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### Acronyms

- **A&FC**: Audit and Finance Committee
- **BoT**: Board of Trustees
- **FAMC**: Finance and Administration’s Management Council
- **GC**: General Counsel
- **IA**: Internal Auditor or Internal Audit
- **IIA**: Institute of Internal Auditors
- **IPPF**: International Professional Practices Framework
- **OGC**: UCAR Office of General Counsel
- **QAIP**: Quality Assurance and Improvement Program
- **T&C**: Terms and Conditions
- **VP F&A**: Vice President for Finance & Administration

**Revised 9/8/15**
1000 AUTHORITY, ORGANIZATION AND PROFESSIONAL STANDARDS

Section Overview .01 The following sections set forth the mission and charter of the UCAR Internal Audit Function and outlines the policies and guidelines for UCAR Internal Audit (IA) reporting and professional standards and ethics.

Authority .02 The mission and charter authorize and guide the UCAR Internal Auditor in carrying out an independent appraisal function.

Organization .03 It is the policy of the UCAR Board of Trustees to establish and maintain an Internal Auditor. Internal Audit is a management control that functions by assessing the effectiveness of other managerial controls. Internal Audit examines and evaluates UCAR business and administrative activities in order to assist all levels of management and members of the Board of Trustees in the effective discharge of their responsibilities and furnishes them with analyses, recommendations, counsel and information concerning the activities and records reviewed.

The Internal Audit activity is a component of the Office of the Vice President for Finance and Administration. The Internal Auditor reports functionally to the Audit and Finance Committee and administratively to the Vice President for Finance and Administration. The Internal Auditor prepares, for approval by the Vice President for Finance and Administration and the Audit & Finance Committee, a UCAR Internal Audit Annual Plan that defines the Audit Program to be conducted for UCAR during the year.

Professional Standards .04 The UCAR Internal Auditor works towards compliance with the Institute of Internal Auditor’s (IIA) *International Professional Practices Framework (IPPF)*, which includes the *Definition of Internal Auditing*, the *Code of Ethics* and the *International Standards for the Professional Practice of Internal Auditing (Standards)*, as well as UCAR policies and UCAR *Ethical Conduct Policy and Procedures*. However, an external review of the Internal Audit function has not been conducted in accordance with the Standards; therefore, the Internal Auditor’s reports cannot state that the audit was performed in accordance with the IIA Standards. In May 2012, the Audit and Finance Committee agreed that an independent outside external review’s cost exceeded perceived benefit to UCAR. In May 2014 the AF C requested independent validation.
# 1100 Internal Audit Charter

## UCAR Policy .01

UCAR’s Policy (5-2): The internal audit program is designed to provide objective analysis and evaluation of the Corporation's compliance with relevant policies, procedures, and contractual and regulatory requirements. The internal audit program operates independently at the direction of the Vice President for Finance and Administration and the Audit and Finance Committee of the Board of Trustees.

## Mission Statement .02

The mission of the UCAR Internal Auditor (IA) is to protect and improve the organization through an independent and objective, systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

## Authority .03

The IA functions under the policies established by the UCAR Board of Trustees and by UCAR management under delegated authority.

The IA is authorized to have full, free and unrestricted access to information including physical and electronic records, property, and personnel of UCAR in accordance with the authority granted by approval of this charter. Except where limited by law, the work of the IA is unrestricted. The IA is free to review and evaluate all policies, procedures, and practices for any UCAR activity, program, or function.

In performing the audit function, the IA has no direct responsibility for, or authority over any of the activities reviewed. The internal audit review and approval process does not in any way relieve other persons in the organization of the responsibilities assigned to them.

## Independence and Reporting Structure .04

To permit the rendering of impartial and unbiased judgment essential to the proper conduct of audits, the IA will be independent of the activities they audit. This independence is based primarily upon organizational status and objectivity and is required by external professional standards.

The Internal Auditor (IA) reports administratively to the Vice President for Finance and Administration and directly to the Board of Trustees, Audit and Finance Committee (A&FC). The IA has direct access to the Vice President for Finance and Administration and the A&FC chair as circumstances warrant.
The IA will report periodically to the A&FC on the adequacy and effectiveness of the organization’s processes for controlling activities and managing its risks in the areas set forth under the mission and scope of work; the status of the annual audit plan, and the sufficiency of audit resources. The audit function will coordinate with and provide oversight of other control and monitoring functions involved in governance such as risk management, compliance efforts, security, legal, ethics, environmental health & safety, etc.

The IA may take concerns directly to the respective Laboratory or Program Director, the VP F&A, the President, or the Chair of the A&FC that the IA believes to be of sufficient magnitude and importance. The IA shall take directly to the Vice President for Finance and Administration and the Chair of the A&FC, any credible allegations of significant wrongdoing (including any wrongdoing for personal financial gain) by or about, senior management or a director, or any other credible allegations that if true could cause significant harm or damage to the reputation of UCAR.

The scope of IA work is to determine whether UCAR’s network of risk management, control, and governance processes, as designed and represented by management at all levels, is adequate and functioning in a manner to ensure:

- Risk management processes are effective and significant risks are appropriately identified and managed.
- Ethics and values are promoted within the organization.
- Financial and operational information is accurate, reliable, and timely.
- Employees’ actions are in compliance with policies, standards, procedures, and applicable laws and regulations.
- Resources are acquired economically, used efficiently, and are adequately protected.
- Quality and continuous improvement are fostered in the organization’s risk management and control processes.
1100 Internal Audit Charter

Scope of Work (cont’d) .05

- Significant legislative or regulatory compliance issues impacting the organization are recognized and addressed properly.

- Effective organizational performance management and accountability is fostered.

- Coordination of activities and communication of information among the various governance groups occurs as needed.

- The potential occurrence of fraud is evaluated and fraud risk is managed.

- Information technology governance supports UCAR/NCAR/UCP strategies, objectives, and the organization’s business operations.

- Information technology security practices adequately protect information assets and are in compliance with applicable policies, rules, and regulations. **Outside expertise may be needed. IT audit projects will be staffed by an auditor with the IT audit skills that meet the IIA professional standards.**

The IA communicates opportunities for improving management control, quality and effectiveness of services, and the organization’s image identified during audits to the appropriate levels of management.

- Information technology governance supports UCAR/NCAR/UCP strategies, objectives, and the organization’s business operations.

- Information technology security practices adequately protect information assets and are in compliance with applicable policies, rules, and regulations. **Outside expertise may be needed. IT audit projects will be staffed by an auditor with the IT audit skills that meet the IIA professional standards.**
### 1100 Internal Audit Charter

<table>
<thead>
<tr>
<th>Scope of Work (cont’d)</th>
<th>.05</th>
<th>The IA communicates opportunities for improving management control, quality and effectiveness of services, and the organization’s image identified during audits to the appropriate levels of management.</th>
</tr>
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</table>
| Nature of Assurance and Consulting Services | .06 | The IA performs three types of projects:

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

- **Advisory Services** – The nature and scope of these are agreed upon with the client and are intended to add value and improve an organization’s governance, risk management, and control processes without the IA assuming management responsibility. Examples include reviews, recommendations (advice), facilitation, and training.

- **Investigations** – Independent evaluations of allegations generally focused on improper activities including misuse of UCAR resources, fraud, financial irregularities, significant control weaknesses and unethical behavior or actions.

| Mandatory Guidance | .07 | The Internal Auditor acts in accordance with all UCAR policies and promotes the UCAR Policies and Procedures for Ethical Conduct. The IA works to comply with relevant professional standards, and the Institute of Internal Auditors’ mandatory guidance including the Definition of Internal Auditing, the Code of Ethics and the International Standards for the Professional Practice of Internal Auditing. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity’s performance. |
1100 Internal Audit Charter

Certain Personnel Matters .08 Action to appoint, demote or dismiss the Internal Auditor requires the approval of the Chair of the A&FC. Action to appoint an Internal Auditor requires the concurrence of the Chair of the A&FC. Action to demote or dismiss the Internal Auditor requires the concurrence of the Vice President for Finance and Administration and the Chair of the A&FC.

1200 Professional Standards and Ethics

Section Overview .01 The internal auditing profession is governed by a set of standards, the Institute of Internal Auditors’ (IIA) International Professional Practices Framework, which includes the Definition of Internal Auditing, the Code of Ethics and the International Standards for the Professional Practice of Internal Auditing (Standards). These pronouncements provide guidance to internal auditors on the practice of the internal auditing profession and protect the interests of those served by internal auditors. The UCAR Audit Program has adopted the Standards and the Code of Ethics and has designed the Policies and Procedures included in this Internal Audit Manual to comply with them, in addition to UCAR policies and UCAR Policies and Procedures for Ethical Conduct.

Alignment with the Standards for the Professional Practice of Internal Auditing .02 The UCAR Internal Audit Manual incorporates the practices and procedures described in the IIA’s International Standards for the Professional Practice of Internal Auditing. A matrix has been prepared that cross-references the IIA Standards to the UCAR Internal Audit Manual and demonstrates the audit program’s alignment with the International Standards for the Professional Practice of Internal Auditing.

The matrix cross-referencing the International Standards for the Professional Practice of Internal Auditing to the UCAR Internal Audit Manual can be found in Appendix 1200.2.

Code of Ethics .03 The UCAR Internal Audit uses the Code of Ethics adopted by the Institute of Internal Auditors in June 2000 and UCAR policies and the UCAR Policies and Procedures for Ethical Conduct. The Code of Ethics applies to the Internal Auditor. The Internal Auditor is responsible for regularly reinforcing the concepts and behaviors embodied in the Code of Ethics, for example, through discussions with General Counsel (GC), during interim or annual performance evaluations with the Vice President for Finance and Administration, or through training.
1200  Professional Standards and Ethics

Code of Ethics (cont’d)  .03  The UCAR Internal Audit Program Professional Code of Ethics can be found in Appendix 1200.1.

UCAR Policies and Procedures for Ethical Conduct can be found at: http://www2.fin.ucar.edu/policies/section-2-ethics-and-conduct

And the Ethics Officer’s website at: https://www2.fin.ucar.edu/ethics

Appendix 1200.1 - Professional Standards and Ethics

UCAR
Internal Audit Program
Professional Code of Ethics

The Institute of Internal Auditors has adopted the following Code of Ethics, which applies to both individuals and entities that provide internal auditing services. The Code of Ethics provides guidance for staff in the conduct of their profession and elicits the trust and confidence of those for whom services are rendered. The UCAR Audit Program has adopted the Code of Ethics promulgated by the Institute of Internal Auditors.

Principles

Internal auditors are expected to apply and uphold the following principles:

- Integrity
  The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.

- Objectivity
  Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.

- Confidentiality
  Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

- Competency
  Internal auditors apply the knowledge, skills, and experience needed in the performance of internal auditing services.
Appendix 1200.1 - Professional Standards and Ethics

Rules of Conduct

1. Integrity

Internal auditors:

1.1. Shall perform their work with honesty, diligence, and responsibility.
1.2. Shall observe the law and make disclosures expected by the law and the profession.
1.3. Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organization.
1.4. Shall respect and contribute to the legitimate and ethical objectives of the organization.

2. Objectivity

Internal auditors:

2.1. Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization.
2.2. Shall not accept anything that may impair or be presumed to impair their professional judgment.
2.3. Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

3. Confidentiality

Internal auditors:

3.1. Shall be prudent in the use and protection of information acquired in the course of their duties.
3.2. Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organization.

4. Competency

Internal auditors:

4.1. Shall engage only in those services for which they have the necessary knowledge, skills, and experience.
4.2. Shall perform internal auditing services in accordance with the International Standards for the Professional Practice of Internal Auditing.
4.3. Shall continually improve their proficiency and the effectiveness and quality of their services.
### Appendix 1200.2 - Professional Standards and Ethics Cross-Reference

**CROSS-REFERENCE OF INSTITUTE OF INTERNAL AUDITORS ATTRIBUTE AND PERFORMANCE STANDARDS TO THE UCAR AUDIT MANUAL (Page 1 of 2)**

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<tr>
<td>Attribute Standards</td>
<td>Purpose, Authority, and Responsibility - The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics, and the Standards. The Internal Auditor must periodically review the internal audit charter and present it to senior management and A&amp;FC for approval.</td>
<td>1100</td>
<td>Internal Audit Charter</td>
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<td>1100</td>
<td>Independence and Objectivity - The internal audit activity must be independent, and internal auditors must be objective in performing their work.</td>
<td>1100.04</td>
<td>Internal Audit Charter – Independence and Reporting Structure</td>
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<td>1200</td>
<td>Proficiency and Due Professional Care - Engagements must be performed with proficiency and due professional care.</td>
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<td>4400</td>
<td>Performance Evaluation</td>
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<td>1300</td>
<td>Quality Assurance and Improvement Program - The Internal Auditor must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity. The internal audit activity has not had an external assessment. Therefore, internal audit reports do not state that the internal audit activity conforms to the Standards for the Professional Practice of Internal Auditing. Disclosure of non-conformance to senior management and to the chair of the A&amp;FC.</td>
<td>1100.04</td>
<td>Internal Audit Charter – Independence and Reporting Structure</td>
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<td>Managing the Internal Audit Activity - The Internal Auditor must effectively manage the internal audit activity to ensure it adds value to the organization.</td>
<td>1100.04</td>
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## Appendix 1200.2 - Professional Standards and Ethics Cross-Reference

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<th>Section Title/Description</th>
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<td>2100</td>
<td><strong>Nature of Work</strong> - The internal audit activity must evaluate and contribute to the improvement of risk management, control, and governance processes using a systematic and disciplined approach.</td>
<td>1100.05</td>
<td>Internal Audit Charter – Scope of Work</td>
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| 2120         | The Internal Auditor must evaluate the effectiveness and contribute to the improvement of risk management processes.  
  - Must evaluate how the organization manages fraud risks  
  - When assisting management in establishing or improving risk management processes, the IA must refrain from assuming any management responsibilities | 3200                       | Internal Audit Operating Planning Process                       |
|              | The IA must assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement. | 4400                       | Performance Evaluation                                          |
| 2130         |                                                                                                 |                            |                                                                 |
| 2200         | **Engagement Planning** – The Internal Auditor must develop and document a plan for each engagement, including the scope, objectives, timing, and resource allocations. | 6100                       | Planning an Audit                                               |
| 2300         | **Performing the Engagement** – The Internal Auditor must identify, analyze, evaluate, and record sufficient information to achieve the engagement's objectives. | 6200                       | Conducting an Audit                                             |
| 2400         | **Communicating Results** – The Internal Auditor must communicate the engagement results.       | 6300                       | Reporting Results                                               |
| 2431         | **Engagement disclosure of nonconformance** must be communicated.                               | 1100.04                    | Professional Standards                                          |
| 2440         | **Disseminating Results**  
  - Communicating with client  
  - Communicating with senior management and A&FC  
  - Releasing to outside parties | 6300                       | Reporting Results                                               |
| 2500         | **Monitoring Progress** – The Internal Auditor must establish and maintain a system to monitor the disposition of results communicated to management. | 6400                       | Audit Follow-up                                                 |
| 2600         | **Resolution of Management’s Acceptance of Risks** -  
  When the Internal Auditor believes that senior management has accepted a level of residual risk that may be unacceptable to the organization, the Internal Auditor must discuss the matter with senior management. If the decision regarding residual risk is not resolved, the Internal Auditor must report the matter to the Chair of the A&FC for resolution. | 1100.04                   | Internal Audit Charter – Independence and Reporting Structure |
|              |                                                                                                 | 1100.08                    | Internal Audit Charter – Certain Personnel Matters            |
|              |                                                                                                 | 6500.07                    | Other Audit Matters – Dispute Resolution                      |
2000  INTERNAL AUDIT PROGRAM

Section Overview .01 The following Section provides an overview of the history and evolution of the UCAR Internal Audit Program and of the current array of customers and services. Additionally, it outlines the requirements for Internal Audit to communicate information and findings about its activities to its clients.

Overview .01 UCAR’s existing Internal Audit function was started in 2008 with one auditor. The Program provides a spectrum of services to assist the Board of Trustees and UCAR management in the discharge of their oversight, management and operating responsibilities.

Implementation .02 Risk Assessment - This began with the May 2011 Audit Plan, which was designed to assess "organizational" risk in areas of operations as a basis for determining areas of audit focus.

Audit Plan .03 IA conducted from Spring 2012 through 2014 an organization-wide risk assessment of the key risks that could keep UCAR from accomplishing its strategic objectives. UCAR’s ERM program took this over in FY15. A risk-based audit planning methodology was implemented. The risk based operating plan is discussed in more detail in Section 3200.

The Internal Auditor meets in May with the A&FC to report progress against the annual audit plan and present the next year’s risk based audit plan. This process was designed to increase transparency and accountability.

2100  Customers and Services

Overview .01 The UCAR Internal Audit Program's perspective of its customers and services has evolved and broadened along with the changes occurring within the internal auditing profession. The changes in the profession itself are in part based on the standards and guidance issued by the Institute of Internal Auditors. Even the definition of internal auditing has been revised. The UCAR Internal Audit Program fully ascribes to the revised definition including the emphasis on advisory service activities in addition to assurance activities.

Customers of Internal Audit Services .02 In the broadest sense, the beneficiaries of the services of Internal Audit include federal, state and private research sponsors, and all scientists and staff of UCAR. However, customers are those served more directly and who are the recipients of IA services, or reports on services provided. The customers of Internal Audit include those parties with oversight, management and operating
2100 Customers and Services

Customers of Internal Audit Services (cont’d) .02 responsibilities for UCAR such as:

- The Board of Trustees (BoT)
- The BoT’s Audit and Finance Committee (A&FC)
- President’s Council and Senior Management
- UCAR Finance and Administration Management
- NCAR and UCP Management

Services Provided by Internal Audit .03 Internal Audit's primary activity in fulfilling its mission is the conduct of a program of regular audits of UCAR's business operations. However, as the Internal Audit Program has evolved and expanded to include additional activities in order to enhance the value of services to its customers, the Annual Audit Plan outlines Internal Audit services under three types of activities as follows:

Audits - These services include the planned and ad hoc program of regular audits of business units (including laboratory, programs etc.) and business processes that cut across all organizational units (e.g., purchasing, travel, export compliance, etc.).

Investigations - Pursuant to UCAR Policy on (Whistleblower Policy 2-12), UCAR will not retaliate against an employee who, in good faith, raises a legitimate complaint against UCAR or any UCAR employee with regard to an unethical activity; questionable accounting or financial practice; or violation of law, regulation or policy. The Internal Auditor conducts investigations into suspected financial irregularities or non-compliance with management controls whether reported via the whistleblower anonymous email, uncovered in the course of regular audits, or based upon concerns conveyed by staff or management.

See UCAR Internal Audit policies and procedural guidelines on investigative services in Section 7000.

Advisory Services - Advisory Services encompasses a broad array of activities beyond regular audits. These additional activities are proactive or preventive in nature and are focused in the following areas:

See UCAR Internal Audit policies and procedural guidelines on Advisory Services in Section 8000.
### 2100 Customers and Services

<table>
<thead>
<tr>
<th>Services Provided by Internal Audit (cont’d)</th>
<th>.03 Internal Control &amp; Accountability</th>
<th>Promotes training of UCAR personnel in concepts of internal control and consultation on their implementation. UCAR does not use Internal Control Self-Assessment.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Special Projects and Consultations</td>
<td>Promotes effective and efficient operations through special management studies, advisory participation on business processes, and systems reengineering teams as well as consultation on business issues (e.g., regulatory compliance matters). Assists department and program managers in dealing with issues before they become audit or investigation problems.</td>
</tr>
<tr>
<td></td>
<td>Systems Development and Reengineering</td>
<td>Involves participation with teams to redesign business processes to be more effective and efficient and deal with other lab or program business issues. The IA’s involvement is limited to consultation only during the design and development phase. The IA helps to ensure that sound business practices, including effective internal controls, are built into the systems and processes.</td>
</tr>
<tr>
<td></td>
<td>Not involved in development and implementation of new systems.</td>
<td></td>
</tr>
<tr>
<td>Alignment of Services with Customer Needs</td>
<td>.04 Internal Audit’s Services are designed to fulfill the varying needs of its diverse customers. The operating plan prepared by the Internal Auditor annually aligns these services, across all of the UCAR’s business operations.</td>
<td></td>
</tr>
<tr>
<td>UCAR Lines of Business</td>
<td>.05 The business operations of the UCAR are organized under the following.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Facilities - UCAR encompasses locations in:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Three campuses in Boulder, CO</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Research Aviation Facility in Jefferson County, CO</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Marshall near Boulder</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• NCAR Wyoming Supercomputing Center (NWSC) in Cheyenne, WY</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Mauna Loa, HI</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• There are employees in leased space in the WDC area.</td>
<td></td>
</tr>
</tbody>
</table>

Access the following internet link to see the most recent fact sheet for the facilities: https://www2.fin.ucar.edu/fms/building-info-services.
2100 Customers and Services

UCAR Lines of Business (cont’d) .05 Laboratories and Programs - The laboratories conduct broad and diverse basic and applied research in atmospheric science and computational science, and provide research aircraft and field project support for atmospheric research. Programs support sponsors and community needs related to atmospheric science.

To view UCAR’s organization listing and charts: http://www2.ucar.edu/our-organization

2200 Communications

Overview .01 Beyond the issuance of reports on audits, investigations, and advisory services, the Internal Audit Program formally communicates with its customers on a systematic basis.

Chairperson of the A&FC .02 The Internal Auditor is responsible for establishing an active channel of communication with the Chair of the A&FC. The Internal Auditor meets in February and May with the A&FC.

See reports provided to the A&FC (Annual Plan, Audit Reports, Updates and Self-Assessment Report) at Section 3000.

Audit Client .03 Management Satisfaction Survey – An Internal Audit Quality discussion will be held bi-annually to elicit President’s Council members’ perception of the Internal Auditor’s ability to fulfill the mission of assisting management in the effective discharge of their responsibilities.

President, Vice-President for F&A, and when applicable General Counsel .04 Provide oversight for the communication and coordination of Internal Audit and related matters (e.g. external audit matters and control initiative activities). The guidelines for the oversight meetings include the agenda of information and reports to be reviewed. The IA provides and obtains advice on direction of the internal audit function.

President and President’s Council .05 The President’s Council (PC) is a group of UCAR’s most senior executives who meet regularly with the President. The IA communicates with this group about broad IA Program strategies and developments that impact the organization. The IA meets when appropriate with the PC, to ensure the President and other senior executives are fully aware of major compliance and audit issues.
3000  INTERNAL AUDIT PROGRAM PLANNING AND REPORTING

Section Overview .01 The following section sets forth the annual method by which the operating and Risk Based Internal Audit Plan for the Internal Audit Program are developed, monitored for progress and reported to customers.

Planning .02 The Internal Auditor undertakes an extensive planning process to establish the operating plans for the Internal Audit Program on an annual basis. These plans guide the Program in its goal of providing the most timely and comprehensive scope of audit and other services possible and in deploying its resources in an effective and efficient manner.

In addition to the operating plan, a strategic plan for the continuous improvement of the Program is established and maintained on an ongoing basis.

Reporting .03 Internal Audit monitors activities and progress toward both the annual operating and strategic plans and reports the related information to the VP F&A.

3100  Internal Audit Strategic Plan Process

Overview .01 The strategic plan is one component of the Internal Audit Program and conveys the planned efforts designed to provide continuous improvement to the Internal Audit Program.

Objectives .02 The strategic plan objectives are driven by the Internal Auditor's recognition of the needs to measure and report on performance and opportunities to improve the Program and incorporate recent changes in the direction of the Internal Auditing profession.

The Internal Auditor uses the Quality Assurance and Improvement Program for continuous audit process improvement and obtains external professional training.

See the UCAR Internal Audit policies and procedural guidelines on Quality Assurance at Section 9000.
3100 Internal Audit Strategic Plan Process

**Strategic Plan Establishment** .03  The IA created a formal, succinct written strategic plan in 2015 in conjunction with UCAR’s new Strategic Plan.

The strategic plan is a dynamic set of goals and objectives agreed to by the Internal Auditor, the President, the VP F&A and the Chair of the A&FC for the purposes of strengthening the Internal Audit Program. The strategic plan is established and revised in conjunction with changes to UCAR’s Strategic Plan, although external events or newly recognized Internal Audit needs may dictate a different interval. It is created with a multi-year perspective with short-term milestones that can be measured to assure progress. The initiatives will be periodically assessed and reported to validate the IA Program.

**Strategic Plan Execution** .04  The audit activities performed by the IA are designed to achieve the goals set in the strategic plan. The IA’s efforts are preliminary rather than determinative as significant proposals for internal audit program policies, initiatives and direction are brought back to the VP F&A for approval before effort or resources are committed.

3200 Internal Audit Operating Plan Process

**Overview** .01  The Operating Plan is the primary component of the UCAR Risk Based Internal Audit Plan. The Plan represents the audit plan as well as the allocation of human resources necessary to deliver these services to customers. The Plan strives to ensure an appropriate balance among UCAR’s lines of business as well as the Internal Audit Program's service activities. The Plan also serves as a tool to assist the Internal Auditor in analyzing the mix of customers and services and for measuring and monitoring the risk exposure in the audit universe.

**Annual Audit Planning** .02  The Plan is developed annually through a comprehensive risk assessment and audit planning process. The Internal Auditor leads a collaborative process to establish the Audit Universe, identifying strategic and business risks and developing the planning guidelines to complete the annual audit planning process.
### 3200 Internal Audit Operating Plan Process

<table>
<thead>
<tr>
<th>Section</th>
<th>Description</th>
</tr>
</thead>
</table>
| Establishment of Audit Universe .03 | The audit planning process begins with an understanding of the entity, activity or process to be audited and identification of the auditable elements or components of the entity, traditionally referred to as the Audit Universe. The planning process involves annual reconsideration of transactions, events or conditions which may impact the Audit Universe such as:
  - New activities, organizations and programs
  - Changes within the existing organization or operating units |
| Identification of Risk .04 | The Plan is driven by consideration of the organization's strategic, financial, operational, compliance and stakeholder risks at both an organization-wide and lab or program level. The risks identified are organized along UCAR's lines of business:
  - UCAR-wide risk – Risks that affect UCAR’s mission of research and atmospheric science community needs, as well as education and outreach.
  - Laboratory and program based risk – Risks that impact the labs and programs generally, such as capital, operational, research funding, political and regulatory risks or matters affecting NSF’s or other sponsor’s contracts. |

#### Sources of Information
- A variety of sources are utilized to identify risks for UCAR as a whole. These sources may include: external auditors, the President’s Council, Laboratory and Program Directors, managers and administrators, Finance and Administration Directors and the A&FC.

| Development of Annual Planning Guidelines .05 | Audit Planning is performed on an annual basis. The guidelines include:
  - Timeline for the audit planning process
  - Risk assessment notes, risk analysis for the assignment of predictive risk factors to the Audit Universe
  - Narrative outline of the key business risks |
| Annual Planning Time Line .06 | The draft plan is presented to the A&FC at their May meeting. *Refer to Appendix 3200.1 for a sample timeline.* |
### 3200 Internal Audit Operating Plan Process

<table>
<thead>
<tr>
<th>Section</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Audit Planning Process</td>
<td>.07 The annual audit planning process involves the Risk Assessment Phase and the Audit Plan Preparation Phase.</td>
</tr>
<tr>
<td></td>
<td>• The Risk Assessment Phase is performed at the beginning of the planning cycle and is focused on gathering current risk information about the Audit Universe components and assessing the relative risks necessary to prepare the Annual Audit Plan, all in the context of the organization’s risks previously identified.</td>
</tr>
<tr>
<td></td>
<td>• The Audit Plan Preparation Phase is performed upon completion of the Risk Assessment Phase and represents an exercise in deploying Internal Audit’s resources in the most effective manner possible – prioritizing risks and assuring balance in the Annual Plan.</td>
</tr>
<tr>
<td>Risk Assessment</td>
<td>.08 A comprehensive and thorough risk assessment is the key driver in the development of an effective audit plan. The risk assessment process involves both a high level overview of topical and selected strategic business risks as well as a comprehensive process to assess risks for all items included in the Audit Universe.</td>
</tr>
<tr>
<td>Audit Universe and Definitions</td>
<td>.09 The Audit Universe identifies process and entity topics. The Audit Universe should be reviewed annually and updated as necessary to address risk priorities in a changing environment.</td>
</tr>
<tr>
<td></td>
<td>The Universe is divided into three tiers as follows:</td>
</tr>
<tr>
<td></td>
<td>• Tier One consists of major reporting categories.</td>
</tr>
<tr>
<td></td>
<td>• Tier Two consists of major processes and entity groupings.</td>
</tr>
<tr>
<td></td>
<td>• Tier Three consists of predominantly major process topics.</td>
</tr>
<tr>
<td></td>
<td><em>The Audit Universe (Tiers 1-3) is included as Appendix 3200.3.</em></td>
</tr>
<tr>
<td>Relative Risk Assessment</td>
<td>.10 The audit risk of each component unit in the Audit Universe is assessed. Relative risk assessment is necessary to provide a means for rational deployment of limited resources across the Audit Universe.</td>
</tr>
<tr>
<td></td>
<td>In assessing relative risk, gather information about the following:</td>
</tr>
<tr>
<td></td>
<td>• Ability to meet strategic objectives</td>
</tr>
</tbody>
</table>
3200 Internal Audit Operating Plan Process

Relative Risk Assessment (cont’d)

- Financial analyses
- Change analyses (management, systems, funding sources/levels, regulations, etc.)
- Interviews with management
- Discussion on non-compliance with sponsor T&Cs and regulatory requirements
- Consideration of external audit activities
- Past audit issues identified
- Concerns raised by the President’s Council and the Finance & Administration Directors
- Stakeholders - sponsor and A&FC concerns

A formal risk assessment process is required every year and involves collaboration with other functions, which may conduct risk assessments. Other laboratory, program or department risk assessments – if they exist – may be utilized. During this formal risk assessment process, each topic included in Tier Three is ranked after significant data gathering, analysis and discussion with management.

Risk Model

The Risk Model reflects terminology of the Committee of Sponsoring Organizations (COSO) of the Treadway Commission and the Association of College and University Auditors (ACUA). The factors proposed for, laboratory, facilities and programs environments are identical.

Refer to Additional Resources in Appendix 3200.2 for more information about UCAR’s Risk Model.

In the risk model, each component of the Audit Universe is assessed for relative risk considering five risk types: strategic, operational, financial, compliance and stakeholder risks. These predictive factors are defined below.
3200 Internal Audit Operating Plan Process

Risk Factors

.12 Strategic Risk - Assessment is based on factors such as:

- Ability to meet its strategic objectives
- General economy
- Strategic partner relations
- Market/competitor
- Government
- Infrastructure
- Change management

Operational Risk – Assessment is based on factors such as:

- Adequacy of the existing control structure / internal control effectiveness
- Expertise of management and leadership
- Limits of authority
- Risk management
- Communications
- Process documentation
- Complexity of operations and extent to which it depends on computerized information systems and technology
- Timeliness and usefulness of management reporting
- Overall effectiveness and efficiency of operations
- Reengineering efforts to streamline processes
- Monitoring performance, providing services and allocating resources
## Risk Factors (cont’d)

<table>
<thead>
<tr>
<th>Risk Factors</th>
<th>.12</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Interval since the last audit</td>
<td></td>
</tr>
<tr>
<td>• Conditions found during recent reviews</td>
<td></td>
</tr>
</tbody>
</table>

The relative performance of a function as perceived by other managers may influence risk. In general, effective management reduces overall risk.

**Financial Risk (Materiality and Liquidity of Operational Resources)** - Larger potential losses are normally associated with larger sized activities, as indicated by revenues and expenditures. Other things being equal, large dollar amounts either flowing through a system or committed to an activity or project will increase audit interest. Dollar amount and relative liquidity of assets safeguarded will impact this factor. Other objective information to be considered for each auditable unit includes the dollar amount of cash receipts, receivables, inventory, plant and property safeguarded. Includes fraud, opportunity costs, financial decision making, evaluating vendor performance and partnerships, cash flow, budget and planning and financial reporting.

**Compliance Requirements** - Complexity and clarity of all internal and external policy, procedure, regulatory matters affecting the operations of the organization as a whole or any of its sub-units impacts an organization's ability to comply, and therefore influences risk. Risk associated with non-compliance with sponsor terms and conditions, regulatory requirements, industry standards/expectations and UCAR policies. Assessment is based on factors such as:

- Level of focus by overseer
- Known violations
- Level of charge to requirements
- Management knowledge of requirements
- Level of fines, penalties or litigation
- Loss of funding source
### 3200 Internal Audit Operating Plan Process

#### Risk Factors (cont’d)

- Disallowed cost from funding agencies
- Storage of personally identifiable information

**Stakeholder Risk** – Any unfavorable impacts to UCAR stakeholders. Stakeholders include sponsors, employees, member institutions, scientists, suppliers, and the community. Assessment is based on factors such as:

- Life safety
- Security
- Sponsor satisfaction
- Member institution satisfaction
- Culture/trust
- Employee engagement
- Employee turnover

#### Risk Model Scoring and Ranking

These predictive factors are weighted, scored and the relative risk ranking of each component of the Audit Universe.

Risk index results for the audit topics in one line of the business environment should be comparable to risk index results for audit topics in other environments.

*The Risk Model and Guidelines for the assignment of predictive risk factors are included as Appendix 3200.2.*

#### Analyses of Risk Assessments

The Internal Auditor will prepare the risk assessment analysis and ensure consistent application of the risk assessment methodology. The analyses also strive to identify common risks for the purpose of recognizing opportunities for sharing risk mitigation strategies. The analyses and their impact on the Annual Audit Plan will be discussed among the Internal Auditor, President, and the VP F&A.
3200 Internal Audit Operating Plan Process

**Annual Audit Plan Preparation** .15 Upon completing the risk assessment process, the Internal Auditor prepares the Annual Audit Plan. The package of the final risk assessment and the Annual Audit Plan materials are submitted to the A&FC annually in May.

**Resource Allocation Guidelines** .16 The allocation of the percentage of time is estimated.

In general, it is anticipated that an average of approximately 60-65% of total time available should be budgeted for direct time charges. A limited number of hours will be set aside for Ad hoc Activities. A planned audit will be postponed should a significant Ad hoc audit arise. No time is set aside for investigations, as the time is unknown. The range for audit advisory services (consisting of consultations, special projects, advising on systems reengineering, and internal control training— including control and accountability initiatives) is 10%. And 25-30% of total time available has been established for audit support activities including audit planning, audit committee support and presentations, updating website and Internal Audit Operations Manual, management meetings, computer support, and quality assurance etc. Professional Development (3%) of total time available.

**Documentation of Planning Process** .17 The Internal Auditor should maintain documentation of the annual audit planning process. This documentation should include:

- Records of internal planning sessions
- Records of management input to the planning process
- Financial and other background information collected for selected audit planning topics

The IA should also provide a written explanation in the annual audit planning documentation for any topic assessed as a high risk that is not included in the final Annual Audit Plan.

**Approval of the Annual Audit Plan** .18 Upon completion, the Annual Audit Plan is subject to review and approval as follows:

- By the VP F&A and when applicable the President’s Council
- By the IA (who submits the Risk Based Annual Audit Plan to the A&FC for final approval)
3200 Internal Audit Operating Plan Process

Approval of the Annual Audit Plan (cont’d) .18 Significant Changes – Significant (>20% of hours available) modifications to the plan should be addressed with the VP F&A and Chair of the A&FC.

Request for Assistance .19 If the Internal Auditor does not expect to accomplish at least 50% of planned audit and advisory services listed in the Annual Audit Plan as approved, the Internal Auditor should confer with the VP F&A and the Chair of the A&FC to determine a mutually acceptable method of obtaining additional resources or implementing an alternative method to provide greater breadth of coverage.

The IA must communicate the impact of resource limitations and ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.

Appendix 3200.1 Operating Plans

<table>
<thead>
<tr>
<th>Step</th>
<th>Procedure</th>
<th>Responsibility</th>
<th>Timing</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Review the Audit Universe spreadsheets, UCAR Risk Description sheets and</td>
<td>IA</td>
<td>June/July</td>
</tr>
<tr>
<td></td>
<td>prior year’s risk rankings and update if needed.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Work with an FAMC and laboratory and program senior management to obtain</td>
<td>IA</td>
<td>Fall</td>
</tr>
<tr>
<td></td>
<td>current information relevant to the audit universe and determine its</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>effect on the preliminary risk assessment.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Perform the risk assessment process utilizing the risk model and</td>
<td>IA</td>
<td>Nov</td>
</tr>
<tr>
<td></td>
<td>methodology and validate procedures with management.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Perform comparative analyses based on the risk assessment results.</td>
<td>IA</td>
<td>Nov</td>
</tr>
<tr>
<td>5</td>
<td>Meet with FAMC and Chief of Staff to discuss preliminary risk results</td>
<td>IA</td>
<td>Dec</td>
</tr>
<tr>
<td></td>
<td>and share information in order</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
to prepare the Annual Audit Plan.

6 Present and discuss Audit Universe Risk Assessment and possible future audits.

Appendix 3200.1 Operating Plans

Annual Audit Planning Time Line - Effective FY 2013 (cont’d)

7 Prepare draft of the UCAR Risk Based Annual Audit Plan and provide or present to President’s Council for their comments.

8 Present draft consolidated UCAR Risk Based Annual Audit Plan to A&FC and obtain approval.

Appendix 3200.2 Operating Plans

UCAR Risk Model (Page 1 of 2)

<table>
<thead>
<tr>
<th>Risk Types</th>
<th>Risk Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic Risk</td>
<td>Potential impact upon U/NCAR’s ability to meet its strategic objectives. Includes general economy, strategic partner relations, market competitor, and government, infrastructure, and change management</td>
</tr>
<tr>
<td>Operational Risk</td>
<td>Risk of operational failure/impact. Includes labor supply, efficiency, accuracy, obsolescence, leadership, limits of authority, communications, access to information, timeliness and usefulness of operational and management reporting, business interruption, internal control effectiveness, process documentation, and risk management</td>
</tr>
<tr>
<td>Financial Risk</td>
<td>Risk of financial loss or impact to UCAR (materially). Includes fraud, opportunity cost, cash flow, budget and planning, and financial reporting</td>
</tr>
<tr>
<td>Compliance Risk</td>
<td>Risk associated with non-compliance with sponsor terms and conditions, regulatory requirements, industry standards/expectations, and UCAR policies. Risks include level of focus by overseer, known violations, level of change to requirements, management knowledge of requirements, and level of fines or other penalties</td>
</tr>
<tr>
<td>Stakeholder Risk</td>
<td>Risk of unfavorable impacts to UCAR stakeholders. Stakeholders include sponsors, employees, member institutions, scientists, suppliers, and the community. Risks include life safety, customer satisfaction, culture/trust, employee engagement, and employee turnover</td>
</tr>
</tbody>
</table>
### 3200 Appendix 3200.2 Operating Plans

UCAR Risk Ranking Guidelines (Page 2 of 2)

<table>
<thead>
<tr>
<th>Impact</th>
<th>Insignificant</th>
<th>Minor</th>
<th>Moderate</th>
<th>Major</th>
<th>Critical</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Likelihood</strong></td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Almost Certain</td>
<td>Medium</td>
<td>Medium</td>
<td>Significant</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Could happen frequently (once a week or more)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Likely</td>
<td>Low</td>
<td>Medium</td>
<td>Significant</td>
<td>Significant</td>
<td>High</td>
</tr>
<tr>
<td>Could happen often (on average once a month or more)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Possible</td>
<td>Low</td>
<td>Medium</td>
<td>Medium</td>
<td>Significant</td>
<td>High</td>
</tr>
<tr>
<td>Could happen occasionally (on average quarterly)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unlikely</td>
<td>Low</td>
<td>Low</td>
<td>Medium</td>
<td>Medium</td>
<td>Significant</td>
</tr>
<tr>
<td>Could happen but rare (typically once a year)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rare</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
<td>Medium</td>
<td>Medium</td>
</tr>
<tr>
<td>Remote possibility (once every 3 years or more)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## Appendix 3200.3 Operating Plans

### Audit Universe (1 of 2)

<table>
<thead>
<tr>
<th>MAJOR REPORTING CATEGORY</th>
<th>PROCESS OR ENTITY GROUPINGS</th>
<th>MAJOR PROCESSES AND COMMON ADMINISTRATIVE SERVICES</th>
</tr>
</thead>
<tbody>
<tr>
<td>TIER 1</td>
<td>TIER 2</td>
<td>TIER 3</td>
</tr>
<tr>
<td>Treasury</td>
<td>Treasury Ops</td>
<td>Investments</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Debt Management, Accounting, and Capital Budgeting (bond), Facilities (Subletting)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Bank and Cash Management</td>
</tr>
<tr>
<td>Compliance</td>
<td>Lab Administration</td>
<td>Field Projects EOL</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Aviation</td>
</tr>
<tr>
<td></td>
<td>Compliance Programs</td>
<td>Export in Labs and Programs</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Research Misconduct</td>
</tr>
<tr>
<td>Extramural Fund Management</td>
<td>Contracts and Grants</td>
<td>Pre-Award Proposal Process</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Sponsor Awards – NSF Cooperative Agreements</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Direct Award Management and Monitoring (includes PI Disclosure Statement)</td>
</tr>
<tr>
<td>Extramural Fund Accounting</td>
<td></td>
<td>Post Award (close out)</td>
</tr>
<tr>
<td>Cost Distribution</td>
<td></td>
<td>Extramural Fund Accounting (invoicing, A/R management, reimbursable receivables, cash management, cost transfers, etc.)</td>
</tr>
<tr>
<td>Budget/Planning</td>
<td>Budget and Planning</td>
<td>Financial Reporting – Compliance and Oversight</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Indirect Cost Rate/Overhead</td>
</tr>
<tr>
<td>Budget/Planning</td>
<td>UCAR Performance Measures</td>
<td>General Fund and STORM Funds (includes management fee)</td>
</tr>
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<td></td>
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## Appendix 3200.3 Operating Plans

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Monitoring and Reporting

Overview

.01 This section outlines the processes by which both the Strategic and Operating Plans and the standard reporting requirements for both reporting to management and the A&FC are monitored.

Strategic Plan

.02 The Internal Auditor has ultimate responsibility for monitoring the execution of the strategic plan. The Internal Audit Strategic Plan should be maintained on the Internal Audit website and is updated as needed. There are no set forms or intervals for reporting against the Strategic Plan.

Operating Plan

.03 The Internal Auditor demonstrates accountability for its resources as well as communicates its accomplishments through reports to the President’s Council and the A&FC.

In addition, information should be communicated about the Program (e.g., effort analysis, internal audit coverage by functional area, budget, training, quality assurance, etc.), changes in the control environment, developments in the internal audit profession, or to otherwise educate the A&FC or provide information requested by the committee.

The A&FC should be consulted annually to determine if additional reporting elements would assist in the oversight of the Internal Audit Program.

The reports may include the following details:

- Progress achieved against the Annual Audit Plan
- Significant operational developments
- Significant audit results

Time Reporting

.04 Standard Time Reporting Categories and Definitions - Standard time categories and definitions have been adopted.

*Standard Time Reporting Categories and Definitions are included as Appendix 3300.1.*
Appendix 3300.1 Operating Plans

Standard Time Categories and Definitions (page 1 of 2)

1. **Employees (.75 FTEs)** - The number of FTEs (Full-Time Equivalents) actually expected to be employed during the year to fulfill the audit plan being submitted should be used.

2. **Non-controllable Hours** - This category is for vacations, holidays, illness and all other non-controllable official absences (e.g. jury duty, furloughs, bereavement).

3. **Indirect Hours** - Indirect hours include Administration, Professional Development and Other. Administration, as used here, is basically for all time not captured anywhere else, including personnel management and attending management meetings. Professional development is for all time associated with training, including travel, but normally for programs that qualify for continuing education credit. Less formal types of training tend to be either related to audit planning or general understanding of UCAR policies and procedures or accounting and auditing matters, and should either be captured within the audit project or treated as administration. Other includes the time related to the BoT-A&FC.

4. **Direct Hours** - Direct Hours consists of the three lines of business—Audits, Advisory Services and Investigations.

5. **Regular Audits** - The bulk of audit resources should be devoted to plan audits identified as a result of the Audit Universe model and risk ranking process. For internal reporting purposes only, planned audits are further broken down into categories representing work against the current year audit plan.

6. **Ad hoc Audits** - This category is created to recognize the dynamic nature of our environment and to provide flexibility in the plan. Audits undertaken on a special request basis or because of interim amendments to the risk assessment results are supplemental audits. Audit work undertaken within the budget for Ad hoc Audits is at the discretion of the IA. The work being displaced may constitute an amendment of the audit plan that should be dealt with.

7. **Advisory Services** - Advisory Services is comprised of separate categories for Consultations, Special Projects, Systems Reengineering and Internal Control. Other assignments such as conflict of interest should also be considered Advisory Services. The distinction between consultations and special projects is a judgment of the IA. Advisory Services can be either planned or arise during the year. Projects should be classified by their nature, and care should be taken to appropriately distinguish between activities that are Audit Services from those that are Advisory Services. Efforts in support of internal control training and other accountability initiatives should be reported here.
Appendix 3300.1 Operating Plans

Standard Time Categories and Definitions (cont.)

8. Investigations - Time is unknown as investigations are a random occurrence at UCAR.

9. Audit Support Activities - Activities in support of the audit program are captured in this category. They are distinguishable from regular management activities in that they clearly relate to the program as a whole and are easily identified with the sub-captions that include:

   a. IT Support - This includes the development and maintenance of internal audit computer equipment and software

   b. Audit Planning - This support activity category is intended for annual planning efforts including the risk ranking process and revisions to those plans. It is not intended for planning time that should be charged to individual audits

   c. Quality Assurance - This support activity is intended primarily for the self-review program and other limited uses and should not be used for time related to specific audits such as the pre-issuance review of audit reports

   d. Internal Audit Website - Development and updates

   e. Internal Audit Operations Manual - Development and updates

   f. Performance Metrics – Developing and tracking

   g. A&F Committee – Materials, presentations, communications and attending Board of Trustees’ meetings

   h. Coordination with Compliance Functions – Ethics Officer, Business Process Reengineering and administrative functions

4000 PERSONNEL

Section Overview .01 This section of the manual describes personnel policies adopted by the Internal Audit Program. It includes sections on the roles and responsibilities, career development and counseling, training and professional development, skills assessment and resource analysis, and performance evaluations for the Internal Auditor.

Policy .01 The roles and responsibilities required to efficiently and effectively perform the UCAR internal audit function are clearly defined and communicated.
Roles and Responsibilities

Job Descriptions .03 The position description that outline the roles and key responsibilities for the Internal Auditor have been developed. The job description should reflect all of the activities and expectations for the position. It should also include the knowledge, skills and abilities required to perform the duties of the position.

The position description is on file with Human Resources.

Roles and Responsibilities .04 Key roles and responsibilities for the Internal Auditor are summarized below:

In carrying out this responsibility, the IA performs the following:

- Oversees the audit function which is both strategically and operationally important to the governance of the organization
- Provides strategic direction and formulates strategic long-term plans for Internal Audit
- Plans and conducts and reviews audit activities
- Develops UCAR Internal Audit policies, procedures and practices
- Manages communications with the A&FC and applies their direction to the program's development
- Oversees performance standards and works to continually improve audit productivity and technical skills
- Evaluates the effectiveness and contributes to the improvement of risk management processes throughout the organization
- Determines the effectiveness of existing compliance structures, processes, and policies for UCAR
- Establishes annual audit plans to review significant high-risk areas of organizational activities through the conduct of financial, operational, compliance, investigations, and advisory services projects
4100 Roles and Responsibilities

Roles and Responsibilities (cont’d) .04

• Promotes a culture of accountability and ethics through presentations and consultations

• Contributes to the improvement and enhancement of the internal audit function through participation in working groups and meetings

• Ensures that all professional activities comply with IIA Standards and UCAR Policy

Related Guidelines for Roles and Responsibilities .05

Career Development – The IA recognizes the importance of career development in order to continuously enhance knowledge, skills, and abilities and ensure that they are commensurate with the IA’s assigned roles and responsibilities.

Performance Evaluation – The IA’s performance is evaluated annually to assess how the IA’s knowledge, skills, and abilities compare to the responsibilities outlined in the position description.

Performance Evaluation Policies and Procedures can be found in Section 4400.

4200 Career Development

IA Career Development Policy .01

The Internal Audit Program requires that time be allocated to career development in order to continuously enhance the skills and abilities, guide the career paths, and cultivate the varied interests and abilities of the Internal Auditor.

Career Development .02

IIA Standard 1230 on Continuing Professional Development state, “Internal auditors must enhance their knowledge, skills, and other competencies through continuing professional development.”

The Internal Auditor is responsible for establishing a process for career development and outside networking with other audit professionals.

The Internal Auditor should participate in annual training and through the performance appraisal process establish goals for the ensuing year.
4200 Career Development

Career Development (cont’d)

.02 Goal setting - Specific achievable, measurable, attainable, realistic and timely goals should be established. The accomplishment should form a part of future performance evaluations (in addition to the handling of assignments and responsibilities during the year). An emphasis should be placed on development of skills necessary to achieve both individual career objectives and UCAR objectives.

Appropriate areas for the establishment of goals include, but are not limited to:

- Certification and training
- Enhancement of existing skills as well as acquisition or development of unique skills
- Types of future assignments as well as expected performance criteria for them
- Outside activities associated with UCAR or profession

Ultimate accomplishment of the goals is the responsibility of the Internal Auditor.

Performance Evaluation - Career development and networking activities are documented annually and communicated in May to A&FC and subsequently in the annual performance evaluation.

Career Advancement Goals

.03 Goal setting – The IA may establish goals for developing additional or enhanced skills necessary to adapt to changing environments and increase the IA’s contribution to UCAR. Through the enhancement of individual skills, professionals prepare themselves for advancement opportunities.

The following are suggested guidelines for setting career advancement goals:

- Goals should be aligned with both the individual’s aptitude and interests and the objectives of the internal audit program.
- Goal setting should occur in a participatory environment where the short and long term interests of both the individual and UCAR are considered.
4200 Career Development

Career Advancement Goals (cont’d) .03 The VP F&A should make it clear to the employee that, while enhancing one’s skill set increases one’s value to UCAR, it is not a guarantee of future promotion.

4300 Training and Professional Development

Professional Certifications .01 Auditors are encouraged to have at least one professional auditing related certification (e.g. CIA, CPA, CISA, CFE).

As an encouragement for audit professionals to obtain appropriate professional certifications, financial assistance is at the discretion of the VP F&A.

Participation in Professional Associations .02 Subject to resource constraints, the auditor is encouraged to participate in professional auditing associations that are appropriate - the American Institute of Certified Public Accountants (AICPA), the Institute of Internal Auditors (IIA), the Association of College & University Auditors (ACUA), the Association of Certified Fraud Examiners (ACFE), the Information Systems Audit and Control Association (ISACA), and any local chapters of the above organizations.

The IIA, ACUA and ISACA professional associations are considered the most closely connected with the general practice of UCAR’s internal auditing.

As an encouragement for audit professionals to become members of appropriate professional associations, UCAR may financially assist the IA by paying for association memberships; the time spent attending meetings and other costs directly associated with participation in the professional associations.

4400 Performance Evaluations

Performance Evaluation Policy .01 Performance evaluations are required for the IA to document performance and achievement of agreed upon goals. Performance evaluations serve several major functions:

Employee development - Through performance ratings and constructive comments, the evaluation assists employee in recognizing how their performance levels compare to the expectations of management and provides recommendations for
4400 Performance Evaluations

Performance Evaluation Policy (cont’d) .01 further training or actions for improvement.

Management decisions - The evaluation process uses consistent criteria to measure performance to provide input to salary and advancement decisions.

Professional standards - The evaluation is one of the components of the overall process of supervision, quality assurance, and development of the audit staff and demonstrates compliance with IIA and departmental standards.

Application of UCAR Performance Evaluations .02 Performance evaluations should be conducted annually by the VP F&A – consistent with UCAR’s annual performance evaluation process.

Supplementary Guidelines for Internal Audit Performance Evaluation .03 While applying the performance evaluation policy, the following supplementary guidelines may also be considered:

Continuous Feedback - Regular project update meetings may incorporate an element of evaluation in the form of performance feedback and guidance to create a continuous dialogue on the Internal Auditor’s strengths and weaknesses as observed by the VP F&A and VP F&A. These timely assessments materially affect the quality of the work done and the improvement of performance.

Ongoing Discussions - Covering strengths and weaknesses may be documented and used as support for or updates to annual evaluations. Customer and audit client feedback may also be sought and incorporated into the performance evaluations.

5000 LIAISONS

5100 Control Environment Collaboration

Overview .01 Internal Audit works in collaboration with the VP F&A, Human Resources Director, the ITC Co-Chairs, Ethics Officer, GC and UCAR F&A and NCAR & UCP Administrators in order to strengthen UCAR's control environment.
5100  Control Environment Collaboration

**Background** .02  Management is responsible for controls. Management is responsible for all UCAR Policy and Procedures. In the Spring of 2012 a cross-functional organization-wide Enterprise Risk Management (ERM) and business continuity coordinator was hired. In 2013 the individual left, and in 2014 ERM was assigned to a staff member in OGC.

**Control Environment & Responsibilities** .03  All employees share responsibility for ensuring an effective and efficient control environment. However, certain groups of employees are charged with more specific and interrelated responsibilities with respect to the control environment.

**Internal Audit** - Assists management in their oversight and operating responsibilities through independent audits; advisory services; and consultations designed to monitor, evaluate and improve the effectiveness of risk management, control, and governance systems and processes.

**Scientific and Administrative Management** - Responsible for developing, implementing and maintaining controls to mitigate risks and achieve objectives.

**VP F&A, Director of Budget and Finance and Administrators** - Have primary responsibility for providing leadership to ensure effective internal control and accountability practices are in place. This position also coordinates all external audit requests.

**Scientists and Staff** – Responsible for ensuring that operations are conducted consistent with UCAR values, policies, procedures and contractual and regulatory requirements.

**Ethics Officer** – Provides direction, guidance and resource references to each UCAR entity on how to optimize ethical and compliant behavior through an Ethics website and training.

**Risk Management (RM)** – Works in collaboration with UCAR management and staff to identify and manage risks associated with their activities. RM strategically manages risk to reduce the chances of loss, create greater financial stability, and protect UCAR resources.
5100 Control Environment Collaboration

Inter-relationship Between Internal Audit and Other Controls-Focused Departments

04 The Internal Auditor helps the VP F&A, the Ethics Officer, the Human Resources Director, all F&A Directors and NCAR & UCP Administrators, and the ITC Co-Chairs identify the root cause of challenges that may deter achievement of UCAR objectives. All of these controls-focused departments have a natural interest in promoting sound controls through such activities as training, development of appropriate policies and procedures, identification of risks and utilization of risk mitigation techniques. These activities are carried out jointly and separately as needed, and should be viewed as mutual interests rather than conflicting responsibilities.

In addition to evaluating controls through traditional audit activities, the Internal Auditor also provides advice and consultation on the design, implementation and monitoring of controls. **However, responsibility for the controls remains with management.**

The Internal Audit should gain an understanding of all UCAR control initiative activities as part of understanding the control environment and in connection with the annual risk assessment. Jointly the Internal Audit and other controls-focused departments have an opportunity to assist departments in the assessment and mitigation of organizational risks.

The Internal Audit should maintain communication with compliance functions to share information on compliance risks, related projects and other mitigation efforts to ensure that the UCAR departments are leveraging each other’s work, where possible, avoiding duplication of efforts, and using risk information collected by each department to assist in developing annual audit plans.

The VP F&A and NCAR & UCP Administration lead management’s efforts to design, implement and monitor internal controls while auditors evaluate the effectiveness of the controls’ design and function.

Risk Management, ERM Senior Manager, and the Internal Auditor are risk-based functions focused on assisting management mitigate risk and protect UCAR resources. In fulfilling their duties, the Internal Auditor, Risk Management and ERM Senior Manager all gather and maintain a significant amount of risk and control information. This information should be shared
5100 Control Environment Collaboration

Inter-relationship Between Internal Audit and Other Controls-Focused Departments (cont’d)

.04 between functions to improve the effectiveness and reduce duplication of effort.

The Internal Auditor plays an important role in the ERM effort, which is coordinated by the ERM Senior Manager. Primarily, the Internal Auditor serves as an evaluator of ERM efforts by assessing the effectiveness of ERM efforts at the UCAR, NCAR, UCP, laboratory or program or department level. Additionally, the Internal Auditor can assist in educating departments on ERM, facilitating risk assessments, coordinating ERM activities, and collecting, analyzing and reporting risk exposures and audit results on an aggregate enterprise-wide basis.

ERM roles Internal Audit should not undertake:

• Setting the risk appetite
• Decision making on risk responses
• Implementing risk responses on management’s behalf
• Accountability for risk management
• Imposing the risk management processes
• Management assurance on risks

5200 Office of the General Counsel

Overview

The Internal Auditor works in liaison with the Office of the General Counsel (OGC) on a number of matters, including sensitive investigation matters. These or other matters may lead to a request to perform internal audit services for the General Counsel on a privileged basis. This section provides guidance on working with the OGC.

Note: The guidance in this section does not purport to represent a legal determination regarding when an Internal Auditor’s work may be determined to fall under a privilege but intends only to guide internal auditors on certain procedural requirements when performing services for the OGC.
Background .02 Communications between Internal Auditors and attorneys from the OGC, in which legal advice is being sought or given, are covered by attorney-client privilege. Additionally, certain internal audit services that are undertaken under the direction and control of OGC attorneys are privileged communications under the work-product privilege.

Internal Audit Guidance .03 In general, it may be appropriate for Internal Auditors to undertake work for the OGC so long as their professional obligations, including required communications, are not compromised.

There are three principal professional obligations to consider:

1) The Internal Auditor’s independence must not be compromised by agreeing to perform work “at the direction of counsel.” The Internal Auditor must retain the ability to exercise professional judgment as to the necessary scope and nature of procedures to be carried out.

2) The Internal Auditor’s obligation to report in a fair and unbiased manner must not be compromised. This does not preclude sharing report drafts with attorneys, but the auditor must retain the freedom to report facts that are both favorable and unfavorable to the UCAR’s interests, and without undue influence.

3) The Internal Auditor’s obligation to communicate with Senior Management and the BoT (through the Chair of the A&FC) must not be compromised. The Internal Auditor must retain the ability to report fraud and other irregularities to management and the BoT. As a practical matter, the OGC frequently handles such communications in the normal course of UCAR’s management of the matter. The Internal Auditor’s responsibility is met by ensuring that the communication occurs—the Internal Auditor does not have to communicate directly with management or the BoT.

Scope and Procedures .04 Counsel needs to approve the audit program and direct the Internal Auditor to perform the work according to the approved program. Any changes to the scope of the approved program should be discussed with and approved by the Internal Auditor.
Scope and Procedures (cont’d) .04
and Counsel before any additional work is undertaken. Counsel may opt to participate in some of the fieldwork interviews or may conduct some of the work themselves.

Required Communications .05
It is expected that work will be undertaken for the General Counsel only in rare circumstances and as a result of special considerations. A “scope of work,” which clearly outlines the work to be undertaken by the Internal Auditor at the direction of Counsel, should be prepared for each such arrangement and agreed to by the Internal Auditor and the General Counsel.

Communications concerning attorney-client and work-product privileged audits are considered to be conducted at the request of Counsel and are privileged. Counsel will participate in regular communications (either in person or on conference calls) concerning status of the audit and strategies for moving forward. No parties other than those designated by Counsel may be part of such communications.

Organization-wide Reviews .06
If an attorney-client or work-product privileged audit is being conducted organization-wide that is in multiple locations, communications will typically occur through conference calls. The call will clearly communicate that what is being discussed is under attorney-client or work-product privilege.

Email Communication .07
Care should be exercised in the use of informal communications, such as e-mail. All communications regarding attorney-client and work-product privileged audits should be marked as attorney-client or work-product privileged. Correspondence and substantive e-mail related to the audit should be formally incorporated into the work papers as directed by Counsel.

To ensure that privileged email is appropriately disclaimed, the subject line in a privileged email communication should include a reference to attorney-client or work-product privilege.

Draft Audit Reports
Particular attention should be paid to the handling and distribution of draft audit reports. In contrast with normal procedures, draft reports should be reviewed by the Internal Auditor and Counsel before any outcomes are discussed with administration, lab or program management outside of the Internal Audit. Draft reports should be shared with only those directed by Counsel (only those on a “need to know” basis) and should be carefully guarded. Distribution of any materials should be clearly defined as
Office of the General Counsel

5200

Draft Audit Reports (cont’d)  .08 attorney-client or work-product privileged and should be collected after distribution as directed by OGC. Draft reports should contain a “DRAFT” marking to clearly identify them as such.

Documentation related to Internal Audit Services performed at the request of the Office of the General Counsel  .09 Work papers generated for audits and investigations performed at the request and direction of OGC may be privileged and thus protected from disclosure. Work papers may include the following: documents created specifically by the auditor to document fieldwork, documents reflecting auditor judgments and evaluations, and documents obtained from UCAR personnel. Such work papers should be marked “In Strict Confidence – Attorney/Client Privilege and Work Product.”

The auditor should use discretion in determining what documents or portions of documents to include in the work papers. Only those documents or portions of documents that are relevant to the audit work being performed and the judgments or evaluations being made should be included in the work papers. (For example, if only a few pages of a multi-page document are relevant to the work or the conclusions drawn, only those few pages that directly relate to the work or conclusions should be included in the work papers.)

Whether action plans developed in response to the audit will be considered protected will be determined in consultation with the attorneys.

After completion of the audit (final report submitted to Counsel), assuming all relevant documents have been scanned into the work papers, the auditor’s notes, hard copies of UCAR reports and any other documents collected in connection with the audit but not included in the work papers should be destroyed/shredded. Any permanent file or hard copy versions of the report or portions of the work papers should be double-checked for appropriate labeling and separately stored. Work paper retention periods are not affected by the attorney/client nature of the audit. The auditor, in collaboration with counsel, should determine whether a ruling or a specific statute may require longer retention period.

Reporting  .10 All communications to the BoT about the audit and the results obtained will occur through General Counsel.
5200  Office of the General Counsel

Reporting (cont’d)  .10  As previously noted, action plans developed in response to the audit may be considered protected.

All action plans will be subject to follow-up practices. Normal or special reporting of follow-up on action plans will be determined in consultation with General Counsel.

5300  Audits by External Agencies

Overview  .01  The Director of Budget and Finance is responsible for oversight of external audit activities, including external investigations.

Responsibilities  .02  An external audit coordinator should act as a liaison for external audit activities. This may include, but is not limited to, coordination and review of client responses; assistance in resolving questions and issues; coordination of interdepartmental meetings; tracking, documenting and reporting outside audit activities to management and relevant governance committees; and follow-up on agreed to corrective actions.

When serving as the designated external audit coordinator, duties typically include:

- Arranging for appropriate workspace and facilities for the external auditors

- Arranging a formal entrance conference for all appropriate UCAR representatives to clarify the scope of the audit, expected audit procedures, and necessary records and information

- Serving as a central point of contact to direct the external auditor’s requests to the appropriate UCAR personnel and coordinating responses

- Attending significant interim meetings concerning the status of the audit

- Resolving questions and providing guidance
- Informing management if serious issues arise that requires immediate attention
5300 Audits by External Agencies

Responsibilities (cont’d) .02

- Arranging an exit-conference at the close of fieldwork to discuss findings and recommendations
- Distributing copies of the draft audit report to the appropriate contacts for written management responses
- Performing follow-up on significant external audit findings and recommendations

5400 Law Enforcement Agencies

Overview .01 Investigation activities may give rise to interactions with law enforcement agencies. This section provides policy and guidance for these circumstances.

IA Policy .02 Whenever, in the course of an investigation, it appears a crime may have been committed, consistent with all UCAR policies and related laws and regulations, UCAR shall report the information to appropriate law enforcement and/or other federal officials. The Office of General Counsel (OGC) is normally the conduit for communications with law enforcement agencies.

Internal Audit Guidance .03 The IA may wish to consult with the OGC for aid in making such a determination.

In investigations involving law enforcement agencies, Internal Audit should normally appoint a person to act as liaison with the law enforcement agency. If the liaison person is other than the IA, a determination should be made as to the extent to which the person is authorized to speak for the department, and under what circumstances the IA should be involved.

Internal Audit should normally provide support and assistance to the extent requested by law enforcement agencies. However, there may be circumstances where the nature of the support or assistance raises questions about the appropriateness of the activity. Consultation with the OGC should be sought in those circumstances. In addition, there may be circumstances where it is not the best utilization of UCAR resources for the Internal Auditor to provide support.
5400  Law Enforcement Agencies

Internal Audit Guidance (cont’d) .03  Law enforcement officials may instruct the Internal Auditor to hold confidential information about the investigation matter being jointly addressed. Such instructions do not override the auditor’s obligation to communicate, when appropriate, with senior management, OGC or the Chair of the A&FC.

6000  AUDIT SERVICES

Section Overview .01  This section of the manual outlines the entire internal audit process from the resource assignment through reporting and follow-up.

Flowcharts of the general audit operating process and the internal audit project process are included on the following pages to give an overview of these processes. (Appendix 6000.1 and 6000.2)
Appendix 6000.1 – Flowchart of General Audit Operating Process

General Audit Operating Practice

Perform annual risk assessment of audit issues and areas

Obtain risk assessment guidance

Interviews with management and perform analytic reviews

Risk assessment results used to generate Audit Plan

Develop Audit Plan with emphasis on addressing high risk areas

Create preliminary Audit Plan

Review Audit Plan with VP for F&A and email to chair of A&FC

Risk assessment results are shared with President & VP F&A

Develop audit topics based on risk assessment

Present annual risk assessment & Audit Plan to the A&FC for approval

Annual Audit Plan includes audit coverage analysis and discussion

Approved Audit Plan is posted on IA website

Schedule and perform audit work

Follow Internal Audit Project Process and report results

IA prepares and presents audit plan status highlights significant deficiencies and or risks identified in the audit process

Report Audit Results to the A&FC

Feb & May

Summarize Information in Annual Update of the IA Activity

Feedback and direction is obtained when appropriate

Auditing Project Process

Appendix 6000.1 – Flowchart of General Audit Operating Process
Appendix 6000.2 Flowchart of Audit Project Process

Appendix 6000.2 – Flowchart of Internal Audit Project Process

- **Audit Planning**
  - Audit notification to client
  - Entrance Meeting held
  - Risk Assessment and preliminary audit survey
  - Audit Program Developed

- **IA focuses on projects in RBIA Plan**

- **IA prioritizes projects**

- **IA follows UCAR Audit Manual and Professional Standards**

- **Start Project**

- **Perform Fieldwork**
  - IA examines & evaluates business activity in accordance with audit program
  - Interview notes, testing results and conclusions documented
  - Review Results with audit client
  - IA reviews workpapers

- **Audit Results are communicated to client**
  - Draft report issued to client to assure factual accuracy
  - Formal exit meeting held discuss results
  - IA obtains management's corrective action plan from client

- **Audit Report distributed**
  - Follow-up on corrective actions
  - Update Audit plan status and results
  - IA report plan activity and significant issues to A&FC
  - Distribute client satisfaction survey

- **General Audit Operating Process**

- **Follow-up**
  - Summarize audit plan results and Updates to A&FC
6100 Planning an Audit

IA Policy .01 The Internal Auditor develops and documents a plan for every audit prior to the commencement of audit fieldwork that includes the project objectives, scope, timing, and resource allocations.

This section provides information on planning policies and procedures related to individual audits.

Information on planning policies and procedures related to the Annual Audit Plan can be found in Section 3200.

Planning .02 Adequate audit planning requires that the IA define an appropriate preliminary audit scope that considers relevant systems, records, personnel, and the resources needed for the audit.

In planning the project, the IA should consider:

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

Communication with the Client .03 Notification – The IA should notify the parties responsible for an area to be audited that an audit is scheduled. Notification should generally be sent via written memo by email to the audit client with copies to senior officials as appropriate.

Preliminary Scope and Objectives - The audit timing and preliminary objectives should generally be communicated to the client in writing in advance of the beginning of fieldwork. This information may be included in entrance meeting materials or other documents sent to the client.
Communication with the Client (cont’d) .03 Client Input To Audit Project – Typically an entrance conference should be conducted with the client in order to discuss the preliminary scope and objectives and to obtain management input as to what risks the audit should focus on. If an entrance conference is not held, communication should occur with the client about the preliminary project scope and objectives and to obtain feedback on risks to be covered in the audit. If an entrance conference is held, the following individuals should be invited and encouraged to attend the meeting:

- Directors and department heads responsible for the area being audited
- Applicable senior management, for all high-risk audits

Audit Plan and Program Development .04 Preliminary Survey - The IA should obtain and review the following types of background information about the area being audited (as applicable to audit scope):

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

The IA has established a protocol for documenting and summarizing the preliminary survey.

Risk Assessment - As part of the preliminary survey, the auditor should review systems and processes to identify key controls. The auditor generally uses various tools and techniques, which may
6100  Planning an Audit

Audit Plan and Program Development (cont’d)

include flowcharts, questionnaires, and interviews or other inquiries, in order to identify key controls and gain an understanding of the related audit risk.

The risk assessment further defines the objectives of the audit. The IA must understand management’s assessment of risk in their area and management’s monitoring and reporting of risks.

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

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

Resource Allocation – Based on the nature of the audit, the IA should evaluate the budget allocated in the annual audit plan to achieve the objectives of the audit.

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

Audit Program - The Audit Program must be prepared in advance of fieldwork and outlines:

- Objectives of the audit
- Scope, sampling methodology and degree of testing required to achieve the audit objectives in each phase of the audit
- Procedures for identifying, analyzing, evaluating and documenting information during the audit
- Technical aspects, risks, processes and transactions which should be examined
Planning an Audit

Audit Plan and Program Development (cont’d) .04 The IA generally creates the audit program at the end of the preliminary survey. If, in the course of the audit, there are significant adjustments to the program, these changes by the IA will be discussed with the client and the VP F&A prior to beginning the related fieldwork. Significant changes to the audit budget should be formally agreed to by the VP F&A as early in the audit timeline as possible. If there is an extraordinary change, the Chair of the A&FC should be informed.

Documentation .05 Documentation to evidence the planning procedures must include the following:

- Description of initial notification to the audit client such as a copy of engagement or notification letter sent via email
- Preliminary survey summary memo or risk matrix, which includes the auditor’s assessment of risk, documented by the IA
- Audit program, documented by the IA.

Supplementary Guidelines for Audit Planning .06 While applying the planning policy, the auditor may also consider the following supplementary guidelines:

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

Shared Resources - Sharing mechanisms, such as internal networks drives and spreadsheets may be utilized in order to enhance efficient planning and execution of audits.
Appendix 6100.1   Planning an Audit   Engagement Letter

Sample

Audit Engagement Letter

Date:  
To:  
Subject:  

I will be conducting a planned internal audit of the ------Award/Program/Department. The purpose of this audit will be to perform a general review of the program to assess business risk and internal controls, within the context of ----------- -------.

I will be contacting you soon to schedule a formal entrance conference, at which time I will further define the objectives and scope of this review. Please invite other members of your staff that you feel should be included in this discussion. I would appreciate your providing the following information at the entrance conference or earlier:

• Current Organizational Chart
• Department Mission Statement, Goals, and Objectives, if applicable
• Department-specific policies and procedures, if applicable
• Any other department information you feel would be helpful.

Please contact me if you have any questions prior to our meeting.

Regards,

Internal Auditor
6200 Conducting an Audit

Internal Audit Policy .01 The Internal Auditor must identify sufficient, reliable, relevant and useful information to achieve the audit’s objectives. The Internal Auditor must document relevant information to support the audit conclusions reached. The Internal Auditor will ensure workpaper documentation is properly filed when an audit is completed.

When there is a guest auditor: Engagements must be properly supervised to ensure objectives are achieved, quality is assured, and the guest auditor is trained. The extent of supervision required will depend on the proficiency and experience of the guest auditor and the complexity of the engagement. Every audit is properly supervised to ensure that audit staff are adequately guided and have the requisite knowledge and skills to meet the audit objectives as well as to minimize audit risk.

Application of IA Policy for Conducting an Audit .02 Conducting an audit involves identifying, analyzing, evaluating and documenting the information pertinent to the area under audit in order to support the audit results.

Guidance on the IIA Performance Standards (2000-2600) that address criteria against which performance of internal audit is evaluated can be found at: http://www2.fin.ucar.edu/sites/default/files/IPPF_Standards_2013.pdf (page 9-17)

Guidance on the IIA Standards that address the characteristics of organizations and parties performing an internal audit, including Due Professional Care Standard 1220, can be found on page 6.

Supervision of a guest auditor .03 Communication - The IA will generally communicate the goals and objectives, risks and other relevant information to the guest auditor in order to provide the guidance and understanding necessary to conduct a high quality audit. The IA and guest auditor should maintain communication as needed throughout the audit to ensure that risks, results/findings and errors are adequately addressed and resolved.

Workpaper Documentation .04 Purpose - The workpapers document the work the auditor has done. The workpapers serve as the connecting link between the audit assignment, the auditor's fieldwork and the final report. Workpapers contain the records of planning and preliminary surveys, the audit program, audit procedures, fieldwork and other
6200 Conducting an Audit

Workpaper Documentation (cont’d) .04 documents relating to the audit. Most importantly, the workpapers document the IA's conclusions, the reasons those conclusions were reached, and whether the objectives were achieved.

Work papers are also generally one element evaluated as part of UCAR IA’s QAIP, which can be found in Section 9000.

Contents – Workpapers should include the Audit Program along with documentation supporting results/findings, testing, interviews and other analyses. All changes to the scope or Audit Program should be documented and approved by the VP F&A. Findings and recommendations should be cross-referenced to the Audit Report or to their final disposition. Workpapers that are created and later determined to be unnecessary should be deleted and shredded.

Workpaper Review .05 Format - Audit workpapers are to be documented as the audit is occurring in Excel, Word or scanned and saved in the appropriate electronic file folder.

Workpapers should be electronically signed off and dated. The Internal Auditor carries out all internal audit program activities and thus is responsible for all aspects of the process including:

- All workpapers are reviewed to ensure that there is sufficient evidence to support conclusions
- All audit objectives have been met.

At UCAR this is done with the client to ensure that the workpapers support the audit conclusions. The Internal Auditor reviews to ensure that workpapers appear to be accurate, objective, clear, concise, constructive and timely.

The Internal Auditor must also review and approve all changes to the scope of the audit and to the Audit Program and, when a significant change occurs, must communicate this to the VP F&A and the Chair of the A&F C.

Timing and extent of review - The level of review and communication during the audit depends on the risk associated with the audited area and the significance of the findings.
6300 Reporting Results

IA Policy .01 Internal Audit maintains a formal process for communicating to UCAR management and the A&FC the results and recommendations for all audits conducted. The IA is responsible for communication of final audit results to parties who can ensure that the audit results are given due consideration.

Application of UCAR Policy for Reporting Results .02 An Audit Report is issued upon the completion of each project. Reporting of audit results and recommendations assists all levels of UCAR management and the A&FC in the effective discharge of their responsibilities. The process for reporting results includes draft report preparation and reviews, self-quality assurance reviews and final audit report issuance and distribution.

All audit reports must contain the objectives, scope, conclusions, and any recommendations and/or action plans developed and agreed to by management, as well as positive elements, such as establishment of well controlled operations.

Report Elements .03 Audit reports can be written in narrative or columnar form and should generally include the following elements:

- Issued by the IA
- May have an Executive Summary (no more than one page)
- Purpose of the audit, including origin or source of the audit, as appropriate
- Objectives
- Scope of the audit, including
  - Time period covered
  - Functions or processes reviewed, such as payroll, procurement, travel, cash handling, information technology, etc.
  - Audit techniques used, such as method of sample selection, interviewing, reviewing records, testing transactions, analytical auditing procedures, etc.
  - Background information related to the audited entity or activity
6300 Reporting Results

Report Elements (cont’d) .03

- Audit results, including results/findings, conclusions or opinions reached, and/or recommendations for improvement as well as positive elements
- Management response or management action plan
- Schedules and attachments as appropriate to support or provide additional detail to audit findings and conclusions

Draft audit reports should be clearly labeled as a draft and include Confidential, Do Not Disseminate.

The Internal Auditor obtains agreement with the engagement client about the conclusions and action plans of the audit. In the event of a significant disagreement, the communications state both positions and the reasons for the disagreement.

Any reference to potential non-compliance with laws, rules or regulations should be done in consultation with legal counsel. Certain information, such as that which is privileged, proprietary or related to illegal acts, may be inappropriate for inclusion in the Audit Report. Disclosure of this type of information should be documented in a separate report and distributed on a need-to-know basis as determined by legal counsel. See Section 5200.8.

Report Timeliness .04

Reports should be issued as soon as practical following the completion of the audit work. The IA should establish processes for ensuring the timely issuance of audit reports.

- Reports should be reviewed in draft form with responsible operating management on a timely basis following completion of audit work
- A management response should be requested within a prescribed time frame in order to ensure timely issuance of the final report
- The Audit Report may be issued without the response in the event of undue management delays in responding with a statement by the auditor as to the status of the response (i.e. pending date, unknown, etc.)
6300 Reporting Results

Audit Report Quality Assurance

.05 The IA should perform a pre-issuance quality assurance review (QAR) and approval of the final audit reports.

Report Distribution

.06 Draft audit reports - Report copies should be distributed to:

- Management personnel directly responsible for the audited activity or activities to ensure factual accuracy of draft report content

- Higher level management where necessary to obtain authorized commitment to recommended actions or to inform management in a timely manner of a sensitive issue

- Clearly labeled as Confidential, Do Not Disseminate

Final audit reports - Report copies should be distributed to:

- The director, manager or department head directly responsible for the audited activity

- Management personnel in the chain of command above the report addressee, as deemed appropriate

- President’s Council and others deemed appropriate

- Refer to Section 5200.8 regarding distribution of audits conducted under attorney client privilege

- Audit and Finance Committee electronic meeting materials

Reports are distributed by electronic means, as email attachments.

In the event of an error or omission in the final report, the IA must communicate the corrected information to all parties who received the original communication.

Reports may include that audits are “conducted in conformance with the International Standards for the Professional Practice of Internal Auditing” only if the results of the quality assurance program support that statement. **Beginning in FY13 the IA does not conform because an External QAR has not been conducted due to the cost benefit to UCAR.**
Per IIA Standard 1322, Disclosure of Nonconformance, when nonconformance with the Definition of Internal Auditing, the Code of Ethics, or the International Standards impacts the audit, the Audit Report must disclose nonconformance and the impact to UCAR senior management and the chair of the A&FC.

Appendix 6300.1 Reporting Results

UCAR AUDIT REPORT
PRE-ISSUANCE
QUALITY ASSURANCE CHECKLIST

REPORT ELEMENTS

<table>
<thead>
<tr>
<th>Draft</th>
<th>Final</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. The Audit Report includes:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Transmittal email with final Audit Report sent via email</td>
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<td></td>
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<tr>
<td>• Report summary (one page Executive Summary preferred)</td>
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<td></td>
</tr>
<tr>
<td>• Purpose of the audit, including the origin/source, as appropriate*</td>
<td></td>
<td></td>
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<tr>
<td>• Objectives*</td>
<td></td>
<td></td>
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<tr>
<td>• Scope of the audit, including time period covered, functions or processes reviewed, and audit techniques used, as appropriate*</td>
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<tr>
<td>• Background information describing the audited organization or activity*</td>
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<tr>
<td>• Audit results</td>
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<td></td>
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<tr>
<td>– Audit results/findings</td>
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<td></td>
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<tr>
<td>– Audit conclusions (opinions)</td>
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<tr>
<td>– Audit recommendations (or its equivalent)</td>
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<td></td>
</tr>
<tr>
<td>• Management’s response or management’s action plan or statement as to status</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Schedules and attachments, as appropriate, to support or provide additional detail for report content</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Report is clearly labeled as a draft and includes Confidential, Do Not Disseminate</td>
<td></td>
<td></td>
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</tbody>
</table>

* Unless already included in executive summary
### 6400 Audit Follow-up

<table>
<thead>
<tr>
<th>Policy</th>
<th>01</th>
<th>Internal Audit maintains an audit follow-up process to monitor the disposition of results communicated to management.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Application of UCAR Policy for Audit Follow-Up</td>
<td>02</td>
<td>The audit follow-up process assists management in monitoring and overseeing potential risk exposures identified in the audits. The process involves assessing the adequacy and effectiveness of actions taken by management to resolve and/or minimize the risk area identified and documenting and communicating outstanding follow-up issues to higher levels of management, when appropriate.</td>
</tr>
<tr>
<td>Follow-Up Procedures</td>
<td>03</td>
<td>A process to track and manage audit recommendations and the corresponding management corrective actions (MCA). The MCA information captured includes the responsible manager, the date the MCA will be completed, and other information. The auditor should follow-up on MCAs on a timely basis. Follow-ups require that the auditor use his or her professional judgment to:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Ascertain the implementation status of each corrective action item and evaluate the adequacy, progress, and timeliness of actions taken, based on the MCA implementation date agreed to by management.</td>
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<td></td>
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<td>• For each item, decide whether or not there is a need for additional testing and/or follow-up.</td>
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<td></td>
<td>• The Internal Auditor electronically documents the results of the follow-up and recommends review and/or closure of individual items.</td>
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<td></td>
<td></td>
<td>The Internal Auditor determines if the risk identified was resolved or if management has assumed the risk of not taking action. Where recommendations are provided, management has the option to consider other actions as long as the risk is resolved and/or managed to an acceptable level.</td>
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<tr>
<td></td>
<td></td>
<td>The Internal Auditor should notify the President’s Council and/or the A&amp;FC of any unsatisfactory or overdue responses or actions and high-risk open items.</td>
</tr>
</tbody>
</table>
## Other Audit Matters

<table>
<thead>
<tr>
<th>IA Policy</th>
<th>6500</th>
<th>The Internal Auditor maintains policies for managing administrative and other matters related to the audit process in order to facilitate the continuing effective and efficient operation of its function.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Application of UCAR Policy for Other Audit Matters</td>
<td>6500</td>
<td>Policies for the following other audit matters are described in this section: Project management and reporting, record retention, dispute resolution, scope limitations, client satisfaction surveys and access to audit information.</td>
</tr>
<tr>
<td>Project Management and Reporting</td>
<td>6500</td>
<td>An Excel spreadsheet is used to track the project management and reporting. It captures the following information for each project at a minimum:</td>
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<tr>
<td></td>
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<td>• Beginning FY14, project number and name</td>
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<td></td>
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<td>• Type of project (audit, advisory service, investigation)</td>
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<td></td>
<td></td>
<td>• Line of business (UCAR, UCAR F&amp;A, NCAR, UCP)</td>
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<tr>
<td></td>
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<td>• Hours budgeted</td>
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<td>Time is recorded on an Excel spreadsheet by pay period to capture the following information:</td>
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<tr>
<td></td>
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<td>• Actual hours expended for each project</td>
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<td></td>
<td></td>
<td>• Hours expended for training, QAIP, administrative work and non-working events such as vacation</td>
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<td>The electronic working papers capture the following information:</td>
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<td></td>
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<td>• Date fieldwork is completed</td>
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<td>• Draft report issuance date</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Final report issuance date</td>
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<td></td>
<td>The Internal Auditor should meet with the UCAR President, VP F&amp;A, and OGC on a periodic basis. The IA should use these meetings to communicate current and material risk issues identified by audit projects and impending high profile projects and investigations.</td>
</tr>
</tbody>
</table>
Project Management and Reporting (cont’d)  .03 Annually in May the IA provides the A&FC with hours expended on audits, advisory activities, audit support, administration, professional development, PTO and holidays.

Record Retention  .04 Audit work products are the property of UCAR. The Internal Auditor maintains custody of all audit work products, which are subject to the retention requirements set forth below.

Audit work products – Audit work products include reports and workpapers for all audit, investigation, and advisory service projects. Since April 2012 they are in electronic form. Prior to April 2012 they are in hardcopy form.

Administrative records - Administrative records consist of reports, documents, analyses, and other materials generated to support the department’s functions. Administrative records include:

- IA update reports
- Client Satisfaction Surveys and summarized results
- Support for audit plans completion and actual hours
- Training records
- Self-performance reviews

Audit work products should be retained by the IA as follows:

- One electronic copy of the final report – permanently
- Workpapers - Seven years after the close of the NSF Cooperative Agreement, unless otherwise directed by legal counsel due to applicable statutes, etc.
- Administrative records that support IA professional program, – Seven years
- Other administrative records – no longer than seven years
6500 Other Audit Matters

Record Destruction .05 All other notes, documents and reports relating to a completed audit that are not included in the workpapers (i.e., retained in the auditor’s desk files) should be destroyed after the final report has been issued. All versions of the draft audit report should also be destroyed after the final report has been issued.

Privileged Records - Audit work products and administrative records that are covered by attorney-client privilege or related to a lawsuit or other legal action are not to be destroyed until the lawsuit or other legal action has been closed or the seven years after the close of the NSF Cooperative Agreement workpaper retention period has been reached, whichever is later.

Disposition Process - Audit work products and administrative records will be destroyed by December 31 of the year in which the records have reached the end of their retention period.

The Internal Auditor will be responsible for reviewing the inventory listing of records scheduled for destruction to ensure that there is no reason that their retention period should be extended, i.e. legal action.

Audit work products and administrative records should be destroyed in a manner that gives appropriate consideration to the privacy laws pertaining to the type of information being destroyed which prevent the unauthorized release of proprietary or confidential information.

E-Discovery .06 E-Discovery Compliance - If a lawsuit is filed against the organization in federal or state court, or a lawsuit is reasonably anticipated, the Internal Auditor must preserve information, including electronically stored information (“ESI”), relevant to the claims or defenses in the suit (or anticipated suit). The duty to preserve information extends on a going forward basis to any information in the possession or control of any UCAR employee that relates to the lawsuit or anticipated lawsuit.

Compliance with e-discovery rules requires UCAR: (1) determine when litigation is anticipated; (2) issue record hold notices; and (3) preserve relevant records, including ESI until the case is resolved or the statute of limitations or other records retention periods expire.
6500 Other Audit Matters

E-Discovery (cont’d) .06 The e-discovery process requires a partnership between the Office of General Counsel, Risk Management, IT and the IA. UCAR’s Office of General Counsel provides record-hold notices intended to comply with record retention requirements, pending any anticipated or actual litigation.

Depending on the nature of the actual or anticipated litigation, UCAR’s Office of General Counsel and/or outside counsel will manage the e-discovery process, including review and production of relevant ESI.

Dispute Resolution .07 Disputes Between the Audit Client & IA - Disputes that may arise between the IA and audit clients can generally be categorized into those regarding the factual accuracy of reported findings, and those dealing with the appropriateness of conclusions or recommendations (the "fairness" of the Audit Report in total or specific matters). Such disputes are separate from scope limitations imposed by audit clients. Every effort shall be made to resolve all questions of factual accuracy before the final Audit Report is issued.

Conclusions and recommendations represent the professional judgment of the IA and cannot be overridden or unduly influenced by audit clients. The judgment of the IA is the prevailing position. Therefore, audit clients do not have the authority to "appeal" an audit report to higher management. The written response to the audit report is the recourse and appropriate vehicle for audit clients to communicate their views. Written responses need to be succinct and clear.

However, in exercising their professional judgment, the IAs should aggressively seek compromise and consensus views that communicate issues clearly and completely and deal with identified audit issues effectively.

Scope Limitations .08 Definition - Scope limitations include situations in which a client is uncooperative, attempts to limit the scope of planned work or denies access to records, personnel, assets or other information necessary to complete the audit.

The Charter provides the Internal Auditor unrestricted access to all assets, information, reports, records, and personnel required to perform their work.
6500 Other Audit Matters

Scope Limitations (cont’d) .08 Resolution Process - The auditor should bring all matters involving scope limitations to the attention of the UCAR VP F&A, or the Chair of the A&FC and request assistance in resolution. All scope limitation discussions should be documented in the audit workpapers.

Audit Report - In the event a scope limitation significantly impacts the planned scope of the audit and is not resolved to the satisfaction of Internal Audit, the Audit Report should state that the audit team was unable to perform the planned tests.

Client Satisfaction Surveys .09 The Internal Auditor should measure and monitor the satisfaction level of their clients in order to continuously maintain and improve the quality of services provided.

Transactional Survey - This type of survey should be used to elicit the client’s perception of the service rendered and identify opportunities for improvement in those instances where a report is issued.

The electronic Client Satisfaction Survey is included as Appendix 6500.1. A standard rating scale has been implemented in order to facilitate the measuring of results.

Transactional surveys should be sent to the addressee of the Audit Report and other audit participants, as considered appropriate, generally within 30 days after issuance of the final Audit Report. No surveys are required with respect to investigations.

Results of the surveys should be tabulated and shared with the A&FC at least annually.

Management Discussion - This is used on an infrequent basis to elicit President Council’s perception of the audit program’s ability to fulfill its mission assisting members of the organization in the effective discharge of their responsibilities.

The Management Discussion is included as Appendix 6500.2.

This is used to obtain organization-wide executive management feedback regarding the effectiveness of the Internal Audit function on a periodic basis. When the discussion is held, the Internal Auditor communicates this feedback with the A&FC.
6500 Other Audit Matters

Access to Audit Information .10  The UCAR Internal Auditor maintains a current list of UCAR Internal Audit Reports. This list contains only official audits, not reviews, research or other non-audit activities. The list of internal audit reports is maintained by title and date. All requests for access to, or copies of, audit workpapers and audit reports are subject to the approval of the Internal Auditor.

The Internal Auditor should inform the OGC of all requests for audit materials related to external auditor requests, investigations or other sensitive matters in advance of their release.

Internal Requests – The Internal Auditor should normally grant approval of requests for audit reports by management responsible for the audited activity.

Requests for access to or copies of audit reports from UCAR personnel other than management responsible for the audited activity are subject to the discretion and approval of the Internal Auditor.

External Audit Requests - The Internal Auditor should normally approve requests for audit materials by external audit agencies or firms duly engaged by UCAR and other authorized audit agencies where the report and/or workpaper content is pertinent to the external audit scope.

Outside Party Requests - All other requests for access to and/or copies of audit materials by external parties should be coordinated with GC. The Internal Auditor should authorize release of materials only after legal counsel affirms the legal requirement to do so.

The Internal Auditor should inform the President, the VP F&A and GC of all inquiries regarding sensitive issues.
Appendix 6500.1 Other Audit Matters

UCAR INTERNAL AUDIT Post-Engagement Quality
Client Survey

Electronically sent to clients from surveymethod.com

Choices in the survey are: Excellent, Good, Fair, Poor or N/A

1. Objectivity of the Internal Auditor.

2. Professionalism of the Internal Auditor.

3. Auditor’s knowledge of your function and related processes.

4. Quality of relationship and rapport (willingness to listen) between the auditor and your department.

5. Selection of important areas or topics for audit.

6. Pre-audit notification to you of audit purpose and scope.

7. Length of the engagement was reasonable for the topic.

8. Feedback to you on emerging issues during the audit.

9. Accurate, unbiased and objective audit findings.

10. Clarity of the written audit report.

11. Value of the recommendations.

12. Usefulness of the audit to improving business process and operations.

Open-ended questions:

13. Was there anything about the audit services that you especially liked?

14. Please tell us how we could have done a better job on this audit.

15. Did this internal audit activity add value?

16. If you are comfortable, please provide your name and let us know if you would like the Internal Auditor to contact you about your feedback on the engagement.
Appendix 6500.2 Other Audit Matters

UCAR INTERNAL AUDIT
MANAGEMENT SATISFACTION QUESTIONS/GUIDE

In an effort to add value and improve the quality of the UCAR Internal Audit Program, I request your feedback and comments about Internal Audit. This survey is a valuable tool in assessing the Internal Audit program, and I appreciate your honest feedback. Please mark the appropriate box below and provide any additional comments at the end of the questionnaire. The results and comments provided to this electronic survey will be compiled and shared with the A&FC.

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
<th>No Basis</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. My involvement with the annual audit planning process was adequate.</td>
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<tr>
<td>2. The audit services work performed (audits, advisory services, investigations) met my needs and expectations.</td>
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<td>3. The auditor identified and addressed relevant and significant issues and risks.</td>
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<td>4. There was an appropriate balance between audits and advisory service/consultative work in my area.</td>
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<td>5. My communication with the Internal Auditor is sufficient.</td>
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<td>6. The audit work performed contributed to improved control and/or improved operational effectiveness and efficiency within my unit.</td>
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<td>7. The Internal Auditor promotes an image of professionalism and competency.</td>
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<td>8. Audit reports and other written materials are of high quality.</td>
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<td>9. The audit program is meeting the needs of UCAR/NCAR/UCP.</td>
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<tr>
<td>10. Overall, the Internal Audit Program provides value to my organizational unit and UCAR.</td>
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</tbody>
</table>

11. Are there any specific changes the Internal Auditor can make to improve our audit process?
12. What are your expectations of the Internal Auditor?
13. How can the Internal Auditor assist your organization, function in the coming years?
### 6600 Conducting Information Technology Audits

<table>
<thead>
<tr>
<th>Internal Audit Policy</th>
<th>.01</th>
<th>Currently the Internal Auditor performs IT governance assessments and annually updates the A&amp;FC. UCAR’s external auditor performs IT controls testing as part of the annual financial statement and A-133 audit.</th>
</tr>
</thead>
</table>
| Information Technology Risk Assessment | .02 | Planned coverage for specific technical IT topics will be evaluated and determined each year as part of the annual comprehensive risk assessment process and will include IT audit coverage for areas determined to be high risk.  

*This determination will be made independently of whether the project can be staffed exclusively with existing Internal Audit personnel based on current skill sets or whether outside IT expertise is needed.*  

The risk assessment should incorporate a robust evaluation of the business line IT Infrastructure including consideration of the organization's strategic, financial investment in technology resources as well as the state of the physical and logical components. The operational, regulatory and reputational risks should also be evaluated.  

The risk assessment process for IT related topics/functions should also take into consideration the annual IT audit coverage by the UCAR’s external auditors to ensure adequate audit coverage and prevent the duplication of efforts. The following are brief descriptions of the areas to be assessed on a relative risk basis.  

**IT Governance/Strategy & Planning** - Includes the mission of the centralized and decentralized IT functions; IT risk management, the IT policy setting function, alignment of the IT infrastructure with core administrative business processes, and executive oversight for the portfolio of infrastructure and application system components; strategy and long-term planning including the organizational structure, human resources, strategic sourcing, asset management, budgets, metrics, and controls as they relate to the IT Strategic Plan and its execution.  

**Infrastructure** - Includes operating systems, database and data warehouse structures, telecommunications (voice/data), networks, hardware, physical sites, centrally maintained and managed email/calendaring, messaging, and electronic data interchange.
6600 Conducting Information Technology Audits

Information Technology Risk Assessment (cont’d)

.02 Architecture - Includes technology planning; analysis/assessment of emerging technologies; local standards; architecture design; deployment options; management (software, infrastructure, and security); integration and consolidation; and technical support.

Project Management - Includes the project management development/deployment methodology (initiating, planning, executing, controlling, and closing); vendor/product selection; the systems development life cycle (design, acquire/build standards, test and quality assurance functions, data conversion practices, documentation and training development, implementation/deployment, support and maintenance); project pre-implementation; and post-implementation processes.

Operations - Includes data centers and related physical security and processing (batch scheduling and on-line processing); application/database capacity, availability, and performance management and monitoring; facilities and equipment maintenance and management; and data retention and backup (scheduling, processing, off-site storage, retrieval and restoration).

Support – Includes problem management (help desk, incident response, root cause analysis); service level management; vendor/third party management; end-user computing support/management; and software licensing.

Enterprise Security - Includes security configuration and management for applications, operating systems, databases, networks, hardware and related utilities; identity and access management (user provisioning, administrative access, user roles, remote access, third party access); and threat and vulnerability management (intrusion detection and response, intrusion prevention, security penetration and vulnerability testing, virus protection and detection, security strategy and compliance, security awareness and training, privacy, and data protection).

Disaster Recovery - Includes business impact assessment; disaster recovery and business continuity planning; and crisis management plans including communications, disaster recovery testing, business continuity processes and procedures development, maintenance and updates.
6600 Conducting Information Technology Audits

Information Technology Risk Assessment (cont’d)

.02 Under all options, emphasis will be made on completing the audit project with the required IT audit skills set, and concurrently enhancing the IT audit skills of existing auditor.

Required Information Technology Audit Skills

.03 IT audit projects will be staffed with auditors that have IT audit skills commensurate to meet IIA professional standards.

For audit projects where additional skills are required, the following options are available:

• Co-sourcing - Contracting with an external party for agreed upon procedures via a professional services agreement.

• Guest auditor program – Coordinating with local management to rotate operational IT staff through audit to perform audits. Under this approach, the audit scope assigned to guest auditors should be areas that were outside their area of responsibility for at least the last year.

Under all options, emphasis will be made on completing the audit project with the required IT audit skills set, and concurrently enhancing the IT audit skills of existing audit personnel while meeting IIA professional standards.

7000 INVESTIGATION SERVICES

Section Overview .01 This section of the manual establishes the standards for conducting investigations. It includes criteria for determining whether an engagement qualifies as an investigation and, therefore, becomes subject to these investigation standards.

7100 Introduction – Investigation Services

Purpose .01 The Investigation Services section of the UCAR Internal Audit Manual is intended to implement and amplify current UCAR Policy (such as UCAR Policy 2-12 the Whistleblower Policy http://www2.fin.ucar.edu/policies/2-12-whistleblower and 2-1 the Ethical Conduct Policy http://www2.fin.ucar.edu/policies/2-1-ethical-conduct), as such Policy pertains to investigations conducted by UCAR
Purpose (cont’d) .01 Internal Audit. Reports can be submitted through the Anonymous Reporting of Ethics Concerns, Accounting, Auditing and Internal Control Concerns web portal by staff or third-parties [http://www.fin.ucar.edu/ethics/index.html](http://www.fin.ucar.edu/ethics/index.html). It is also intended to supplement the audit standards as set forth in this Audit Manual for certain types of engagements as defined below. An investigation is a special purpose type of project within Internal Audit’s purview. Although the standards for conducting an audit, contained in Section 6000 of the manual, may apply in certain cases, it is recognized that unique facts and circumstances of each investigation will determine whether the audit practice standards from Section 6000 apply to the specific case.

In the event of a direct conflict between a section of this chapter and law, regulation or official policy, such law, regulation or policy shall rule.

UCAR investigations conducted by the Internal Auditor (IA) are expected to comply with relevant standards set forth by appropriate sets of law, such as federal and state civil and criminal procedure and rules of evidence. They should also be conducted in compliance with applicable standards set forth by professional bodies representing internal auditors (Institute of Internal Auditors) and fraud examiners (Association of Certified Fraud Examiners).

Application of Investigations Standards .02 The investigation standards shall apply for an internal audit engagement when:

- The primary purpose is to gather, develop, examine and/or evaluate evidence to determine if there has been suspected improper governmental activity committed by a person or entity; and

- Allegations of an improper act have been received, or investigation issues have surfaced as part of a routine audit, whenever the circumstances would result in the potential for legal action.

It is expected that such an engagement would also determine the techniques used in committing the improper act, the extent of damage caused by the improper act, and the causal factors permitting or contributing to the improper act (including internal control or policy violations or deficiencies).
Application of Investigations Standards (cont'd) .02 There are matters related to fraud that are not covered by the investigation standards set forth in this manual. They include:

- An examination for the purpose of improvement of controls involved in an allegation of an improper act.
- Auditing for fraud in the absence of an allegation or reasonable suspicion.
- Developing fraud prevention or detection programs.

Such engagements are governed by either the audit or advisory service standards, whichever are more appropriate in the circumstances, or as deemed appropriate by a legal advisor.

Definition of Improper Act .03 For purposes of this manual, an improper act includes both an improper governmental activity as defined in statute and serious or substantial violations of UCAR Policy as defined in the Whistleblower Policy.

The Client .04 The ultimate clients of the investigations conducted by Internal Audit are the BoT A&FC. Accordingly, the UCAR Internal Audit function acts with independence and derivative authority to initiate investigations on its own for the benefit of the client. The Internal Auditor has authority to conduct investigations. In rare circumstances when agreed to by General Counsel (GC) and the Internal Auditor, an audit may be undertaken under the direction of GC and the work product protected by the attorney-client privilege – usually when litigation is pending.

Roles and Relationships .05 The following are the primary roles and related responsibilities for conducting investigation services:

The Internal Auditor is responsible for general oversight of all audit investigations as well as for communication with the President, VP F&A, GC and the Chair of the A&FC. In the event of an actual or perceived conflict of interest on the part of the Internal Auditor, she has the ability to request that an independent body provide investigative services.
The Internal Auditor is responsible for:

- Tracking investigations reported to the emailed anonymous reporting of Ethics, Accounting, Auditing and Internal Control Concerns.
- Provides investigative resources and consultation where requested or needed.
- The IA is responsible for conducting investigations where required or needed.
- When an investigation substantiates improper acts, the IA shall also be responsible for recommending strengthening of related controls, policies or procedures to reduce future vulnerability to similar improper acts.

The Internal Auditor should have competency in the area investigated, be independent in fact and appearance, have a duty of fairness, objectivity, thoroughness, ethical behavior, and observance of legal and professional standards. Investigation responsibilities may be assigned to someone other than the Internal Auditor.

The Internal Auditor shall also be responsible for required communications with the Chair of the A&FC, e.g., reporting summary information on all Internal Audit investigations to the A&FC as needed.

**Law Enforcement** - If it appears that a crime may have been committed, the OGC should be consulted immediately to determine appropriate action with regard to the investigation and legal proceedings. The VP F&A should contact the NSF Office of Inspector General, if appropriate. The OGC will handle all communication with other law enforcement bodies.

In the event that OGC conducts a criminal investigation, the Internal Auditor may be called upon to share information and also lend assistance, to the extent the Internal Auditor’s specialized skills or expertise are needed or desired. An example of such assistance might be the analysis of accounting and other business records.
Initiating an Investigation .01

While the specific reasons for initiating an investigation will vary, there must be an adequate basis for suspecting a possible improper act. The primary factors to consider are:

- The allegation or suspicion, if true, constitutes an improper governmental activity under law or a serious or substantial violation of UCAR policy. If not, then no matter how egregious a situation or behavior may appear, it would not provide a basis for an investigation under this standard.

- An allegation should be accompanied by information specific enough to be investigated. For example, "There is fraud in a Lab," by itself, is not sufficient to begin an investigation.

- An allegation should have, or directly point to, corroborating evidence that can give the allegation credibility. Preliminary investigation procedures to corroborate such evidence (testimonial or documentary) may be considered.

Matters referred to the Internal Auditor for investigation that do not meet the above criteria may be appropriately reviewed as an advisory service to management, provided the requisite expertise exists within or is available to the Internal Auditor. Matters that result from the normal exercise of management judgment are rarely susceptible to investigation, and frequently not appropriate for review as an advisory service (e.g. "fairness" of compensation, adequacy of supervision, etc.).

When an investigation is undertaken based on reported allegations by a person making an informal whistleblower report, care should be taken to clarify the matters to be reviewed. If the initial communication is oral, it is advisable to document your understanding of the whistleblower’s allegations and obtain their concurrence with your articulation of their assertions, ideally by the whistleblower signing the documentation of your understanding and indicating it is accurate. In addition to assuring that all of the whistleblower’s allegations are captured, this documentation will assist in referral of matters outside of Internal Audit’s jurisdiction.
7200 Conducting an Investigation

Initiating an Investigation (cont’d) .01 Once an investigation is initiated, regardless of its source, it must be recorded following the UCAR case management procedures for whistleblower matters. Throughout the course of the investigation, the case should be updated to reflect its current status.

A decision to not act upon a complaint, end an inquiry without an investigation, or to discontinue an investigation, must be documented and discussed with the President, VP F&A and/or with the GC.

Planning for Investigations .02 The planning of an investigation includes determining the following:

- What is the nature of the allegation?
- Consideration of the sensitivity and magnitude of the allegation.
- Is legal advice needed?
- Credibility assessment?
- Which other investigative bodies should be involved?
- Can the Internal Audit function maintain adequate independence for the work contemplated?
- What type of evidence would sustain or disprove the allegation?
- What records, or other evidence, should be secured?
- The need to place subject(s) on administrative leave?
- What assistance may have been required to commit the alleged improper act? Is there a possibility of collusion?
- What resources, including specialized skill sets, are likely to be needed?
7200 Conducting an Investigation

Planning for Investigations (con’t)

- What notifications are required?
- Discuss documentation requirements with OGC?
- What methodologies should be used to gather, secure and analyze evidence? Methodology should include coordination of the case as a whole with non-audit personnel, whether internal to UCAR or outside parties. Additionally, the methods used to collect electronically stored information should be planned and executed at the outset to ensure that the conclusions are legally defensible.

Documentation

Within audit investigations there are two types of documentation: administrative and evidentiary. The two types of documentation should be kept discrete.

Administrative documentation pertains to the management of the case within UCAR that does not have a direct bearing on evidence.

Administrative documentation includes, but is not limited to, materials evidencing:

- Chronologies of important events.
- Planning not pertaining to allegations or evidence (e.g. personnel scheduling).
- Background information as to the timing and how the allegation came to Internal Audit’s attention.
- Internal Audit notifications (e.g. in accordance with Whistleblower Policy and other management policies).
- Personnel considerations, such as if and when a subject employee was placed on administrative leave and/or terminated, if applicable.
- Operational considerations, such as emergency or interim procedures that may be necessary.
- Engagement administration.
7200 Conducting an Investigation

Evidentiary Documentation

.04 Evidentiary Workpapers – These documents include, but are not limited to, interview notes or summaries, originals and copies of UCAR records, charts, graphs, spreadsheets, abstracts of UCAR records, schedules or commentaries prepared by the audit investigator and results of tests. As determined appropriate in consultation with GC, Internal Audit evidentiary workpapers may be referenced or provided to UCAR management, counsel, or prosecutors.

Gathering Evidence - Care should be taken to gather evidence so as not to compromise its admissibility. In cases that result in a deposition or a trial, the person who gathered the evidence may have to testify as to the means and authority to gather the evidence. UCAR policies exist in certain areas (e.g. 3-1 Official Communications Policy) which impact, but do not override, the Internal Auditor’s access authority as provided by the IA charter.

Care of Evidence - In all cases that have the possibility of litigation or criminal proceedings, the Auditor should have consulted, as soon as this becomes evident, with GC. Due care should be taken to preserve the integrity of all original evidence. The audit investigator should ensure that steps are taken to secure and protect all original evidence. This includes:

- Taking steps to ensure that evidence is not destroyed, either by the subject or inadvertently by someone else.
- The use of "working copies" of originals for analysis to preserve the original documents.
- The use of "image copies" for securing information on computer storage media.

If the case has a significant chance of a civil or criminal action being taken, there should be documentation as to:

- When evidence was gathered
- How evidence was gathered
- How a chain of custody was maintained
- How the integrity of the evidence was preserved
7200    Conducting an Investigation

Evidentiary Documentation (cont'd)

- GC should be consulted as needed.

**Interviews** - Interviews are made for the purpose of gathering information. A formal record of the interview should be generated for the interviews of all material witnesses. In addition, at least two persons should conduct interviews of material witnesses, including subjects. Such a record should have, at a minimum, in addition to the substance of the interview, the name[s] of the interviewer[s], the interviewee[s], the interview location and the time and date of the interview.

If an interview is recorded electronically (e.g. audio, video, DVD), clear permission should be given by the interviewee. The interviewer should have the interviewee acknowledge on the electronic media that permission was granted. Such electronic media is considered original evidence. If a transcript or copy is made from the electronic media, the original electronic media should still be preserved.

Seasoned investigators should only perform admission seeking interviews handled by Internal Audit. The safety of individuals in the interview is of foremost importance. Consideration should be given to arranging for a security guard/police officer to be invisible but near the room in which the interview is being conducted. In cases in which an admission is made, a signed statement should be obtained if reasonable. If the subject refuses to make a formal statement, note that refusal in the record of the interview.

There may be situations when it is prudent for the investigator to make a credibility determination of the subject, whistleblower, and/or investigation participants, supported by corroborating information, such as when the Subject denies the allegations and evidence does not directly or convincingly substantiate nor refute the allegation. In making credibility determinations, some factors to consider include:

- Is the interviewee’s statement(s) reasonable or unreasonable, probable or improbable

- Is there corroborating evidence that would tend to support or contradict the interviewee’s statement(s)
7200 Conducting an Investigation

Evidentiary Documentation (cont’d) .04

• What is the interviewee’s bias and motive to lie

• Interviewee’s appearance and demeanor; that is, whether the person appears to be telling the truth during the interview

• Consistency of memory and evasive responses

• Interviewee’s character and opportunity to observe relevant actions or events

Subject’s Statements – If practical, statements prepared by a subject or witness should be signed, acknowledging authorship. Legible, handwritten statements are acceptable. Statements prepared by a subject or witness should be maintained without the auditor’s editing or corrections.

If a statement (including interview notes) is prepared by the interviewer for subject or witness signature, careful proofreading should be done in advance of the request for signature. The statement should contain a paragraph, just above the subject or witness signature line, indicating that the statement represents the views, thoughts, etc. of the subject or witness. As a best practice when feasible, the paragraph may include the following elements: acknowledgement that the subject or witness statement was furnished freely and voluntarily, without any threats or promises made to induce the statement; a sentence indicating the number of pages making up the statement; a sentence indicating that the information contained in the statement is true and correct to the best of the knowledge of the signing party. If multiple pages are involved in the statement, each page should be initialed by the signing party.

Record Retention .05

Administrative documentation and evidentiary documentation are considered workpapers for record retention purposes.

7300 Communications and Reporting

Initial Notification .01

The Internal Auditor shall notify the President, VP F&A and/or OGC of any audit investigation and apprise them should any of the following occur:
7300 Communications and Reporting

Initial Notification (cont’d) .01

- The matter is the result of a significant internal control or policy deficiency that is likely to exist at other units within the organization

- The matter is likely to receive media or other public attention

- The matter involves the misuse of UCAR resources or creates exposure to a liability of at least $25,000

- The matter involves a significant threat to the health and safety of employees and/or the public

- The matter is judged to be significant or sensitive for other reasons

- The matter alleges an improper activity by a member of senior management.

The notification should be made through the whistleblower case management procedures. Prior to assigning the task to the IA, the case should be updated, to the extent known at the time of reporting to include:

Initial Notification (cont’d) .01

- Sufficient description of the allegation(s) to enable a judgment of potential significance as well as type of known or suspected improper activity

- Identification of the department or operational unit involved

- The alleged or potential dollar value of the activity, including any items and their specific details

- The source of funding involved

- Any external agencies involved

- The source of the allegation, if not a whistleblower complaint (i.e. management, third party, etc.)

- A summary of the planned investigation activity
## 7300 Communications and Reporting

### Interim Communications .02

Updates and changes in the status of information provided above are made through written updates sent via email, to apprise the President, VP F&A and/or GC of the progress of investigations. Updates should be made, at a minimum, whenever there is a development in the investigation that materially affects the information previously provided, including, but not limited to, new allegations; certain allegations shown to be untrue; the entry of law enforcement or other authorized investigative body into the case; changes in the principal subject, media or other public interest; and new estimates of dollars involved.

### Communication of Results .03

There are different types of reports that can be issued. Generally, the differences depend on the end-users of the reports, which may, in turn, depend on whether any administrative or legal actionable matters were noted in the course of the investigation.

For those investigations not reportable that result in null findings, a memo or a letter format for the report may be used. Otherwise, a formal report should be issued. However, there may be cases where evidence is found that affirmatively clears a subject who is clouded with a suspicion of an improper act. In such cases, a more detailed report may be advisable.

In reports of investigations intended to be used by attorneys and law enforcement, as in litigation or criminal legal proceedings, serious consideration should be given to creating a detailed report (under the guidance of OGC) that includes references to exhibits of evidentiary matter (in addition to exhibits which, for example, tabulate a loss). Such evidence includes, but is not limited to, copies of original documents, signed subject/witness statements, transcripts of interviews, etc. Such a report should include all information that is relevant to the case.

For purposes of normal distribution to UCAR management, a report does not need to contain the evidentiary exhibits.

Consultation should occur with GC prior to issuing a final report.

All final investigation reports should be distributed at the completion of an investigation based on guidance from GC.
Communications and Reporting

Report Format .04 For purposes of formal reporting, an executive summary and a detailed section of the report are normally expected, unless the case is so simple that such a breakdown would not be warranted.

Matters dealing with the allegations or theories of improper acts should either be in a separate report from the one dealing with control issues, or they should be located in a separate section of the investigation report.

Principal allegations should be dealt with and concluded upon individually. Secondary allegations, which are those dependent on the principal ones for veracity or relevance, may be addressed within the principal allegation to which they are related.

Report Elements .05 Each report must contain certain elements, no matter what type of report is issued. These elements are:

Predication - The reason for initiating an investigation

Hypothesis/Allegation (“Purpose”) - What must be sustained or not sustained by the investigation or preliminary evaluation.

Methodology (“Scope”) - The method used to gather and analyze evidence.

Analysis - The analysis/analyses sections(s) should illuminate the connection(s) between the methodology and the evidence. As such, the analysis section(s) may precede or follow the statement of conclusion(s), depending on which is clearer. In memo and summary reports, this section can be abbreviated but must be sufficient enough to enable an uninformed, independent party to reach the same conclusion as that of the investigator. In reports that are intended for direct use by UCAR management, counsel or a prosecutor, it may refer to or include virtually all of what would be considered the evidentiary workpapers.

Conclusion - There are two overall types of conclusions for each allegation: either the allegation is substantiated or the allegation is not substantiated.

If the allegation is substantiated, the conclusion should state so in a factual manner.
7300 Communications and Reporting

Report Elements (cont’d) .05

• In matters of policy one should state that a violation of policy occurred.

• In matters of litigation or criminality, however, one should avoid making a legal conclusion. For example, one should avoid saying that "the employee is guilty of embezzlement." Rather the report should state something like "the subject is responsible for a loss of $X million, and the case has been turned over to the NSF IG or DOJ for possible criminal charges."

If the allegation is not substantiated, there are two main types of situations:

• In situations where the investigator simply does not have the evidence to sustain an allegation, but suspicions cannot be put to rest, the report should say that the evidence necessary to conclude on the allegation could not be obtained. If the lack of evidence is due to the lack of cooperation on the part of the complainant, subject or witnesses, that fact should be noted.

• In situations where suspicions are put to rest or the allegation is affirmatively proven to lack merit, the conclusion should state that fact.

Report Distribution .06

Investigation reports are a special type of audit report. Accordingly, all normal draft and final report distribution policies and practices should be followed. Care should be taken to ensure that the addressee is at an appropriate level of management.

The following special considerations exist.

Requests – Requests for copies of investigation records, including final reports, follow guidance for response to such requests provided by OGC. In order to maintain the integrity of the investigation, no records will be produced on open cases. If an investigation report concludes that there is no wrongdoing, the identity of the accused should be protected by redaction where reasonably possible. If redaction would be extremely difficult and would result in little or no useful information, the entire report will be withheld from release.
7300 Communications and Reporting

Report Distribution (cont’d) .06 UCAR protects personnel and similar files, the release of which would result in an “unreasonable invasion of personal privacy.” There is a balancing test, based upon specific facts involved in a particular case, regarding whether the information sharing outweighs the accused’s right to privacy. In addition, there may be privacy rights of witnesses that should be protected, regardless of a finding of wrongdoing. Consultation is recommended with GC where privacy concerns are implicated.

Record Retention .07 Record Retention requirements can be found in Section 6500.

8000 ADVISORY SERVICES

8100 Advisory Services Overview

Section Overview .01 The following section sets forth the process by which Internal Audit should perform advisory services in a manner consistent with its charter. Policies for the types of advisory services engagements that are performed, and issues concerning objectivity and independence are discussed in this section.

Definition .02 Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organization’s governance, risk management, and control processes without the Internal Auditor assuming management responsibility. Examples include advice, facilitation, training and participation in on-going committees.

Inclusion in Audit Plan .03 Internal Audit’s annual plan of engagements may include anticipated advisory services to address areas considered high risk along with allocated hours for these projects.

Exceptions to Policy .04 The requirements for an advisory services plan, notification to the engagement client, workpapers, and a formal report may be waived by the Internal Auditor for informal consultations involving limited scope contact with an audit client.

Service Limitations .05 Advisory services engagements should be accepted when the engagement’s objectives are consistent with the goal’s of the organization. Advisory service engagements should have agreement from the VP F&A, and when significant efforts will
### 8100 Advisory Services Overview

<table>
<thead>
<tr>
<th>Service Limitations (cont’d)</th>
<th>.05</th>
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<tbody>
<tr>
<td>be required, the Internal Auditor will notify the Chair of the A&amp;FC. The Internal Auditor should refrain from providing advisory services for engagements where it is felt that the Internal Auditor cannot be independent. Further, if the Internal Auditor lacks the knowledge, skills, or other competencies needed to perform all or part of the engagement, the Internal Auditor should decline to perform the engagement or should obtain the necessary competence either through internal or external sources.</td>
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Additionally, the Internal Auditor should share information and coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimize duplication of efforts.

<table>
<thead>
<tr>
<th>Disclosure of Impairments</th>
<th>.06</th>
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<tbody>
<tr>
<td>Disclosure of potential impairments to independence and objectivity should be made to the engagement client prior to accepting the engagement.</td>
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</table>

### 8200 Planning an Advisory Services Engagement

<table>
<thead>
<tr>
<th>Policy</th>
<th>.01</th>
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<tbody>
<tr>
<td>In most cases, Internal Audit should develop and record a plan for advisory services engagements.</td>
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<table>
<thead>
<tr>
<th>Application of Internal Audit Planning</th>
<th>.02</th>
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<tbody>
<tr>
<td>In general, auditors should refer to <em>Section 6100 Planning an Audit</em> with regard to planning an advisory services engagement. Exceptions are noted below.</td>
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<table>
<thead>
<tr>
<th>Advisory Services Work Plan Development</th>
<th>.03</th>
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<tbody>
<tr>
<td><strong>Advisory Services Work Plan (in lieu of Audit Program Section 6100)</strong></td>
<td></td>
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<tr>
<td>Work plans for advisory service engagements should vary in form and content depending upon the nature of the engagement. In general, an advisory services work plan should be prepared in advance of field work and should outline:</td>
<td></td>
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<tr>
<td>• Objectives of the engagement</td>
<td></td>
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<tr>
<td>• Scope and degree of testing required to achieve the objectives in each phase of the review</td>
<td></td>
</tr>
<tr>
<td>• Procedures for collecting, analyzing, interpreting and documenting information during the review</td>
<td></td>
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<tr>
<td>• Technical aspects, risks, processes and transactions which should be examined</td>
<td></td>
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</tbody>
</table>
8200  Planning an Advisory Services Engagement

Documentation .04 Documentation to evidence the planning procedures should include:

- A record of mutual agreement with the engagement client of the procedures to be performed. This may take the form of an engagement letter or other communication.

- For larger engagements requiring over 40 hours, create a work plan with scope, objectives, purpose, timing, budget, and client contacts.

8300  Conducting an Advisory Services Engagement

Policy .01 Internal Audit maintains adequate workpaper documentation to support the advisory services conclusions reached and engagement results.

Every engagement is properly assessed to ensure that the Internal Auditor has the requisite knowledge and skills to meet the engagement objectives and maintain a high quality product.

.02  Guidance on planning an advisory service engagement can be found in Section 6200. Exceptions are noted below.

Workpaper Review .03 All workpapers should be independently reviewed to ensure there is sufficient evidence to support conclusions and that advisory services objectives have been met. The Internal Auditor should evaluate whether workpapers appear to be accurate, objective, clear, concise, constructive and timely. Responsibilities for workpaper review are summarized as follows:

The Internal Auditor should perform a detailed review of the workpapers.

VP F&A Responsibilities - A summary review consists of an awareness and/or discussion of planning documents, the work plan, and the summary of observations and conclusions. The VP F&A should review and approve significant changes to the scope of the engagement and to the approved advisory services work plan.
Reporting Results of an Advisory Services Engagement

Policy .01 Internal Audit maintains a process for communicating the results and recommendations for all advisory services engagements to the management requesting the services.

Application of Reporting Results .02 Communication of the progress and results of advisory services engagements should be tailored to meet the needs of engagement clients. The form and content of such reports may vary depending on the nature of the engagement and the services requested. The process for reporting results generally includes draft report preparation and review with audit client, quality assurance reviews and final report issuance and distribution.

Written Report Elements .03 Reports can be issued in a variety of formats. In drafting an advisory services report, the Auditor should consider whether the inclusion of any and all traditional audit report elements such as purpose, scope, background, summary, and observation statements would be useful to management. All results should be reviewed with management prior to being placed in final format to assure that management’s needs and expectations have been met.

Oral Report Elements .04 In some circumstances, with the agreement of the IA, advisory services results may be communicated orally. In these cases, presentations should be reviewed in advance with the IA and the workpapers should contain a record of communications with the client.

Advisory Services Report Quality Assurance .05 For larger advisory services projects, a pre-issuance quality assurance review of draft and final written reports should normally be performed. The Internal Auditor should review and approve the final report prior to issuance.

Report Timeliness .06 Written and oral reports should be issued as soon as practical following the completion of advisory services work.

Management Responses .07 A management response to an advisory services engagement is not required.

Report Distribution .08 Written advisory services reports should be addressed to the management requesting the services. In addition:
8400  Reporting Results of an Advisory Services Engagement

Report Distribution (cont’d) .08
- Information copies should be provided to the President’s Council.
- Other personnel may receive a report copy, at the discretion of the IA in consultation with client management, as deemed appropriate.

Reports are distributed by electronic means; a hard copy version signed by the IA should be kept on file.

Significant Internal Control Concerns .09
Significant internal control concerns coming to the attention of the IA during the course of the advisory services engagement should be communicated in writing by the IA to appropriate UCAR, NCAR or UCP personnel who can ensure that the results are given due consideration. These concerns should also be communicated to the VP F&A.

8500  Performing Follow-up for Advisory Services

Follow-Up Policy and Procedures .01
The IA should conduct follow-up in instances where internal control concerns have come to the attention of the IA and recommendations or management corrective actions have been identified during the course of the engagement.

In these cases, normal follow-up procedures described in Section 6400 should be followed.

8600  Other Advisory Services Matters

Policy .01
Internal Audit maintains policies for managing administrative and other matters related to the advisory services process in order to facilitate the continuing effective and efficient operation of its function.

Application of Other Advisory Services Matters .02
Policies for the following other advisory services matters are described in this section: records retention and client satisfaction surveys.

Records Retention .03
Advisory services projects are considered audit work products for records retention purposes.

Information related to records retention can be found at Section 6500.04.
8600 Other Advisory Services Matters

Client Surveys .04 For advisory services projects requiring over forty hours to complete, client surveys should be processed.

Information related to client surveys can be found in Appendix 6500.1.

9000 QUALITY ASSURANCE

Section Overview .01 This section of the manual describes the quality assurance processes practiced by Internal Auditor at UCAR to ensure that audit work conforms to Institute of Internal Auditors (IIA) standards. Internal Auditor (IA’s) must develop and maintain a Quality Assurance and Improvement Program (QAIP) that covers all aspects of the internal audit activity. The IIA requires that the quality assurance and improvement program include both internal and external assessments.

9100 Quality Assurance Processes

Policy .01 The Internal Auditor maintains a quality assurance program in order to assist in effectively performing its appraisal function and in controlling audit risk. The IA’s quality assurance program provides reasonable assurance that audit work conforms to most IIA standards.

Application of UCAR Policy for Quality Assurance .02 The quality assurance program consists of self-reviews. These elements of quality assurance are embedded into Internal Audit’s processes rather than existing as separate processes. The self-reviews are an ongoing monitoring of the performance of the internal audit activity.

Supervision .03 Supervision is only performed when there is a guest auditor.

Internal Reviews .04 Pre-report issuance of internal reviews ensure that audit work has been performed completely, accurately, in accordance with the Audit Program and that findings are adequately supported by evidence included in the workpapers. Pre-report issuance of quality assurance requirements (embedded in audit process policies) can be found in Section 6000.
9100  Quality Assurance Processes

Internal Reviews (cont’d)  .04 The post-report issuance of the internal review provides assurance that workpapers are complete and meet IA procedures. The IA should complete the Pre-filing Checklist included as Appendix 9100.1 to evidence compliance with this policy.

Client Satisfaction Surveys are another element of the Internal Auditor’s post-report issuance quality assurance program. They seek the client’s perspective on the quality of services delivered by the Internal Auditor. Policies and Procedures for Client Satisfaction Surveys can be found in Section 6500.

Appendix 9100.1 - Quality Assurance Processes

UCAR
INTERNAL AUDIT DEPARTMENT
PRE-FILING REVIEW CHECKLIST

Audit ____________________________________________

Pre-filing review conducted by __________________________ Date ______________

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>N/A</th>
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<tr>
<td>1. Workpapers contain the following:</td>
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<tr>
<td>• Audit time budget and milestone dates</td>
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<td>• Audit engagement letter</td>
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<td>• Entrance conference notes</td>
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<td>• Risk assessment/audit survey results</td>
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<td>• Audit programs</td>
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<tr>
<td>• Comments/Results discussion notes</td>
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<tr>
<td>• Time budget to actual variance analysis</td>
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<tr>
<td>• Summary of results</td>
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<tr>
<td>• Final report, cross-reference to results</td>
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<tr>
<td>2. Workpapers were:</td>
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<td>• Cross-referenced from the audit program.</td>
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<td>3. All versions of draft audit reports have been removed from the workpapers (unless document clarifications)</td>
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<td>4. Follow-up notes have been removed from the workpapers</td>
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<tr>
<td>5. Extraneous materials have been removed from the workpapers</td>
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9200 UCAR Quality Assurance and Improvement Program

IA Policy .01 Internal Audit maintains a Quality Assurance and Improvement Program (QAIP) in order to assist in effectively performing its appraisal function and in controlling audit risk. The QAIP provides reasonable assurance that audit work conforms to the IIA standards.

Quality Assurance Policy .02 The QAIP does not include peer reviews and external quality assurance reviews.

The quality assurance and improvement process provides reasonable assurance that the internal audit activity:

- Performs in accordance with the internal audit charter, which is consistent with the definition of internal auditing, the Code of ethics, and most of the IIA’s IPPF Standards.

- Operates in an effective and efficient manner.

- Is perceived as adding value and improving the organization’s operations.

9300 Quality Assurance Review Manual for Self-Assessment

IA Policy .01 Internal Audit uses the IIA’s Quality Assurance Review Manual. The Manual serves as the basis for the work performed by IA on Quality Self-Assessment Review. Due to cost no external review has been performed.

9400 Quality Assurance Reporting

Process .01 The Internal Auditor must communicate the results of the quality assurance and improvement program to senior management and the A&FC. The Internal Auditor may state that the internal audit activity conforms with the International Standards for the Professional Practice of Internal Auditing only if the results of the quality assurance and improvement program support this statement. Currently they do not conform. When nonconformance with the Definition of Internal Auditing, the
9400 Quality Assurance Reporting

Process (cont’d) .01 Code of Ethics, or the IIA Standards impacts the overall scope or operation of the Internal Audit activity, the Internal Auditor must disclose the nonconformance and the impact to senior management done at the A&FC May 15, 2012 A&FC meeting.