donald R. Haragan, President
Texas Tech University
David Smith, M.D., President
Texas Tech University Health Sciences Center
Sunset Advisory Commission

**Texas Tech University
Texas Tech University Health Sciences Center
Internal Audit Annual Report for Fiscal Year 1999**

1. **AUDIT PLAN 1999**

The annual audit plan for Texas Tech University and Texas Tech University Health Sciences Center was approved by the Chancellor and Chairman of the Finance and Administration Committee of the Board of Regents on November 11, 1998. Of the forty-four audits planned, twenty-seven of the audits were completed, twelve were in progress at year end, three were carried over to next year and two were canceled. The year 2000 audit will continue as a multiyear ongoing project. A full copy of our audit plan for fiscal year 1999 is attached. (Appendix A)

During the year, twenty unscheduled audits were initiated. Nineteen were completed and reported. One of the audits were in progress at year end. At the request of upper management pursuant to one of our forthcoming audit recommendations, we worked with an outside accounting and management group in the complete restructure of a major University office.

Two deviations from the annual audit plan for the year ended August 31, 1999, were the following canceled audits:

- TTU – Career Placement and Planning
- TTU – The Junction Center

These audits were canceled due to a contemplated change in the focus of the services by management or because of audit coverage during other projects. They were not rescheduled because their relative risk was greatly reduced in the most recent risk assessment.

**Texas Tech University
Texas Tech University Health Sciences Center
Internal Audit Annual Report for Fiscal Year 1999**

II. Peer Review Report

Our most recent peer review, dated August 20, 1999, indicates that the Office of Internal Audit of Texas Tech University and Texas Tech University Health Sciences Center complied with the *IIA Standards for the Professional Practice of Internal Audit* for the period reviewed. A copy of our report is attached. (Appendix B)

Texas Tech University
Texas Tech University Health Sciences Center
Internal Audit Annual Report for Fiscal Year 1999

III. List of Audits Completed with Breakdown by Scope of Audits

| Report No. | Report Date | Name of Report | Audit Scope Categories | | | | |
|------------|-------------|--|---------------------------------|------------------------------|--|--------------------------------------|------------------------|
| | | | Financial (and other) Reporting | Effectiveness and Efficiency | Accomplishment of Established Objectives and Goals | Compliance With Laws and Regulations | Safeguarding of Assets |
| 1 | 4/9/98 | Texas Tech Foundation, Inc. 1997 | X | | | | |
| 2 | 6/4/98 | Intercollegiate Athletic Program - TTU | X | | | | |
| 3 | 7/24/98 | American Express Corporate Cards - TTU/TTUHSC | | X | | X | X |
| 4 | 9/2/98 | Department of Chemistry and Biochemistry - TTU | | | | X | X |
| 5 | 9/3/98 | Athletic eligibility Testing - TTU | | | | X | |
| 6 | 9/30/98 | Ranching Heritage Center - TTU | | X | X | X | X |
| 7 | 10/2/98 | Board & Chancellor's Travel Expenses | X | | | X | |
| 8 | 10/15/98 | Residency Contract - TTU - TTUHSC | X | | | X | |
| 9 | 11/3/98 | Grounds Maintenance - TTU | | X | | X | X |
| 10 | 11/3/98 | Print Tech - TTU | | | | X | X |
| 11 | 11/4/98 | Year 2000 Interim Report - TTU/TTUHSC | | | X | X | X |
| 12 | 11/17/98 | Year 2000 Interim Report - TTU | | | X | X | X |
| 13 | 12/7/98 | College of Engineering - TTU | X | X | X | X | X |
| 14 | 12/11/98 | The Institute of Environmental and Human Health | X | | | | |
| 15 | 12/6/98 | Bond Audit - TTU | X | | | X | |
| 16 | 12/16/98 | Bond Audit - TTU/TTUHSC | X | | | X | |
| 17 | 12/16/98 | Texas Higher Education Coordinating Board Family Practice Residence Operational Grant Funds and Rural Rotation Funds | X | | | X | X |
| 18 | 12/16/98 | TDCJ Follow-Up Montford Unit - TTU/TTUHSC | X | X | | X | X |
| 19 | 12/18/99 | TIEHH Management Health Care TTU/TTUHSC | | X | X | X | X |
| 20 | 12/18/98 | Texas Tech Foundation - 1998 | X | | | | |
| 21 | 1/14/99 | TDCJ Managed Health Care - TTU/TTUHSC | X | X | X | X | X |
| 22 | 1/15/99 | KTXT TV - TTU | X | | | | |

**Texas Tech University
Texas Tech University Health Sciences Center
Internal Audit Annual Report for Fiscal Year 1999**

| Report No. | Report Date | Name of Report | Audit Scope Categories | | | | |
|------------|-------------|--|---------------------------------|------------------------------|--|--------------------------------------|------------------------|
| | | | Financial (and other) Reporting | Effectiveness and Efficiency | Accomplishment of Established Objectives and Goals | Compliance With Laws and Regulations | Safeguarding of Assets |
| 23 | 1/20/99 | Follow up on State Auditor's Office Audit of Performance Measures | | | X | X | |
| 24 | 1/20/99 | Texas Tech Police Department - TTU TTUHSC | | | | X | X |
| 25 | 1/29/99 | KOHM - FM Radio - TTU | X | | | | |
| 26 | 2/2/99 | Intercollegiate Athletics Program TTU | X | | | | |
| 27 | 2/3/99 | Petroleum Engineering Special TTU | | | | X | X |
| 28 | 2/4/99 | Texas Higher Education Coordinating Board ARP/ATP Grant | | | | X | |
| 29 | 2/12/99 | Athletic Compliance Testing - TTU | X | | | | |
| 30 | 3/10/99 | Development Office | X | | | X | X |
| 31 | 3/10/99 | Family Practice Residency Contract - TTU/TTUHSC | | | | X | X |
| 32 | 3/17/99 | Student Services Special - TTU/TTUHSC | X | | | X | X |
| 33 | 3/23/99 | Pediatric Dept. Special - TTU/TTUHSC | | | | X | |
| 34 | 3/23/99 | Disaster Recovery - TTU/TTUHSC | | | | X | X |
| 35 | 4/12/99 | Medical Practice Review Odessa - TTU/TTUHSC | X | X | X | X | X |
| 36 | 5/3/99 | Quality Assurance Self-Assessment | | | X | X | |
| 37 | 6/4/99 | Athletic business Office - TTU | | X | | X | X |
| 38 | 6/30/99 | Office of Financial Aid - TTU | | | | X | X |
| 39 | 7/7/99 | Office of Research Services - TTU | | X | X | | |
| 40 | 7/7/99 | Athletic Compliance System - TTU | | X | X | X | |
| 41 | 7/9/99 | Basic Services Department/Sponsored Programs - TTU/TTUHSC | | X | X | X | X |
| 42 | 7/21/99 | Office of International Affairs Division of Public Education - TTU | | | X | X | X |
| 43 | 8/2/99 | Neuropsychiatry TTU/HSC | | | | X | X |
| 44 | 8/5/99 | Cash & Investment | X | X | | X | X |

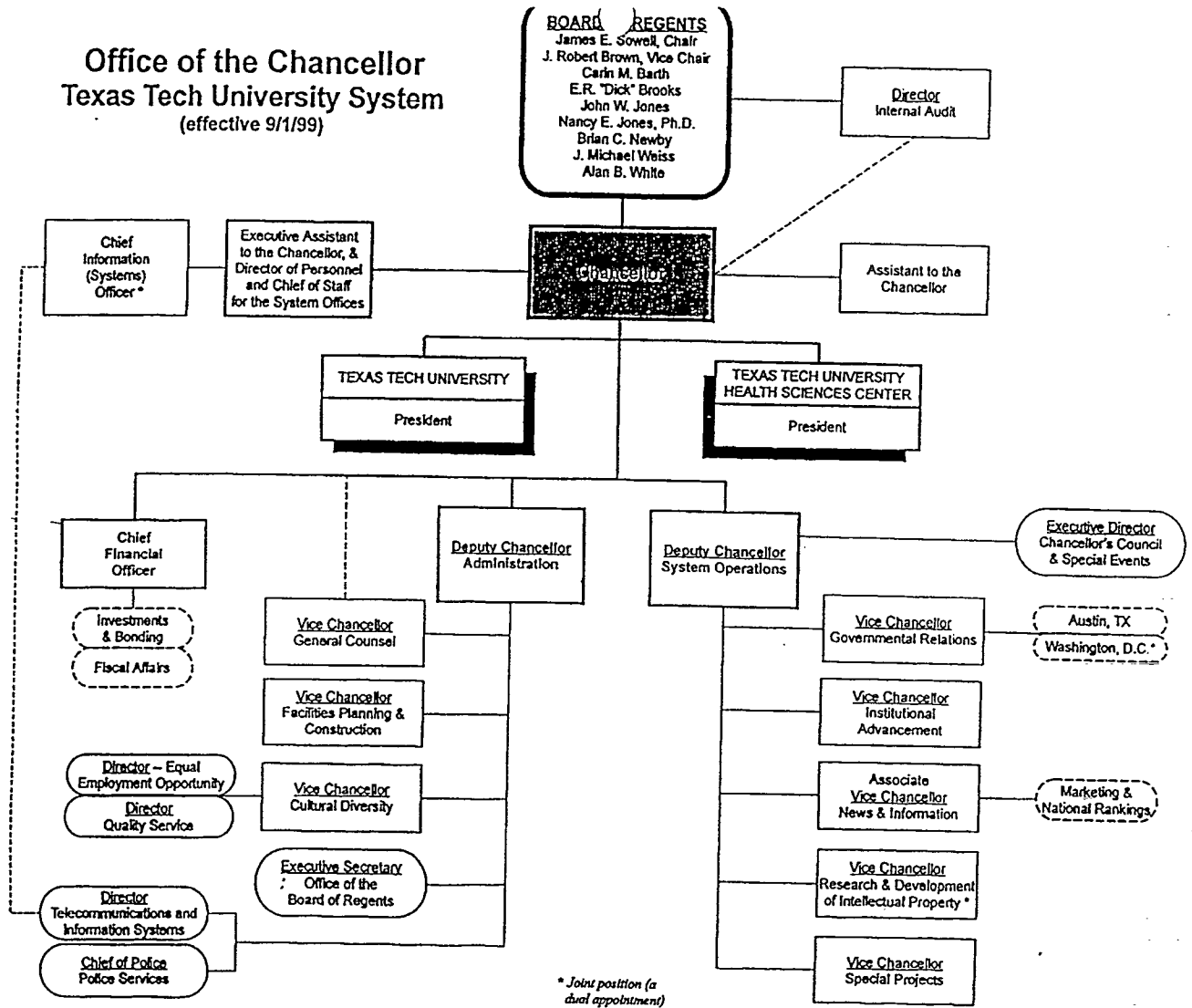
**Texas Tech University
Texas Tech University Health Sciences Center
Internal Audit Annual Report for Fiscal Year 1999**

IV. Key Audit Findings/Recommendations

| Report No. | Report Date | Name of Report | Findings/Recommendations | Status (Implemented, Partially Implemented, Action Delayed, No Action Taken) | Fiscal Impact/Other Impact |
|------------|-------------|---------------------------|--|--|---|
| 8 | 10/15/99 | TTUHSC Residency Contract | We found inaccuracy of billing and thus non compliance with billing requirements for residency contracts. We recommended that steps be taken to remedy past under/over billings and that procedures be developed to preclude future inaccuracies | Implemented | Reduce the risk of over/under billing and ensure compliance with contracts. |
| 34 | 3/23/99 | TTUHSC Disaster Recovery | We found that TTUHSC does not have a written disaster recovery plan as required by the Texas Administrative code. We recommended that a plan be developed and implemented. | Implemented | Reduce the risk of loss of critical information and data |

Texas Tech University
Texas Tech University Health Sciences Center
Internal Audit Annual Report for Fiscal Year 1999

V. Organizational Chart



**Texas Tech University
Texas Tech University Health Sciences Center
Internal Audit Annual Report for Fiscal Year 1999**

VL Report on Other Internal Audit Activities

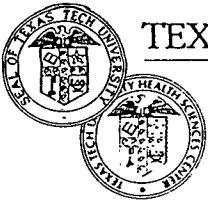
| Activity | Impact |
|---|--|
| Served on implementation committee of new Student Information System in an advisory capacity. The system was implemented during FY. | Acted on committee in capacity of a resource person on controls and required information outputs. Also facilitated communication between departments for overcoming system deficiencies. |
| Conducted financial research for Board of Regents. | Strengthened the understanding of information for Board of Regent's use in capital planning. |
| Served on the Health Sciences Center Year 2000 Task Force. | Acted on committee in capacity of a resource person and to provide ongoing oversight that State directives are being followed. |
| Served on AIS Priority Committee in advisory capacity. | Acted on committee in capacity of a resource person on controls. |

**Texas Tech University
Texas Tech University Health Sciences Center
Internal Audit Annual Report for Fiscal Year 1999**

VII. Internal Audit Plan for Fiscal Year 2000

The annual audit plan for Texas Tech University and Texas Tech University Health Sciences Center was approved by the Chancellor and Chairman of the Finance and Administration Committee of the Board of Regents on September 28, 1999. A full copy of our audit plan for fiscal year 2000 is attached. (Appendix C).

Appendix



TEXAS TECH UNIVERSITY

TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Office of Internal Audit

Box 41104
Lubbock, TX 79409-1104
(806) 742-3220

ANNUAL PLAN

For the Year Ending August 31, 1999

Submitted by: *Frances E. Grogan CPA* *10/29/98*
Frances E. Grogan, CPA Date
Director of Internal Audit

Approved by: *Alan B. White* *10/31/98*
Alan B. White, Chairman of the Finance and Date
Administration Committee, Board of Regents

Approved by: *John T. Montford* *11-9-98*
John T. Montford Date
Chancellor

October 29, 1998

Mr. Alan B. White
Chairman of the Finance and
Administration Committee
Board of Regents
Texas Tech University
Texas Tech University Health Sciences Center
Lubbock, Texas

Mr. John T. Montford
Chancellor
Texas Tech University
Texas Tech University Health Sciences Center
Lubbock, Texas

We are pleased to submit the annual plan of the Office of Internal Audit of Texas Tech University and Texas Tech University Health Sciences Center for the year ending August 31, 1999. The plan addresses audits that are required by statute or administrative policy, assistance required by external auditors, audits that are currently in progress, and planned audits based on our assessment of risk. This year we have planned time for our quality review as required by the Internal Audit Act of 1989. We have scheduled approximately seven percent of our time for assisting management with unforeseen requests, for the issuance of incident reports and for following up on implementation of prior audit recommendations.

We appreciate the support you offer us in the performance of our responsibilities and formally request that you approve this plan.

Sincerely,



Frances E. Grogan, CPA
Director

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The staff members of the Office of Internal Audit agreed that we should have a mission statement that exhibits the commitment made by Texas Tech to be the institution of choice for high quality students and the best institution of higher education in the State of Texas. The result of our contemplation is a mission statement that

Mission Statement

The Office of Internal Audit is established as an independent organization within Texas Tech University and Texas Tech University Health Sciences Center. The objective of Internal Audit is to provide management and the Board of Regents with

- * analysis
- * appraisals
- * recommendations
- * counsel and
- * information

concerning the activities reviewed. These audit activities include reviews of administrative and accounting internal controls and the assessment of quality of performance. Internal Audit is committed to providing the University and Health Sciences Center with quality service.

emphasizes quality service provided by members of internal audit for the benefit of the Board of Regents and management of both institutions.

The goals of the Office of Internal Audit are outlined in Texas Tech University OP 71.02 and Texas Tech University Health Sciences Center OP 04.01.

Goals of the Office of Internal Audit

- * Reviewing and appraising the soundness adequacy, and application of accounting, financial and other operating controls and promoting effective control at a reasonable cost.
- * Appraising the quality of management's performance in carrying out their assigned responsibilities.
- * Ascertaining the extent of compliance with state and federal law and with Board of Regents and Operating Policies and Procedures.
- * Recommending procedures that would improve the economy and efficiency of operations.
- * Ascertaining that University and University Health Sciences Center assets are being adequately accounted for and safeguarded from losses.
- * Participating in system design as an advisor
- * Determining the adequacy, reliability, and effectiveness of accounting and reporting systems.
- * Testing for evidence of fraud, embezzlement, theft, waste, etc., in the performance of auditing procedures.

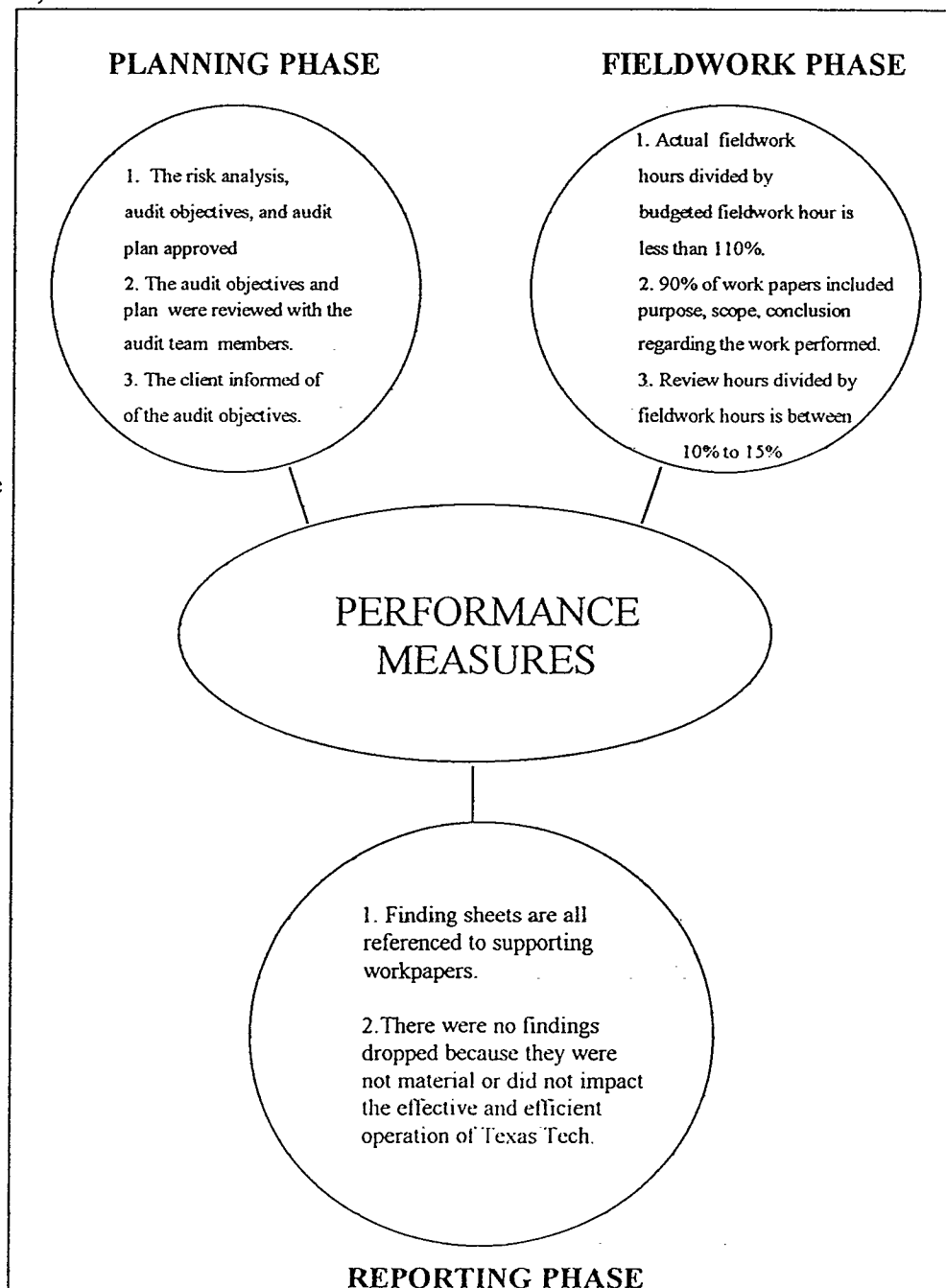
Accomplishment of these goals should assure an effective internal audit program for both institutions. These goals are reviewed by the members of the staff of internal audit periodically.

Performance Measures

We have instituted a continuous quality improvement/control effort required by internal auditing standards. We evaluate the quality of our services by:

- answering a self-assessment questionnaire at the end of each of the three phases inherent in every audit (planning, fieldwork, and reporting).
- providing our clients the opportunity to express their level of satisfaction with the services we have provided them; and
- measuring our performance against predetermined benchmarks that we believe will encourage excellence.

These performance measures are listed in the illustration to the right.



Allocation of Time

In accordance with the Internal Audit Act (V.T.C.A., Government, Sec. 2102.005 (1), 2102.007 (2), and 2102.008), we have prepared this audit plan using risk assessment techniques. To facilitate the planning, we developed a list of potential audit units using the University and Health Sciences Center's telephone books, annual financial reports, and organization charts. Next, we determined the relative weights of the following seven significance factors:

- Public and Management Interest
- Complexity of Operations
- Quality of and Reliance of Internal Controls
- Management's Abilities
- Change in Systems, Processes, or Procedures
- Materiality of the Potential Loss
- Time Elapsed Since the Last Audit

A descriptive value between 0 and 5 was assigned to each significance factor for each potential audit. A weighted average was calculated and used to sort the potential audit units relative to their calculated risk. The detail analysis of the various potential audits can be found in the Appendix on pages 13-14. From this list, the planned audits were selected and an estimate of time to perform each audit was assigned.

We determined our allocable chargeable time to be 15,480 hours. From this time, we subtracted 2,480 hours we estimate are needed to perform required audits, external audit assistance, and other required projects and 1,570 hours we estimate are needed to complete fiscal year 1998 audits in progress. We have set aside approximately 19% of our time (4,075 hours) for unscheduled work to be determined by requests, incident reports, follow-up on the implementation of our recommendations, and other special projects. The remaining 7,355 hours were allocated to the audits determined through the risk assessment process and to provide broad coverage over a five year period. Pages 8-12 include schedules, lists and graphs detailing this information.

Long Range Planning

In order to provide broad systematic audit coverage to the University and Health Sciences Center, we have devoted a portion of our time for audits of the colleges and schools of the University and selected operations of the Health Sciences Center. Our five year plan is presented below.

| | TEXAS TECH UNIVERSITY | TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER |
|-------|--|--|
| 97-98 | College of Engineering College of Human Sciences | Practice Management Review - Odessa Clinics |
| 98-99 | College of Arts and Sciences | Basic Sciences Departments Practice Management Review- Amarillo Campus |
| 99-00 | College of Education Graduate School | School of Pharmacy |
| 00-01 | College of Business Administration School of Law | Practice Management Review- Lubbock Clinics |
| 01-02 | College of Agriculture College of Architecture | Practice Management Review- El Paso Clinics |

Scope of Work

The scope of internal auditing should encompass the examination and evaluation of the adequacy and effectiveness of the organization's system of internal control and the quality of performance in carrying out assigned responsibilities.

- ◇ **Reliability and Integrity of Information** - Internal auditors should review the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information.
- ◇ **Compliance with Policies, Plans, Procedures, Laws, and Regulations** - Internal auditors should review the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on operations and reports and should determine whether the organization is in compliance.
- ◇ **Safeguarding of Assets** - Internal auditors should review the means of safeguarding assets and, as appropriate, verify the existence of such assets.
- ◇ **Economical and Efficient Use of Resources** - Internal auditors should appraise the economy and efficiency with which resources are employed.
- ◇ **Accomplishment of Established Objectives and Goals for Operations or Programs** - Internal auditors should 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.¹

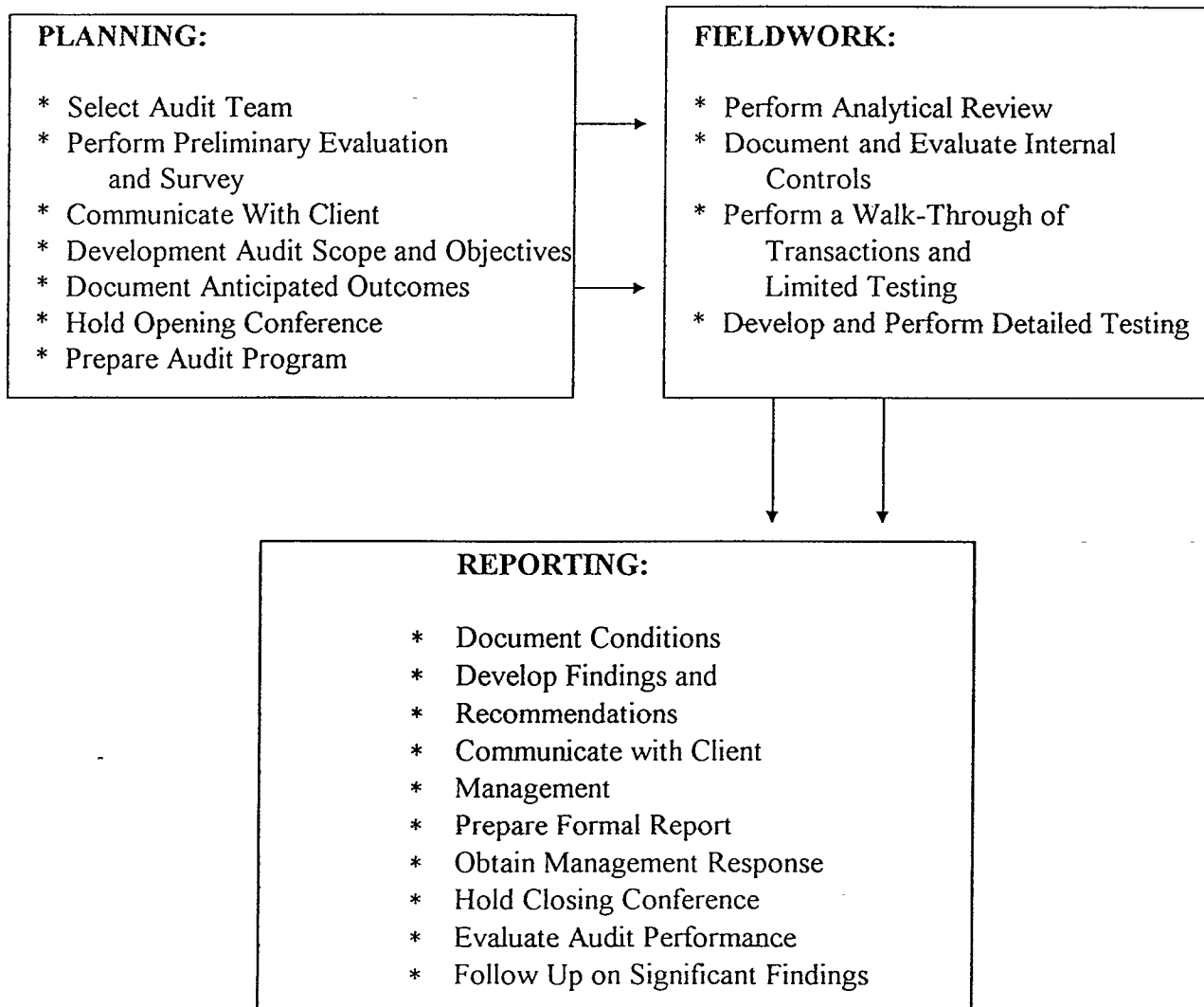
For each audit, during the planning process, we will determine the scope of work to be performed on the audit using the standards noted above. Our emphasis will be directed primarily toward reliability of information, compliance with laws and regulations, and safeguarding of assets. We will, however, direct our attention toward the economical and efficient use of resources and the accomplishment of established objectives and goals for operations or programs as required or requested. Our scope will be communicated to the client through an entrance conference and/or engagement letter.

Institute of Internal Auditors, Inc., Codification of Standards for The Professional Practice of Internal Auditing. (Altamonte Springs: The Institute of Internal Auditors, Inc., 1997). Pp. 8-9.

Audit Process

Internal audits are performed in three phases: Planning, Fieldwork, and Reporting. As indicated earlier, the success of our efforts is monitored through the completion of self-evaluation questionnaires and the compilation of information to monitor our achievement of performance measures. We believe it is important that our process is understood. To document the procedures normally employed in the performance of an audit, we have prepared the following illustration.

AUDIT PROCESS



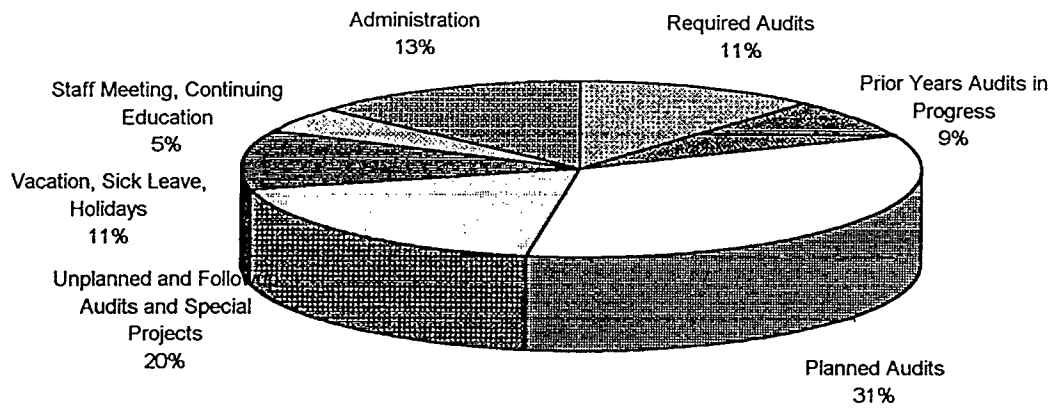
Schedules and Graphs

Texas Tech University
Texas Tech University Health Sciences Center
Office of Internal Audit
Time Budget Summary - Available Hours
Year Ending August 31, 1999

| Position | Total | Vacation, Sick Leave, & Holidays | CPE & Staff Meetings | Available | % Chargeable | Administration | Chargeable |
|--------------------------|---------------|---|---|------------------|---------------------|-----------------------|-------------------|
| Director | 2,080 | 240 | 150 | 1,690 | 30% | 1,183 | 507 |
| Assistant Director | 2,080 | 240 | 140 | 1,700 | 80% | 340 | 1,360 |
| Assistant Director | 2,080 | 220 | 140 | 1,720 | 80% | 344 | 1,376 |
| Audit Manager | 2,080 | 220 | 100 | 1,760 | 95% | 88 | 1,672 |
| Audit Manager - IT | 2,080 | 220 | 80 | 1,780 | 80% | 356 | 1,424 |
| Senior Auditor | 2,080 | 220 | 80 | 1,780 | 90% | 178 | 1,602 |
| Staff Auditor - II | 2,080 | 220 | 80 | 1,780 | 95% | 89 | 1,691 |
| Staff Auditor - II (70%) | 1,456 | 160 | 80 | 1,216 | 95% | 61 | 1,155 |
| Staff Auditor - 1 | 2,080 | 220 | 80 | 1,780 | 95% | 89 | 1,691 |
| Staff Auditor - 1 | 2,080 | 220 | 80 | 1,780 | 95% | 89 | 1,691 |
| Audit Tech - 75% | 1,560 | 180 | 0 | 1,380 | 95% | 69 | 1,311 |
| | <u>21,736</u> | <u>2,360</u> | <u>1,010</u> | <u>18,366</u> | | <u>2,886</u> | <u>15,480</u> |

Texas Tech University
Texas Tech University Health Sciences Center
Office of Internal Audit
Allocation of Available Hours
Year Ending August 31, 1998

| Allocated Time | Budgeted Hours |
|---|----------------|
| Required Audits | 2480 |
| Prior Year Audits in Progress | 1570 |
| Planned Audits | 7355 |
| Unplanned and Follow Up Audits and Special Projects | 4075 |
| Vacation, Sick Leave, Holidays | 2360 |
| Staff Meetings, Continued Education | 1010 |
| Administration | 2886 |
| | 21,736 |



Texas Tech University
Texas Tech University Health Sciences Center
Office of Internal Audit
Required Audits, External Audit Assistance, and Other Required Projects
Year Ending August 31, 1999

| Audit Area | Budgeted Hours | Comments |
|---|-------------------|------------------|
| <u>Required Audits and External Auditor Assistance</u> | | |
| KTXT-TV | 168 | CPB Audit |
| KOHM-FM | 168 | CPB Audit |
| Texas Tech University Foundation | 120 | Annual |
| Athletic Department | 240 | Annual |
| Statewide Single Audit-Bonds Payable Foundation | 80 | St. Aud Request |
| NCAA Compliance | 120 | Annual |
| Grants and Contracts | 100 | Coordinating Brd |
| Institute of Environmental and Human Health | 240 | Annual |
| Medical Practice Income Plan | 500 | Annual |
| Nursing Income Plan | 80 | Annual |
| Allied Health Practice Income Plan | 80 | Annual |
| Family Practice Residency Program | 140 | Annual |
| Pharmacy Practice Income Plan | 140 | Annual |
| Total Required Audits and External Audit Assistance | 2,296 | |
| <u>Other Projects</u> | | |
| Annual Report | 40 | Statute |
| Annual Plan | 120 | Statute |
| Travel Expense Audit Assistance | 24 | Annual |
| Total Other Projects | 184 | |
| Total Required Audits, External Audit Assistance, and Other Projects | 2,480 | |

Texas Tech University
Texas Tech University Health Sciences Center
Office of Internal Audit
Prior Year Audits In Progress
Year Ending August 31, 1998

| Audit Area | Budgeted Hours |
|--|-------------------|
| Ranching Heritage Center | 40 |
| TTU College of Engineering | 120 |
| Development | 160 |
| College of Human Science | 600 |
| Medical Practice Income Plan | 40 |
| ➤ Resident Contracts | 50 |
| Managed Care | 240 |
| Texas Department of Criminal Justice | 120 |
| TTUHSC Medical Practice Review | 200 |
| <i>Total Prior Year Audits In Progress</i> | <u>1,570</u> |

| Audit Area | Budgeted Hours |
|--|---------------------|
| <u>Texas Tech University</u> | |
| Office of Research Services | 120 |
| Continuing Education | 200 |
| Career Placement and Planning | 120 |
| Ground Maintenance | 60 |
| College of Arts and Science - Five Year Plan | 1,000 |
| The Junction Center | 200 |
| International Cultural Center | 80 |
| <u>Texas Tech University Health Sciences Center</u> | |
| TDJC/Managed Care - Five Year Plan | 500 |
| Basic Sciences | 200 |
| Practice Management Review (Amarillo Campus) - Five Year Plan | 750 |
| Sponsored Programs | 80 |
| Department of Information Resources - Disaster Recovery Plan | 140 |
| Healthnet | 120 |
| School of Pharmacy - Endowments | 120 |
| <u>Texas Tech University and Texas Tech University Health Sciences Center</u> | |
| Cash and Investments | 700 |
| Fixed Assets | 1,040 |
| Payroll System | 300 |
| Voucher System | 205 |
| Accounts Payable Payment Dates | 160 |
| Traffic and Parking | 120 |
| Personnel/Human Resources | 900 |
| Facilities Planning | 240 |
| <i>Total Planned Audits</i> | <u>7,355</u> |

Appendix

| TEXAS TECH UNIVERSITY - TEXAS TECH HEALTH SCIENCES CENTER | | | | | | | | | | |
|---|-------------------------------------|------------|------------|---------|---------|-------------|------------|--------|--|--|
| RISK ANALYSIS | | | | | | | | | | |
| 1998 - 1999 | | | | | | | | | | |
| | INTEREST | COMPLEXITY | INT CONTRL | ABILITY | CHANGES | MATERIALITY | LAST AUDIT | | | |
| | 2 | 0.8 | 1.3 | 0.7 | 0.7 | 1 | 0.5 | | | |
| R | Facilities and Construction | 5 | 5 | 4 | 4 | 5 | 5 | 4.7143 | | |
| R | Fixed Assets | 5 | 5 | 5 | 4 | 4 | 2 | 4.5857 | | |
| R | Research Services | 5 | 5 | 3 | 3 | 5 | 5 | 4.4286 | | |
| R | Sponsored Programs | 5 | 5 | 3 | 3 | 5 | 5 | 4.4286 | | |
| R | Educational Media - Health Net | 5 | 5 | 4 | 4 | 3 | 5 | 4.3714 | | |
| R | Department of Information Resources | 5 | 5 | 3 | 3 | 4 | 4 | 4.2571 | | |
| R | Continuing Education | 5 | 4 | 5 | 4 | 4 | 4 | 4.1857 | | |
| R | Physical Plant | 5 | 4 | 4 | 3 | 4 | 4 | 4.1857 | | |
| R | Junction Center | 5 | 3 | 4 | 3 | 5 | 5 | 4.1000 | | |
| R | Accounting Services | 5 | 5 | 3 | 4 | 2 | 3 | 4.0857 | | |
| R | Traffic and Parking | 5 | 3 | 3 | 4 | 4 | 5 | 4.0571 | | |
| R | Career Planning and Placement | 5 | 3 | 5 | 4 | 3 | 5 | 4.0429 | | |
| R | Office of International Affairs | 4 | 4 | 5 | 4 | 3 | 4 | 4.0143 | | |
| R | Endowments | 4 | 4 | 4 | 3 | 3 | 5 | 4.0143 | | |
| R | Museum | 3 | 3 | 3 | 3 | 3 | 5 | 3.1429 | | |
| R | Environmental Health and Safety | 3 | 2 | 3 | 3 | 4 | 5 | 3.1286 | | |
| R | Development | 3 | 3 | 3 | 2 | 1 | 0 | 2.7714 | | |
| R | Graduate Admissions | 4 | 2 | 3 | 3 | 1 | 3 | 2.6857 | | |
| R | Budget | 2 | 3 | 3 | 2 | 2 | 3 | 2.6571 | | |
| R | Student Business Services | 2 | 4 | 2 | 2 | 2 | 2 | 2.6571 | | |
| R | University Center | 2 | 3 | 4 | 3 | 1 | 2 | 2.6286 | | |
| R | MPIP Risk Management-Self Insurance | 3 | 4 | 2 | 1 | 1 | 0 | 2.6000 | | |
| R | Grants and Contracts Accounting | 3 | 3 | 3 | 3 | 1 | 0 | 2.5857 | | |
| R | University Press | 4 | 1 | 3 | 2 | 1 | 3 | 2.4714 | | |
| R | Financial Aid | 3 | 4 | 1 | 2 | 2 | 2 | 2.4714 | | |
| R | Housing and Dining | 2 | 2 | 3 | 2 | 3 | 2 | 2.4286 | | |
| R | Academic Computing | 2 | 4 | 3 | 2 | 1 | 3 | 2.3857 | | |
| R | Administrative Computing | 2 | 3 | 2 | 2 | 2 | 3 | 2.3286 | | |
| R | HEAF Funds | 2 | 2 | 2 | 2 | 2 | 3 | 2.2143 | | |
| R | Admissions and Records | 2 | 2 | 2 | 3 | 2 | 3 | 2.1714 | | |
| R | Budget | 2 | 3 | 1 | 1 | 1 | 3 | 2.0857 | | |
| R | Academic Facilities | 2 | 2 | 3 | 2 | 0 | 3 | 2.0571 | | |
| R | Bursar | 2 | 4 | 1 | 1 | 1 | 4 | 2.0571 | | |

| | | | | | | | | | | | |
|---|---|--------|---|---|---|---|---|---|---|--------|--------|
| R | Institute fo Environmental & Human Health | Both | 1 | 2 | 2 | 2 | 3 | 3 | 3 | 3 | 2,0286 |
| R | Center for Professional Development | TTU | 1 | 2 | 2 | 2 | 2 | 3 | 4 | 2,0000 | |
| R | Copy & Mail Services | TTUHSC | 1 | 2 | 2 | 2 | 4 | 2 | 3 | 1,9857 | |
| R | Police | TTU | 2 | 2 | 3 | 2 | 1 | 2 | 0 | 1,9429 | |
| R | New Student Relations | TTU | 1 | 2 | 2 | 2 | 2 | 3 | 3 | 1,9286 | |
| R | General Counsel | System | 2 | 2 | 2 | 2 | 1 | 1 | 4 | 1,9000 | |
| R | Library | TTUHSC | 1 | 2 | 2 | 2 | 3 | 2 | 3 | 1,8857 | |
| R | Government Relations | System | 2 | 1 | 1 | 1 | 3 | 4 | 4 | 1,7857 | |
| R | Student Services & Registrar | TTUHSC | 1 | 2 | 2 | 2 | 2 | 3 | 3 | 1,7857 | |
| R | Plant Services | TTUHSC | 1 | 2 | 3 | 2 | 1 | 1 | 3 | 1,7286 | |
| R | President's Office | TTUHSC | 1 | 2 | 3 | 2 | 1 | 1 | 3 | 1,7286 | |
| R | Library | TTU | 1 | 3 | 2 | 2 | 1 | 2 | 2 | 1,7286 | |
| R | Contracts and Risk Management | TTU | 2 | 1 | 1 | 1 | 1 | 3 | 3 | 1,7143 | |
| R | Space Management | TTU | 1 | 2 | 2 | 2 | 1 | 2 | 3 | 1,6857 | |
| R | Ranching Heritage Center | TTU | 1 | 2 | 3 | 3 | 0 | 2 | 0 | 1,6571 | |
| R | Lubbock Central Stores | TTUHSC | 1 | 2 | 2 | 2 | 2 | 1 | 3 | 1,6429 | |
| R | Student Health Services | TTUHSC | 1 | 2 | 2 | 2 | 2 | 1 | 3 | 1,6429 | |
| R | University Computing | TTU | 1 | 1 | 3 | 3 | 1 | 1 | 2 | 1,6429 | |
| R | Official Publications | TTU | 1 | 1 | 2 | 1 | 1 | 3 | 3 | 1,6143 | |
| R | Funds Held for Custody | TTU | 1 | 1 | 3 | 2 | 1 | 1 | 3 | 1,6143 | |
| R | Student Publications | TTU | 1 | 1 | 3 | 2 | 1 | 1 | 3 | 1,6143 | |
| R | Communication Services | TTU | 1 | 2 | 2 | 2 | 1 | 2 | 3 | 1,5857 | |
| R | Recreational Sports | TTU | 1 | 2 | 3 | 2 | 1 | 2 | 3 | 1,5857 | |
| R | News and Publications | TTU | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1,5714 | |
| R | Training Department | TTU | 1 | 1 | 2 | 2 | 1 | 2 | 3 | 1,5714 | |
| R | Dean of Students | TTU | 1 | 2 | 1 | 1 | 1 | 3 | 3 | 1,5429 | |
| R | Safety Services | TTUHSC | 1 | 2 | 2 | 2 | 1 | 1 | 3 | 1,5429 | |
| R | Office of Quality Service | TTU | 1 | 1 | 2 | 1 | 1 | 2 | 3 | 1,4714 | |
| R | University Counseling Center | TTU | 1 | 1 | 3 | 2 | 1 | 2 | 1 | 1,4714 | |
| R | Law Library | TTU | 1 | 2 | 2 | 1 | 1 | 3 | 3 | 1,4429 | |
| R | Attorney for Students | TTU | 1 | 1 | 2 | 2 | 1 | 1 | 3 | 1,4286 | |
| R | Learning Center/PASS | TTU | 1 | 1 | 2 | 2 | 1 | 1 | 3 | 1,4286 | |
| R | Print Tech | TTU | 1 | 1 | 2 | 2 | 1 | 1 | 3 | 1,4286 | |
| R | Distance Learning | TTU | 1 | 2 | 1 | 1 | 1 | 2 | 3 | 1,4000 | |
| R | Equal Opportunities Employment | TTU | 1 | 2 | 1 | 1 | 1 | 2 | 3 | 1,4000 | |
| R | Central Warehouse | TTU | 1 | 1 | 1 | 2 | 1 | 2 | 3 | 1,3857 | |
| R | Institutional Research | TTU | 1 | 1 | 2 | 1 | 1 | 1 | 3 | 1,3286 | |
| R | Mail Tech | TTU | 1 | 1 | 2 | 2 | 0 | 0 | 3 | 1,1857 | |
| R | President's Office | TTU | 1 | 1 | 1 | 1 | 1 | 1 | 3 | 1,1429 | |

Texas Tech University and
Texas Tech University Health Science Center

Quality Assurance Review
For
The Internal Audit Department

August 20, 1999

Performed by:

Robert Rubel, CPA, CIA, CISA,
Director of Internal Audit
The University of Texas Southwestern Medical Center
at Dallas

Bill Jones, MBA, CIA
Director of Internal Audit
Eastern New Mexico University

Kathy Burgmeier
Director of Internal Audit
The University of Montana

SOUTHWESTERN
THE UNIVERSITY OF TEXAS
SOUTHWESTERN MEDICAL CENTER
AT DALLAS

Robert Rubel, CPA, CIA, CISA
Director

Office of Internal Audit

August 20, 1999

Alan White
Board Chairman, Finance Committee
Texas Tech University and
Texas Tech University Health Sciences Center
P.O. Box 41104
Lubbock, Texas 79609

Subject: Report of Quality Assurance Review for the Internal Audit Department

Dear Mr. White:

At your request, we have conducted a quality assurance review of your Internal Audit department. We reviewed for compliance with The Institute of Internal Auditors' *Standards for the Professional Practice of Internal Auditing* and based our review on the Association of College and University Auditor's *Quality Assurance Review Handbook*.

The review was performed by persons independent of your Internal Audit department and covered audit work performed during the period of September 1, 1997 through March 31, 1999. The last day of our fieldwork was May 19, 1999. The scope of the review was restricted to reviewing selected documents, reviewing Internal Audit Reports issued during the review period, conducting a survey, reviewing the work papers of a sample of audit projects, interviewing key University medical center personnel, and interviewing Internal Audit Department staff.

Based on the scope of our review, we determined the Internal Audit Department did comply, on an overall basis, with all five IIA Standards for Independence, Professional proficiency, Scope of Work, Performance of Audit Work, and Management of the Internal Audit Department.

The attached report provides additional information with recommendations we believe further enhancements will enhance the efficiency and effectiveness of your internal audit function. Included within the text of the report are management's response from the Director of Internal Audit, Frances Grogan.

We appreciate the cooperation and assistance provided to us throughout the course of our review. All individuals interviewed offered candid and constructive comments. Please let us know if you would like us to review with you further details pertaining to any of the information in the attached report.

Sincerely,



Robert Rubel
Peer Review Team Leader

INTRODUCTION

The *Standards for the Professional Practice of Internal Auditing (Standards)*, issued by The Institute of Internal Auditors (IIA), require Internal Audit departments to develop and maintain a quality assurance program to ensure the quality and credibility of their work. (See Appendix A for a complete set of the *Standards*) According to the IIA, a comprehensive quality assurance program includes the following elements:

- Ongoing supervision of internal audits.
- Periodic internal reviews of the work of the Internal Audit department.
- Periodic external or peer reviews of the work of the Internal Audit department.

This report presents the results of a peer review covering TTU and TTUHSC Internal Audit department activities for the period September 1, 1997 through March 31, 1999. The review was performed by Robert Rubel, Director of Internal Audit - The University of Texas Southwestern Medical Center at Dallas; Bill Jones, Director of Internal Audit - Eastern New Mexico University; and Kathy Burgmeier, Director of Internal Audit - The University of Montana

OBJECTIVES

The primary objective of this review was to determine whether the Internal Audit department was in compliance with the *Standards* established by the IIA and the Texas Internal Audit Act which requires a periodic comprehensive external peer review. A secondary objective was to foster the sharing of experiences, ideas, and approaches with managers of other Internal Audit departments, in order to provide additional recommendations for improving the internal audit function at Texas Tech University and Texas Tech University Health Science Center.

SCOPE

The scope of our review was limited by the allotted time of the external reviewers. We allocated 8 hours of advance preparation, 2.5 days on site, and 10 hours of post review report preparation and finalization. The scope of our review included, but was not limited to the following:

- Reviewing the general information and requested background documents received from the Internal Audit Department.
- Administering a survey to over 26 department managers from departments or functions that were audited during the period under review.

SCOPE (continued)

- Interviewing selected senior management officials, chair of the Audit Committee, all members of Internal Audit staff, the director and her assistant directors.
- Selecting and examining the work papers of four representative audit projects completed during the period under review.

CONFERENCES

We held numerous conference calls and in-person meetings with the Director of Internal Audit and other officials throughout the course of our review. As a group, the members of the Peer Review Team jointly shared our experiences, approaches, and other insights to be considered in further improving the work of the internal audit function and related processes at Texas Tech University and Texas Tech University Health Science Center.

CONCLUSIONS

Based on the scope of our review, we determined the Internal Audit Department at Texas Tech University and Texas Tech University Health Science Center:

Did comply, on an overall basis, with the IIA *Standards for Independence, Professional Proficiency, Scope of Work, Performance of Audit Work, and Management of the Internal Audit Department.*

This overall evaluation was derived from our review and separate evaluations of each of the five general and 25 specific standards that comprise the IIA *Standards*, and was limited to the scope of our review.

OBSERVATIONS AND RECOMMENDATIONS

Following are the observations of the review team as they relate to the five general IIA *Standards: Independence, Professional Proficiency, Scope of Work, Performance of Audit Work, and Management of the Internal Auditing Department.* For each standard, the review team identified the conditions observed and, where appropriate, made recommendations for enhancing the efficiency and effectiveness of the internal audit function.

OBSERVATIONS AND RECOMMENDATIONS (continued)

100. **INDEPENDENCE** – *Internal Auditors should be independent of the activities they audit.*

Scope and Observations:

We examined the relevant organization charts, Audit Committee and Internal Audit Department Charters; interviewed the Audit Committee Chair, the Chancellor of the University, the Presidents of the University and Health Sciences Center, and reviewed Audit Committee meeting agendas.

The Internal Audit Department reports functionally to the Chair of the Audit Committee, and administratively to the Chancellor of the University. On an annual basis the Chair of the Audit committee and the Chancellor evaluate the performance of the Audit Director. The Department's charter, the Department's freedom from operating duties, regular meetings with the Chancellor and with the Audit Committee, all contribute to the independence and objectivity of the internal audit process.

In our opinion, the Internal Audit Department has complied with the IIA *Standards* on Independence.

No Recommendations in this area

200. **PROFESSIONAL PROFICIENCY** – *Internal Audits should be performed with proficiency and due professional care.*

Scope and Observations:

We examined the Internal Audit Department organization chart and supporting job descriptions. We interviewed all Internal Audit staff members and reviewed their resumes, backgrounds, performance appraisals, professional development records, and personnel files. We considered the increasing external regulatory demands, competitive healthcare delivery environment, and ever changing information technology complexities of a leading academic medical center and the set of Internal Audit staff proficiencies and core competencies that must be present for the Department to effectively execute its charter.

OBSERVATIONS AND RECOMMENDATIONS (continued)

200. PROFESSIONAL PROFICIENCY (continued)

Overall, we identified a wide degree of experience among the auditors with strong working knowledge in clinical billing and related healthcare delivery processes, in financial and compliance areas including but not limited to contracts and grants, cash and investments, bonds, NCAA, and various departmental processes. In addition, we noted that the audit department had five auditors with a Certified Public Accountant (CPA) designation, four of these have masters level degrees. Two of the previously mentioned CPA's also had a Certified Fraud Examiner (CFE) designations. Of the remaining six positions, two in the department have taken the Certified Internal Auditor (CIA) exam and there are two open positions. There are currently no CIA's or Certified Information Systems Auditor on the staff.

In our opinion, the Internal Audit Department has complied with the IIA *Standards* on Professional Proficiency and the staffing is adequate to perform the work that needs to be performed.

**Recommendation #1 Section 220 - Knowledge, Skills, and Disciplines.
Encourage staff to prepare for and test for the CIA exam.**

We recommend the Director continue to encourage staff to prepare for and test for the CIA examination. The body of knowledge that is necessary for the professional practice of internal auditing is covered in the IIA standards and in the material that is tested. A department review session could be established to prepare auditors for the exam, and this review process would provide continuing professional education (CPE) requirements for the staff. Also, this would provide core training areas for new staff that would include audit evidence, report writing, sampling, etc.

Internal Audit Response:

The Director will definitely continue to encourage staff to prepare for and test for the CIA examination as well as other professional certifications. Two staff members are conditioned at this time in the examination process. I will consult with them on the type of review a candidate might find beneficial.

OBSERVATIONS AND RECOMMENDATIONS (continued)

200. PROFESSIONAL PROFICIENCY (continued)

Recommendation #2 Section 230 - Supervision. Utilize time reporting on current projects.

The department had utilized a time reporting system in prior years, however the current projects do not have weekly time reports submitted for supervisor review. We recommend the allocation of audit hours on projects be tracked to ensure that audit resources are being utilized in the most efficient manner.

Internal Audit Response:

The department has recently implemented a new time keeping system which will allow us to monitor projects on an ongoing basis.

- 300. SCOPE OF WORK** – *The scope of internal auditing should encompass the examination and evaluation of the adequacy and effectiveness of the organization's system of internal control and the quality of performance in carrying out assigned responsibilities.*

Scope and Observations: We reviewed the audit risk assessment process, including discussions with senior management, used to prepare the annual and five-year audit plans. This planning process defined the audit universe, considered materiality factors, reliance on controls, and changes, etc. The plans were reviewed and approved by the chair of the finance committee, and the Chancellor. Progress of the audit plan was periodically reviewed by the Finance Committee of the Board of Regents.

The Internal Audit plans for the past two fiscal years have given sufficient coverage to the five key areas specified by the IIA Standards: 310 Reliability and Integrity of Information; 320 Compliance with Policies, Plans, Procedures, Laws, and Regulations, and Contracts; 330 Safeguarding of Asset, 340 Economical and Efficient Use of Resources; 350 Accomplishment of Established Objectives and Goals for Operations or Programs.

In our opinion, the Internal Audit Department has complied with the IIA *Standards* on Scope of Work.

No Recommendations in this area

- 400. PERFORMANCE OF AUDIT WORK** – *Audit work should include planning the audit, examining and evaluating information, communicating results, and following up.*

OBSERVATIONS AND RECOMMENDATIONS (continued)

400. PERFORMANCE OF AUDIT WORK (continued)

Scope and Observations: We reviewed all Internal Audit Reports issued during Fiscal years 1998 and 1999 to date. In addition, we selected and reviewed the working papers of four audits that were completed during the period under review.

We noted several areas for improvement that appear to be addressed in the departments revised Internal Audit manual. Specifically, in the area of finding sheet development, report writing, and in scheduling a closing conference with the auditee.

In our opinion, the Internal Audit Department has complied with the IIA *Standards on Performance of Audit Work*.

Recommendation #3, Section 430 - Communicating Results. Strengthen Written Communications to Management.

We recommend Internal Audit personnel follow the revised audit manual's process for finding sheet development that include all essential elements of a finding sheet. This will strengthen the development of recommendations from the department to the auditee. In addition, the audit report format in the revised manual provides the reader with a sense of the scale of operations under review; and gives clarity on cause, effect, and risk exposure/impact of each finding. The department's audit time could be added to the report so that the committee is informed of the time spent on each audit.

Internal Audit Response:

In most instances our audit reports are now being written in a format that covers the five elements of a finding in order to allow the reader to fully understand the condition, the standard or criteria, the cause, and the effect as well as the recommendation.

There are, however, engagements that fill our prescribed consulting role. In such engagements, we think that a different report format is beneficial. Our goal is to make the report appropriate to the objective of the project and the desired outcomes of the engagement.

OBSERVATIONS AND RECOMMENDATIONS (continued)

500. MANAGEMENT OF THE INTERNAL AUDIT DEPARTMENT – *The Director of Internal Audit should properly manage the Internal Audit department.*

Scope and Observations:

Review procedures included examination of the Internal Audit Department's formal written charter, audit policies and procedures manual, risk based audit planning process, annual and five year plans, budgets, status reports, time schedules, performance evaluations, supervisory review and quality assurance programs.

We noted that some audits on the audit plan had significant hours being charged for the tasks assigned and for the benefit to the audit plan. In addition, long range plans for the comprehensive coverage of Texas Tech University Health Sciences Center need to provide for the accelerated growth of the main campus and the regional campuses. Also, input into the annual audit plan could be expanded to include questionnaires to Director level personnel at the various campuses for their input.

In our opinion, the Internal Audit Department has complied with the IIA *Standards* on Management of the Internal Audit Department.

Recommendation #4 Section 520 - Planning. Use cost benefit analysis on certain audit projects.

The department of Internal Audit on an annual basis coordinates and provides support for the external audit process. The audit of cash and investments was reviewed and showed a significant utilization of audit time, however the benefit to the audit plan was not clear. We recommend this audit be evaluated for overall benefit to the audit plan. For example, quantify the internal costs versus savings in external audit fees.

Internal Audit Response:

We agree that the recurring audit of cash and investments uses an exorbitant amount of audit time. This resource utilization leaves other areas of risk undercovered and may not be an ideal use of scarce resources. We are currently investigating ways to work cash and investments into our risk analysis, thereby addressing the risks of the cash/investment element without conducting the historical full scope audit of cash and investments.

OBSERVATIONS AND RECOMMENDATIONS (continued)

500. MANAGEMENT OF THE INTERNAL AUDIT DEPARTMENT (continued)

Recommendation #5 Section 520 - Planning. Solicit broader input into the audit plan.

To enhance the overall quality of input into the annual audit plan, executive management is solicited for high risk areas and ideas for the audit plan. Although their input is extremely valuable, first line managers are closer to the day to day activities and could provide a unique perspective. We recommend administrative managers and department directors be solicited for their input into the annual audit plan.

Internal Audit Response:

We have found the input of executive management in our annual audit plan to be extremely beneficial. I try yearly to visit with an ever increasing circle of such management in order to gain insight of mid-management as well. I agree that input by first line managers would prove to be a valuable contribution as well. We will strive to seek such input in written form even if time might not allow for one-on-one interviews.

Recommendation #6 Section 520 - Planning. Establish long range plans for staffing and financial resources.

The Health Sciences Center has experienced tremendous growth over the last five years and is now at the same financial level as the University. We recommend long range plans be developed that address the risk areas and provide sufficient audit resources for adequate audit coverage.

Internal Audit Response:

The budget of The Health Sciences Center has grown to the point where it is at least equal to that of the general academic campus. We strive to cover risks of both entities. We agree that additional resources might be needed to give The Health Science Center campuses the necessary coverage. We have begun discussing this need with management and endeavor to see that resources needed for adequate coverage of all campuses are included in long range planning.

ACKNOWLEDGEMENTS

The team conducting this quality assurance review wishes to thank Texas Tech University and Texas Tech University Health Science Center Chancellor, Presidents and members of the Finance Committee, interviewees, survey respondents, and Internal Audit Department members for their cooperation and assistance throughout the course of this review.

Appendix A

Standards for the Professional Practice of Internal Auditing

The Standards for the Professional Practice of Internal Auditing

INTRODUCTION

Internal auditing is an independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization. The objective of internal auditing is to assist members of the organization in the effective discharge of their responsibilities. To this end, internal auditing furnishes them with analyses, appraisals, recommendations, counsel, and information concerning the activities reviewed. The audit objective includes promoting effective control at reasonable cost.

The members of the organization assisted by internal auditing include those in management and the board. Internal auditors owe a responsibility to both, providing them with information about the adequacy and effectiveness of the organization's system of internal control and the quality of performance. The information furnished to each may differ in format and detail, depending upon the requirements and requests of management and the board. The internal auditing department is an integral part of the organization and functions under the policies established by senior management and the board. The statement of purpose, authority, and responsibility (charter) for the internal auditing department, approved by senior management and accepted by the board, should be consistent with these Standards for the Professional Practice of Internal Auditing.

The charter should make clear the purposes of the internal auditing department, specify the unrestricted scope of its work, and declare that auditors are to have no authority or responsibility for the activities they audit.

Throughout the world internal auditing is performed in diverse environments and within organizations which vary in purpose, size, and structure. In addition, the laws and customs within various countries differ from one another. These differences may affect the practice of internal auditing in each environment. The implementation of these Standards, therefore, will be governed by the environment in which the internal auditing department carries out its assigned responsibilities. Compliance with the concepts enunciated by the Standards is essential before the responsibilities of internal auditors can be met. As stated in the Code of Ethics, Members of The Institute of Internal Auditors and Certified Internal Auditors shall adopt suitable means to comply with the Standards.

"Independence" as used in the Standards, requires clarification. Internal auditors should be independent of the activities they audit. Such independence permits internal auditors to perform their work freely and objectively. Without independence, the desired results of internal auditing cannot be realized.

TTU and TTUHSC
Internal Audit Department Peer Review

In establishing the Standards, the following matters were considered:

1. Boards of directors are being held accountable for the adequacy and effectiveness of their organizations' systems of internal control and quality of performance.
2. Members of management are relying upon internal auditing as a means of supplying objective analyses, appraisals, recommendations, counsel, and information on the organization's controls and performance.
3. External auditors are using the results of internal audits to complement their own work where the internal auditors have provided suitable evidence of independence and adequate, professional audit work.

In the light of such matters, the purposes of the Standards are to:

1. Impart an understanding of the role and responsibilities of internal auditing to all levels of management, boards of directors, public bodies, external auditors, and related professional organizations.
2. Establish the basis for the guidance and measurement of internal auditing performance.
3. Improve the practice of internal auditing.

The Standards differentiate among the varied responsibilities of the organization, the internal auditing department, the director of internal auditing, and internal auditors. The Five General Standards are expressed in bold italicized print in uppercase. Following each of these General Standards are Specific Standards expressed in bold italicized print in lowercase. The Standards encompass:

1. The independence of the internal auditing department from the activities audited and the objectivity of internal auditors.
2. The proficiency of internal auditors and the professional care they should exercise.
2. The scope of internal auditing work.
4. The performance of internal auditing assignments.
5. The management of the internal auditing department.

The Standards and the accompanying Guidelines employ terms which have been given meanings in the context of the Standards. These terms are included in the Glossary.

SUMMARY OF GENERAL AND SPECIFIC STANDARDS FOR
THE PROFESSIONAL PRACTICE OF INTERNAL AUDITING

100 INDEPENDENCE

INTERNAL AUDITORS SHOULD BE INDEPENDENT OF THE ACTIVITIES THEY AUDIT.

110 Organizational Status -- The organizational status of the internal auditing department should be sufficient to permit the accomplishment of its audit responsibilities.

120 Objectivity -- Internal Auditors should be objective in performing audits.

200 PROFESSIONAL PROFICIENCY

INTERNAL AUDITS SHOULD BE PERFORMED WITH PROFICIENCY AND DUE PROFESSIONAL CARE.

The Internal Auditing Department

210 Staffing -- The internal auditing department should provide assurance that the technical proficiency and educational background of internal auditors are appropriate for the audits to be performed.

220 Knowledge, Skills, and Disciplines -- The internal auditing department should possess or should obtain the knowledge, skills, and disciplines needed to carry out its audit responsibilities.

230 Supervision -- The director of internal auditing should ensure that internal audits are properly supervised.

240 Compliance with Standards of Conduct -- Internal auditors should comply with professional standards of conduct.

250 Knowledge, Skills, and Disciplines -- Internal auditors should possess the knowledge, skills, and disciplines essential to the performance of internal audits.

260 Human Relations and Communications -- Internal auditors should be skilled in dealing with people and in communicating effectively.

270 Continuing Education -- Internal auditors should maintain their technical competence through continuing education.

280 Due Professional Care -- Internal auditors should exercise due professional care in performing internal audits.

300 SCOPE OF WORK

THE SCOPE OF INTERNAL AUDITING SHOULD ENCOMPASS THE EXAMINATION AND EVALUATION OF THE ADEQUACY AND EFFECTIVENESS OF THE ORGANIZATION'S SYSTEM OF INTERNAL CONTROL AND THE QUALITY OF PERFORMANCE IN CARRYING OUT ASSIGNED RESPONSIBILITIES.

310 Reliability and Integrity of Information - Internal auditors should review the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information.

320 Compliance with Policies, Plans, Procedures, Laws, and Regulations, and Contracts -- Internal auditors should review the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations, and contracts which could have a significant impact on operations and reports, and should determine whether the organization is in compliance.

330 Safeguarding of Assets -- Internal auditors should review the means of safeguarding assets and, as appropriate, verify the existence of such assets.

340 Economical and Efficient Use of Resources -- Internal auditors should appraise the economy and efficiency with which resources are employed.

350 Accomplishment of Established Objectives and Goals for Operations or Programs -- Internal auditors should 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.

400 PERFORMANCE OF AUDIT WORK

AUDIT WORK SHOULD INCLUDE PLANNING THE AUDIT, EXAMINING AND EVALUATING INFORMATION, COMMUNICATING RESULTS, AND FOLLOWING UP.

410 Planning the Audit -- Internal auditors should plan each audit.

420 Examining and Evaluating Information -- Internal auditors should collect, analyze, interpret, and document information to support audit results.

430 Communicating Results -- Internal auditors should report the results of their audit work.

440 Following Up -- Internal auditors should follow up to ascertain that appropriate action is taken on reported audit findings.

500 MANAGEMENT OF THE INTERNAL AUDITING DEPARTMENT
THE DIRECTOR OF INTERNAL AUDITING SHOULD PROPERLY MANAGE THE
INTERNAL AUDITING DEPARTMENT.

510 Purpose, Authority, and Responsibility -- The director of internal auditing should have a statement of purpose, authority, and responsibility for the internal auditing department.

520 Planning -- The director of internal auditing should establish plans to carry out the responsibilities of the internal auditing department.

530 Policies and Procedures -- The director of internal auditing should provide written policies and procedures to guide the audit staff.

540 Personnel Management and Development -- The director of internal auditing should establish a program for selecting and developing the human resources of the internal auditing department.

550 External Auditors -- The director of internal auditing should coordinate internal and external audit efforts.

560 Quality Assurance -- The director of internal auditing should establish and maintain a quality assurance program to evaluate the operations of the internal auditing department.