

## MEMORANDUM

TO: Board of Visitors Audit Committee

Ross Mugler, Chair  
Frank Reidy, Vice Chair  
Carlton F. Bennett (*ex-officio*)  
Lisa B. Smith (*ex-officio*)  
R. Bruce Bradley  
Donna L. Scassera  
Robert M. Tata '86

FROM: Gregory E. DuBois  
Vice President for Administration and Finance

DATE: September 11, 2017

SUBJECT: Meeting of the Committee, September 21, 2017

The Board of Visitors Audit Committee will meet on Thursday, September 21, 2017 from 8:15 to 9:00 a.m., in Committee Room A (Room 2203) of Broderick Dining Commons. The agenda for the meeting is noted below.

### AGENDA

- I. Approval of Minutes – The Committee will consider a motion to approve the minutes of the Audit Committee meeting held on Thursday, June 8, 2017.
- II. Report from the Internal Audit Director – Amanda Skaggs, Internal Audit Director
  - A. Internal Audit's Quality Assurance Improvement Program
    1. Annual Confirmation of Internal Audit's Independence
    2. Proposed Revisions to Board of Visitors Policy 1610 – Charter of the Internal Audit Department (Enclosed)

B. Active Audit Projects

1. Banner Document Management System
2. Accounts Receivable Cashiering & Student Billing & Touchnet
3. General Accounting
4. Research Center for Bioelectrics
5. Institutional Equity and Diversity
6. College of Education (Child Development IT)
7. NCAA Compliance Eligibility
8. Office of the President FY2017 Annual Audit

C. Presentation of Completed Audit Reports

1. Facilities Management
2. Confucius Institute CY2015

## **PROPOSED REVISIONS TO BOARD OF VISITORS POLICY 1610, CHARTER OF THE INTERNAL AUDIT DEPARTMENT**

RESOLVED, that upon the recommendation of the Audit Committee, the Board of Visitors approves proposed revisions Policy 1610, Charter of the Internal Audit Department, effective immediately.

**NUMBER:** 1610

**TITLE:** Charter of the Internal Audit Department

**APPROVED:** November 14, 1981; Revised May 15, 1982; Revised April 5, 1990; Revised September 13, 2002; Revised June 17, 2010; Revised June 12, 2014; Revised September 24, 2015

### Introduction

Old Dominion University supports Internal Audit, as defined by the Institute of Internal Auditors, as "an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes." This charter as adopted herein will serve as a guide for the activities of the Internal Audit Department at Old Dominion University.

This charter does not include, nor is it intended to include, all of the department's duties or responsibilities as they may exist from time to time.

This charter will:

1. Provide a written record of formally approved policies of the Internal Audit Department;
2. Provide a basis for the evaluation of the performance of the Internal Audit Department by the management of the University and the Audit Committee of the Board of Visitors;
3. Serve as a basic document in the organization and administration of the Internal Audit Department.

### Mission

Internal Audit was established to assist the Board of Visitors and management of Old Dominion University in providing the Commonwealth and the country with the best possible educational institution for the 21<sup>st</sup> century. As appropriate to accomplish this mission, Internal Audit will have a dual focus; (1) to provide an independent and objective appraisal of the University's financial,

operational and information systems, and to evaluate the internal control environment; and (2) to work with management in a proactive and creative manner to ensure the development and provision of services and processes in the most efficient and effective manner.

### Objectives

The underlying objectives for accomplishing the Internal Audit Department's mission include, but are not limited to, the following procedures:

1. Evaluating financial and operating procedures for adequacy of internal controls and providing advice and guidance on control aspects of new policies, systems, processes and procedures;
2. Ascertaining the extent of adherence, by the University and its employees, to established policies, plans, and procedures, and compliance with state and federal laws and regulations;
3. Ensuring that proper safeguards are maintained to protect University assets from loss, and if necessary, verify their existence;
4. Determining the propriety and accuracy of financial transactions and data;
5. Working with management to identify opportunities for process improvements, cost savings and revenue enhancements;
6. Evaluating the accuracy, security, effectiveness and efficiency of the University's information technology and processing systems;
7. Appraising the results of operations to ascertain the effectiveness and efficiency of organizations in accomplishing their missions, objectives and goals;
8. Assisting in the education and training of employees in University policies and procedures, as well as the need for and characteristics of good internal controls;
9. Assisting management in the deterrence of fraud and to investigate any instances of such activity discovered at the University; and
10. Coordinating audit efforts with the Auditor of Public Accounts and other external auditors.

### Standards for the Professional Practice of Internal Auditing

The Institute of Internal Auditors, Inc., an international organization dedicated solely to the advancement of the internal auditing profession, has adopted "The International Professional Practices Framework (IPPF)." The four mandatory elements of the IPPF are the core principles for the professional practice of internal auditing, definition of internal audit, Code of Ethics, and the International Standards for the professional practice of internal auditing (standards).

In the performance of its mission, the Internal Audit Department of Old Dominion University hereby adopts the IPPF and the "Standards for the Professional Practice of Internal Auditing," which it includes, as an integral part of the department's statement of policies.

### Other Auditing Standards

~~The American Institute of Certified Public Accountants has promulgated Generally Accepted Auditing Standards (GAAS) through Statements of Auditing Standards, Industry Audit Guides, and other professional releases.~~

~~The United States General Accounting Office recommends the "Government Auditing Standards" (the Yellow Book) for use by auditors who audit state organizations, programs, activities, and functions. In the performance of its mission, the Internal Audit Department will reference these additional standards as appropriate.~~

### Reporting Responsibilities

The Internal Audit Department is functionally accountable and reports to the Board of Visitors through the Audit Committee. The Department reports administratively to the President's Office and works with the President or through a designated representative for the purpose of the day-to-day direction needed by the department in the mediation of audit scope and scheduling, plus budgetary and personnel concerns.

The Internal Audit Director shall have direct access to the President and to the Audit Committee of the Board of Visitors in any instance where the Internal Audit Director believes that such access is needed to fulfill the stated objectives of the department.

The Internal Audit Director shall, at a minimum, meet in executive session, to the extent permitted by law, with the Audit Committee of the Board of Visitors at each of the scheduled quarterly Board Meetings to discuss:

1. Audit reports issued;
2. Detailed audit plan for the forthcoming fiscal year ~~and the areas of audit concerns for the subsequent two years;~~
3. Relationships between the Internal Audit Department and external auditors;
4. The propriety of any limitations on the scope of internal audits that may be imposed by University management.

As used herein, the term "external" shall refer to representatives of or the activities of the Auditor of Public Accounts for the Commonwealth of Virginia, individual certified public accountants (the "CPA") and auditors from organizations, governmental or commercial, outside the University.

The Internal Audit Director may also present materials, such as the annual audit plan, to the Administration and Finance Committee in an informational capacity.

Code of Virginia §2.2-307 et seq., established the Office of the State Inspector General (OSIG) effective July 1, 2012, and charged the office with providing services in three core areas: (1) investigating complaints alleging fraud, waste, abuse, or corruption; (2) conducting performance reviews of executive branch agencies; and (3) coordinating and requiring standards for internal audit programs existing as of July 1, 2012, and developing and maintaining other internal audit programs. As the OSIG is required to coordinate and require standards for those Internal Audit programs, the Old Dominion University Internal Audit Department will adhere to any OSIG directives.

### Authority

To the extent permitted by law, the Internal Audit Department shall have timely and unrestricted access to all university activities, properties, personnel, and records which are relevant to fulfillment of the department's mission to the University.

It is understood that certain items of the university are confidential in nature and special arrangements will be made by the audit department when examining and reporting upon such items.

### Independence

#### *Programming*

The Internal Audit Department shall be free from control or undue influence in the selection and application of audit techniques, procedures, and programs.

#### *Reporting*

The Internal Audit Department shall be free from control or undue influence in the determination of facts revealed by the examination or in the development of recommendations or opinions as a result of the examination.

#### *Investigative*

The Internal Audit Department shall be free from undue influence in the selection of areas, activities, personal relationships, and managerial policies to be examined. No legitimate source of information is to be closed to the auditor.

### General

Objectivity is an essential element of independence. The independence of the department may be compromised if the internal auditor participated directly in the preparation or reconstruction of accounting systems, data, or records; thus members of the Internal Audit Department will be used only in an advisory capacity.

## System Planning and Development

The Internal Audit Department will participate, in an advisory capacity, in the planning, development, implementation, and modification of major computer-based and manual systems to ensure that:

1. Adequate controls are incorporated in the system;
2. A thorough testing of the system is performed at appropriate stages;
3. System documentation is complete and accurate; and
4. The intended purpose and objective of the system implementation or modification has been met.

The internal auditor participating in such a review should ensure that the extent of participation does not affect independence, thus suggested audit trails or other controls will be transmitted through formal correspondence.

## Responsibility for the Detection of Errors or Irregularities

The staff of the Internal Audit Department have a professional responsibility to conduct reviews with an attitude of professional skepticism, recognizing that the application of internal auditing procedures may produce evidential matter indicating the possibility of errors or irregularities.

If the internal audit staff believe that an error or irregularity may exist in an area under review or in any other area of the university, the Internal Audit Director shall be notified at once. The Internal Audit Director should consider the implications of such an error or irregularity and its disposition with the President and/or the President's designated representative. If the Internal Audit Director believes that both of the individuals are directly involved, then the disclosure of potential errors or irregularities should be made directly to the chairman of the Audit Committee of the Board of Visitors.

The Internal Audit Department cannot be solely responsible for the detection and prevention of all errors and irregularities which may occur within the university. This is a responsibility shared by all members of the university management team.

## Cooperation With External Auditors

The Internal Audit Director is responsible for coordinating the audit efforts of the Internal Audit Department with those of the Auditor of Public Accounts for the Commonwealth of Virginia and other external auditors that have business with the university. This coordination of audit efforts should be in the planning and definition of the scope of proposed audits so the work of auditing groups is complementary and will provide a comprehensive, cost-effective audit.

The Internal Audit Department shall assist the Audit Committee of the Board of Visitors in the evaluation of the external auditors' examination of the University.

### Audit Plan

Each year, a proposed detailed audit plan for the next fiscal year will be submitted by the Internal Audit Director to the Audit Committee. Upon approval of the plan by the Audit Committee, the Internal Audit Director will initiate audits pursuant to the plan.

A block of time will be set aside for unexpected audits, special request audits and consulting, and cases received from the Commonwealth's fraud, waste and abuse hotline. In excess of this, any additions to the plan will require written documentation as to the need for such additions with final approval for the request being made by the President and Committee.

A copy of all approved revisions to the audit plan will be submitted to the President and the Audit Committee.

### Audit Reports

At the conclusion of each audit, the department or activity audited will be provided an opportunity to respond in writing to the findings, conclusions, and recommendations of the Internal Audit Department. In addition, an exit conference will be held with the individual in charge of the department or activity under review. All findings, conclusions and recommendations will be discussed and any differences of opinion settled or so noted. A formal audit report will be prepared after the exit conference is held and draft report reviewed. This report will contain a summary of the function of the department or area, the objective of performing the audit, the audit methods used, detailed explanations of any issues noted and recommendations for improvements thereon. A section of the audit report will include the department's response to the recommendations made by the Internal Audit Department.

This report will be discussed with the ~~chief operational officer~~ (vice president) responsible for the area under review prior to the issuance to the President of the University. All final audit reports will be issued to the President of the University ~~via the Chief Operating Officer~~, with copies to the Vice President of the area audited and the department head. Executive summaries of all final audit reports will be presented to the members of the Audit Committee. Further distribution will be at the discretion of the Internal Audit Director.

The Internal Audit Department will conduct a follow-up review on audit reports issued to ensure that all recommendations have been considered and acted upon. A comprehensive follow-up report will follow that of the original report. ~~Distribution of this follow-up report will follow that of the original report.~~

### Detection, Investigation and Reporting of Fraud

The Internal Audit Department shall be notified in all cases where the discovery of circumstances suggests a reasonable possibility that assets have, or are thought to have, been lost through defalcation or other security breaches in the financial, operating or information systems. Upon



such notifications, the Internal Audit Director should ensure that the proper authorities within the department and the University have been notified of the potential loss. The Internal Audit Director should work to ensure that the University promptly notifies other state departments as required under Section 30-138 of the Code of Virginia.

The Internal Audit Department will perform sufficient tests to identify the weaknesses in financial and operating procedures, both automated and manual, which permitted the loss and evaluate the impact the weaknesses have with respect to other activities of the institution. In addition, the Internal Audit Department will recommend improvements to correct the weaknesses and incorporate appropriate tests in future audits to disclose the existence of similar weaknesses in other areas of the institution.

### Consulting Activities

As part of its mission, the Internal Audit Department will engage in evolving forms of value-added services which are consistent with the broad definition of internal auditing. As such, the Department from time to time may be asked to perform a variety of non-standard audit services, such as advisory activities and consulting engagements, both of which may involve formal or informal advice, analysis or assessment. These services will be provided at the discretion of the Internal Audit Director where they do not represent a conflict of interest or detract from the Department's obligation to the Board of Visitors or the President.

Decisions to adapt or implement recommendations as a result of consulting activities should be made by management. It must be understood that consulting services cannot be rendered in a manner that masks information that, in the judgment of the Internal Audit Director, should be provided to the Board of Visitors and senior management. In the conduct of consulting activities, the Department will be guided by the IIA Code of Ethics and the Standards for the Professional Practice of Internal Auditing.

### Personnel

The ultimate quality of the Internal Audit Department's performance is directly related to the quality of the people employed. The internal audit function should be directed by and staffed with qualified and competent individuals.

Minimum qualifications for each position within the audit function have been established; however, additional experience, training, specialized skills, as well as intelligence, adaptability, promotability, an inquiring mind, analytical ability, good business judgment, and an ability to communicate with individuals should be considered in the employment process.

The Internal Audit Director should report annually to the Audit Committee and the President and/or a designated representative as to the effectiveness of the present staff in fulfilling the stated objective of the Internal Audit Department.

## Training

The university recognizes the need for members of the Internal Audit Department to "stay current" on accounting issues and auditing techniques in the university.

To fulfill this need, the Internal Audit Department will require each representative of the department to obtain at least forty (40) hours (1 week) of continuing education credits annually. (Training is subject to funding availability.)

## Quality Assurance Review

Old Dominion University recognizes the benefits to be derived from a quality assurance review of the internal audit functions.

A full scope quality assurance review of the University's internal audit function will be performed at least once every five years in accordance with the Institute of Internal Auditors standards.

**OLD DOMINION UNIVERSITY INTERNAL AUDIT DEPARTMENT**  
**Audit of Facilities Management FY 2017**

**AUDIT SUMMARY**

<p><b>Department Head:</b> Rusty Waterfield, Associate Vice President for University Services &amp; Chief Information Officer; Michael Brady, Director of Facilities*</p> <p><b>Responsible Executive:</b> Gregory DuBois, Assistant Vice President for Administration and Finance*</p> <p>*Neither individual was in their position until after the completion of audit fieldwork.</p>	<p><b>Auditor:</b> Lauren Eady, Senior Auditor</p> <p><b>Fieldwork Ended:</b> 5/9/2017  <b>Audit Report Date:</b> 8/1/2017</p>
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<b>Background</b>
<p>Facilities Management is responsible for maintenance and upkeep of all university buildings, grounds and vehicles. They also provide locksmith, recycling and moving and special event services. The department maintains a staff of carpenters, electricians, plumbers, mechanics, engineers and housekeepers. The department performs preventive maintenance and housekeeping services on predetermined schedules and other repair work as requested by University departments. Departments request services through an online work order system. Facilities Management’s budget for fiscal year 2017 was \$10,883,313.00.</p>

<b>Scope and Objectives</b>
<p>The audit scope covered fiscal years 2015 through 2017 and included identifying and assessing policies, procedures, controls and management of the department’s business operations. In particular, the auditor reviewed budget management, expenses and transfers, various department’s operating procedures, and the Maintenance Direct system.</p>

<b>Overall Risk Exposure<sup>1</sup></b>	<b>Audit Conclusion: System of Internal Controls</b>
<input type="checkbox"/> Low <input type="checkbox"/> Moderate <input checked="" type="checkbox"/> <b>High</b>	<input type="checkbox"/> Strong <input checked="" type="checkbox"/> <b>Adequate</b> <input type="checkbox"/> Need for Improvement

<sup>1</sup> Risk exposure is based on the inherent risk of the audited area and not the results or conclusions of the audit.

<b>Audit Issues</b>		
<b>Category</b>	<b>Issue</b>	<b>Planned Corrective Action</b>
Documentation	There were several issues with the small purchase charge cards held by Facilities Management employees including missing documentation and potentially improper transactions.	We are collecting all reconciliation documents to include zero transaction documentation. A work order has been established to remind card holders of their responsibilities.
Internal Control	Keys are not being returned to Facilities Management at an acceptable rate.	We are revising the key request form to notify approvers of the charge for keys that aren’t returned. We will update the employee workflow for supervisors to acknowledge collecting all keys.
Financial	Gas Card IDTs were not completed in Fiscal Year 2016.	A preventive maintenance work order has been entered into SchoolDude to generate quarterly reminders to the Front Office to prepare IDTs for the month. Departments will be reminded to sign and date their monthly transaction logs.
Financial	Some labor rates in Maintenance Direct have been entered incorrectly and do not match the University Tuition and Fee Schedule.	An internal tracking process will review the salary data in Maintenance Direct to verify that it matches the updated University Tuition and Fee Schedule.
Internal Control	The Facilities Management fuel pump is not monitored for all forms of misuse.	Facilities Management will remind departments of their responsibilities to monitor for improper use. In addition. Facilities Management will include the fuel tank sizes of department vehicles on the IDT report from FuelMaster.

## **Background and Executive Summary**

Hanban/Confucius Institute Headquarters is affiliated with the Chinese Ministry of Education. Its mission is to provide Chinese language and cultural teaching resources and services worldwide. Beginning in 2015, Hanban requested regular audits of ODU's Confucius Institute and the University responded and agreed to audit the Confucius Institute. This Agreed Upon Procedures engagement performed by ODU Internal Audit was included in the FY 2016 Audit Plan approved by the Board of Visitors. The engagement for the calendar year 2015 began in early 2016 and took place from February 2016 to April 2017.

The period reviewed was calendar year 2015. In summary, we found many issues when we performed the agreed upon procedures that we wish to bring to your attention.

## **Scope and Objectives**

The main purpose of this engagement was to provide specific testing related to ODU's Confucius Institute (CI) as outlined in the Agreed Upon Procedures document which are detailed in the Approach and Methods section of this report. Agreements and financial information was provided by CI staff who in some cases had to translate information from Chinese to English.

The general scope included calendar year 2015 and focused on the procedures outlined below:

1. Review of agreements provided by CI personnel to determine compliance;
2. Review of the Auditor of Public Accounts (APA) ODU report for related findings;
3. Review of reconciliations of financial activity and final report submitted to Hanban covering calendar year 2015; and
4. Review of a sample of transactions to determine whether University procedures were followed; internal controls were effective in preventing or detecting errors; expenditures related to one or more line-items specified on the approved budget for calendar year 2015 and transactions were recorded in the correct period.

## **Approach and Methods**

1. The University's APA Audit Report was requested and reviewed to determine whether any findings were issued. Findings were evaluated for their impact on the Confucius Institute operations.
2. Reconciliations were requested of financial activity as well as the final report submitted to Hanban for the period covered reconciled to the University's system of record (general ledger), currently Banner, and to the invoice documentation.
3. A sample was selected of expenditures to determine whether:
  - a. University procedures were followed and appropriately documented
  - b. Internal controls were effective in preventing or detecting errors related to the tested transactions
  - c. Expenditures are related to one or more of the line-items specified and approved on the approved budget
  - d. Transactions were accurately recorded in the correct period.