



THE TEXAS STATE UNIVERSITY SYSTEM

RULES AND REGULATIONS

LAMAR UNIVERSITY

SAM HOUSTON STATE UNIVERSITY

SUL ROSS STATE UNIVERSITY

SUL ROSS STATE UNIVERSITY RIO GRANDE COLLEGE

TEXAS STATE UNIVERSITY-SAN MARCOS

LAMAR INSTITUTE OF TECHNOLOGY

LAMAR STATE COLLEGE-ORANGE

LAMAR STATE COLLEGE-PORT ARTHUR

Adopted September 1, 1980

Amended May 17, 2007

- 7.1 Internal Audits. Texas State University System internal audit function, rules and policies shall comply with *Government Code, Chapter 2102, The Texas Internal Audit Act*. Internal auditing is an independent, objective, assurance and consulting activity designed to add value to an organization; improve its operations; and otherwise assist accomplishment of its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of control, governance, and risk management processes.
- 7.2 Board Management and Internal Audit Responsibilities. The Board of Regents is primarily responsible for providing governance, guidance, and oversight of management within the System. Management is responsible for establishing and maintaining adequate internal controls to ensure achievement of System goals and objectives. The internal audit function is designed to provide positive support to the Board, System and Component administrations in the effective discharge of their respective responsibilities.
- 7.3 Reporting Structure. The System Director of Audits and Analysis shall have sole responsibility for all System and Component audit functions and personnel, including, but not limited to, hiring and termination, setting of salaries, and otherwise establishing terms and conditions of employment.
- 7.4 Access. The Director and his or her System or Component-housed auditors shall have full, free, and unrestricted access to all activities, records, property, infrastructure, and personnel of System and Component administrations. Any review, whether planned or unplanned, announced or unannounced, may involve the gathering of evidence and testimony from individuals within or outside the System.
- 7.5 Handling of Information Gathered.
- 7.51 Documents. Documents and information obtained during any audit review shall be safeguarded and otherwise handled in a professionally responsible and confidential manner in accordance with Texas Law.
- 7.52 Criminal or Serious Policy Violations. Information obtained during any audit review that may involve criminal or serious policy violations shall be communicated to the Board of Regents, the Chancellor, the component President, and, where appropriate or otherwise required by law, to campus and/or outside law enforcement or other oversight agencies.

- 7.6 Scope of Work. The Director Audits and Analysis' scope of work includes, but is not limited to:
- 7.61 Determining the adequacy, efficiency, and effectiveness of System and Component governance, control and risk management processes;
 - 7.62 Reviewing the reliability and integrity of financial and operating information;
 - 7.63 Reviewing the effectiveness of processes established to ensure compliance with policies, procedures, and applicable laws and regulations;
 - 7.64 Evaluating processes related to information systems and data security; the development and deployment of information systems; and the creation/modification of support infrastructures;
 - 7.65 Reviewing controls designed to safeguard System and Component assets;
 - 7.66 Evaluating economy and efficiency of resource utilization;
 - 7.67 Assessing achievement of results and outcomes as defined by established objectives, goals, and performance measures; and
 - 7.68 Performing follow-up work to ascertain and report on whether management has taken appropriate remedial action on internal and external audit findings or recommendations.
- 7.7 Audit Charters. Upon the Director's recommendation, the Finance and Audit Committee may implement a Systemwide "Audit Charter" to ensure compliance with the *Texas Internal Auditing Act*. The Audit Charter shall have the force of authority of these *Rules and Regulations*.
- 7.8 Audit Risk Assessment and Audit Plan Development.
- 7.81 Component Audit Plans. On an annual basis, each Component internal audit director shall perform a risk assessment to be used in developing a Component Audit Plan for the subsequent fiscal year. The risk assessment process shall include input from Component management and utilize other procedures as may be necessary and reasonable to ensure that risks unique to the Component are considered and evaluated in the planning process. Component Audit Plans shall be submitted to the System Director of Audits and Analysis for input and approval.
 - 7.82 System Administrative Office Audit Plan. The Director shall solicit input from the Finance and Audit Committee, the Chancellor, and vice chancellors regarding the risk assessment to be used in developing and Audit Plan for the System administration.

7.83 Consolidation of Audit Plans. System and the Component Audit Plans shall be consolidated into a Systemwide Audit Plan, which will be presented by the Director of Audits and Analysis to the Finance and Audit Committee for approval at the meeting to be held prior to the fourth quarter Board of Regents meeting. The Finance and Audit Committee shall include discussion of the status of current and subsequent year Audit Plans and submit its recommendations for approval to the full Board.

7.84 Deviations from Audit Plans. Circumstances may require deviations from an Audit Plan. Component-level deviations may be recommended to the Director by the Component internal auditor or initiated by the Director. The Director shall promptly notify the Finance and Audit Committee and the Chancellor of such deviations, which may be approved, in writing, by the Chair of the Committee. Investigations resulting from *EthicsPoint* or other fraud reporting mechanisms are not considered deviations from the Audit Plan.

7.9 Audit Reports.

7.91 Content. Each internal audit report shall contain, at a minimum.

7.911 A brief description of the scope and objectives of the audit;

7.912 A brief summary highlighting the audit's significant findings and/or recommendations;

7.913 A summary of management responses and the total financial impact, if any, of recommendations (this summary shall be provided to the Finance and Audit Committee at each regular Board meeting); and

7.914 A detailed discussion of the audit's findings and recommendations including management's written response;

7.92 Management Response.

7.921 Time for Response. Management must respond to each audit within two weeks of the issuance of the report draft. Upon a showing of extenuating circumstances by management and the Component-housed auditor's recommendation, the Director may extend the time for response.

7.922 Content of Response. Management responses to each audit shall include:

- (1) A statement of agreement or disagreement with each recommendation.

- (2) In cases where management agrees to implement a recommendation, the response shall include a summary of planned actions, a timetable for implementation, and the names and titles of the individuals responsible for ensuring implementation of the recommendation.
- (3) In cases where management does not agree to implement a recommendation, the response shall include justification for disagreement. In such cases, the Director may include follow-up comments, addressing the adequacy of the justification provided.
- (4) The President of a Component, who has an audit involving circumstances described in *Paragraph 7.93*, of this chapter shall include in his or her quarterly Board report the status of the recommendations/findings until they have been verified and resolved by the Component auditor to the Director's satisfaction.

7.93 Distribution. The Director shall review, approve, and timely distribute draft audit reports (internal and external) to System or Component administrations, Finance and Audit Committee members, the Board of Regents and outside parties, including the Governor's Office, the Legislative Budget Board, the Sunset Commission, and the State Auditor's Office. The Director shall forward the draft reports, in their entirety to the Board of Regents in instances involving:

7.931 Fraud or theft;

7.932 A financial impact of more than \$20,000 savings or cost;

7.933 Significant instances of non-compliance with Component and/or System rules, policies or procedures, internal controls, state or federal regulations or laws;

7.934 Situations in which a Component auditor has experienced undue management pressure or delay; or,

7.935 Other circumstances (or amounts) as, in the Director's discretion, are material and substantial.

7.94 Delegation. The Director may delegate to Component auditors the task of distributing draft audit reports (internal and external) at their respective Components, as well as a mechanism to inform applicable Component parties of subsequent distribution to the Chancellor, Board members, and mandated external entities. All draft internal audit reports will be submitted to the System Director of Audits and Analysis for review and approval.

7.(10) Communications.

- 7.(10)1 Periodic Status Reports. The Component auditors shall forward a summary of audit reports and the status of their respective Audit Plans in a format and data time prescribed by the Director for inclusion in the quarterly Board agenda materials.
- 7.(10)2 Follow-Up Audit Work. The Director shall prescribe a follow-up audit tracking system for use by the Component auditors to ensure timely follow-up on all audit recommendations.
- 7.(10)3 By Component President. To keep the Component auditors more informed as to proposed operational changes at each Component, the President shall share, with the Component-housed auditor, distribution lists of committee meetings and meeting agendas for upcoming selected committee meetings. Upon written request of the Director and/or the Component auditor, the President shall provide access to and copies of specific committee minutes and agendas.
- 7.10(4) External Audit Communications. The System Director of Audits and Analysis shall act as the System and Component general liaison with the State Auditor's Office. Each Component auditor shall function as the on-site liaison between that Component and the State Auditor's Office or other external auditors. The auditor shall notify the Director of any external audit work, planned entrance and exit conferences, and significant audit issues promptly and timely upon notification by the State Auditor's Office or external auditors.