



OFFICE OF THE BOARD OF TRUSTEES

Public Meeting Notice

April 8, 2016

TO: Southern Oregon University Board of Trustees, Executive and Audit Committee

FROM: Sabrina Prud'homme, University Board Secretary

RE: Notice of Regular Meeting of the Executive and Audit Committee

The Executive and Audit Committee of the Southern Oregon University Board of Trustees will hold a regular meeting on the date and at the location set forth below.

The topics of the meeting will include a discussion and action on the board staffing process; an introduction of the Internal Auditor and a related review of the audit charter.

The meeting will occur as follows:

Friday, April 15, 2016

10:30 a.m. to 11:30 a.m. (or until business is concluded)

Hannon Library, DeBoer Room, 3rd Floor, Room #303

The Hannon Library is located at 1290 Ashland Street, on the Ashland campus of Southern Oregon University. **If special accommodations are required, please contact Kathy Park at (541) 552-8055 at least 72 hours in advance.**



**Board of Trustees
Executive and Audit Committee Meeting
April 15, 2016**

Call to Order and Preliminary Business



**Board of Trustees
Executive and Audit Committee Meeting**

**Friday, April 15, 2016
10:30 a.m. – 11:30 a.m. (or until business concludes)
DeBoer Room, Hannon Library**

AGENDA

Persons wishing to participate during the public comment period shall sign up at the meeting. Please note: times are approximate and items may be taken out of order.

- | | | | |
|-----------|----------|-----------------------------------------------------------------------|---------------------------------------------------------|
| | 1 | Call to Order and Preliminary Business | Chair Thorndike |
| | 1.1 | Welcome and Opening Remarks | |
| | 1.2 | Agenda Review | |
| | 1.3 | Roll Call | Sabrina Prud'homme,
SOU, Board Secretary |
| | 1.4 | Consent Agenda: Approval of January 22, 2016 Meeting Minutes (Action) | Chair Thorndike |
| | 2 | Public Comment | |
| ~ 20 min. | 3 | Board Staffing Discussion and Process (Action) | Chair Thorndike |
| ~ 5 min. | 4 | Introduction of Internal Auditor | Chair Thorndike |
| ~ 30 min. | 5 | Review of Audit Charter | Chair Thorndike; Ryan Schnobrich, SOU, Internal Auditor |
| | 6 | Adjourn | Chair Thorndike |



**Board of Trustees
Executive and Audit Committee Meeting**

**Friday, January 22, 2016
10:30 a.m. – 11:30 a.m. (or until business concludes)
DeBoer Room, Hannon Library**

Minutes

Call to Order and Preliminary Business

Chair Thorndike called the meeting to order at 10:33 a.m.

The following committee members were present: Chair, Bill Thorndike, Lyn Hennion, Paul Nicholson and Teresa Sayre. The following members were absent: April Sevcik and Judy Shih. Trustees Les AuCoin and President, Roy Saigo (ex officio) also were in attendance.

Others in attendance included: Dr. Susan Walsh, Provost and Vice President for Academic and Student Affairs; Craig Morris, Vice President for Finance and Administration; Sabrina Prud'homme, Board Secretary; Shane Hunter, Senior Financial Management Analyst; Steve Larvick, Director of Business Services; Ryan Brown, Head of Community and Media Relations; Fred Creek, Director of Campus Public Safety; John Stevenson, IT User Support Manager; Don Hill, Classroom and Media Services Manager; Julie Raefield, Chief of Staff; Kathy Park, Executive Assistant; and David Coburn, OSA.

Trustee Hennion moved to approve the December 18, 2015 meeting minutes. Trustee Nicholson seconded the motion and it passed unanimously. Responding to Trustee Nicholson's inquiry, Ms. Prud'homme said ORS 192.660 (4) addresses when members of the media are and are not allowed to attend meetings held in executive session.

Public Comment

There was no public comment.

Audited Financial Statements (Action)

Craig Morris introduced Jean Bushong from CliftonLarsonAllen (CLA) and Diana Barkelew, Director of Financial Statement Preparation at USSE. CLA was the external auditor for OUS for four years and is now SOU's external auditor. Ms. Barkelew and her team prepare the financial statements for CLA to audit.

Ms. Bushong covered the audited financial statements and discussed responsibilities under generally accepted auditing standards (GAAS), engagement results, required communications and emerging developments. CLA's responsibilities under GAASs include determining if SOU's financial statements are materially correct; expressing an

opinion only on information identified in its report; performing the audit in accordance with required standards; communicating significant matters throughout the audit; and considering internal controls.

CLA's goal is to issue an opinion stating SOU's financial statements are materially correct, free from material error, fraud and noncompliance. CLA looks at and tests the internal control system and will note any material issues but the audit does not relieve management of implementing internal financial controls.

This is SOU's first year to have a stand-alone audit. Previously, SOU was included in the OUS audit. This year, CLA issued SOU a clean, unmodified opinion; it was a single year presentation, with no comparative management's discussion and analysis (that will be included going forward).

Ms. Bushong discussed the implementation of Governmental Accounting Standards Board Statement Number 68 (GASB 68), explaining that the government wants organizations participating in defined benefit plans (e.g., PERS) to put the net pension asset or liability on their financial records. At the beginning of the year, SOU recorded its proportionate share of net pension liability of about \$9 million. During the year, that net liability turned into a net pension asset of \$4.7 million at the end of 2015. That swing does not go into the income statement but rather into deferred inflows and outflows. CLA believes that will swing back to a liability.

As part of SOU's separation from the system, SOU received an increase in net position of \$11.2 million (see page 12 of the 2015 Annual Financial Report), which is comprised primarily of undistributed student building fees.

Ms. Bushong discussed the Annual Financial Report. CLA's Independent Auditors' Report opines that SOU's financial statements are materially correct. SOU's Statement of Net Position (balance sheet) is a snapshot as of June 30, 2015.

Answering Trustee Nicholson's question about the \$9 million in deferred inflows of resources, Ms. Bushong said GASB determined some items do not qualify as assets or liabilities. A deferred outflow is something that has gone out but not necessarily during that reporting period; it will be amortized over future years. An example of deferred inflow is if nothing changes related to net pension liability and the market rockets up and doubles the money, liability goes down. GASB standards do not allow that to be recognized on the income statement because it will be going up and down. Those gains or losses are reported as deferred inflow or outflow and amortized over five years.

Returning to the Statement of Net Position, Ms. Bushong discussed the net investment in capital assets, both restricted and unrestricted. As stewards of the university, the board needs to continuously monitor the unrestricted assets in particular.

For the Statements of Financial Position and Activities for the SOU Foundation, CLA relies on other auditors, reviewing their reports to make sure the reports are reliable.

The Statement of Revenues, Expenses and Changes in Net Position shows operating revenues less operating expenses, which results in the operating loss of \$29.5 million. Ms. Bushong said she has never worked with a public institution that does not have an operating loss. Much of SOU's money used for operations is required to be called nonoperating revenues. Explaining that this presentation differs from what the Finance Committee members are used to, Mr. Morris said SOU's four major fund type groups are budgeted operations, auxiliaries, designated operations and restricted funds. The committee sees those as separate categories but this presentation combines them. Ms. Bushong covered other revenues, expenses and the ending balance of \$26.7 million.

The Statement of Cash Flows details cash flows from operating activities, noncapital financing activities, capital and related financing activities, and investing activities. SOU's ending balance is \$49.5 million.

Trustee Slattery questioned whether there should be more of an accounting and explanation of how the deferred inflows relate to the financial statements, what the \$9 million is and its impact. Ms. Bushong said it is just the change in the market in the assets held by PERS. GASB 68 allows a measurement date of the asset or liability to be up to one year old. At the end of 2014, the markets were doing very well, so there was a large uptick in PERS assets. GASB 68 prohibits an organization from recognizing that change every year because its income statement will fluctuate every year.

Trustee Nicholson pointed out that, on the non-government side, SOU is expected to reflect those figures on its books. Ms. Bushong said SOU's investments are at current value but, since PERS manages that asset, GASB does not want it included on SOU's books. The \$3.4 million in deferred outflow is comprised of two elements. First, since the measurement date is one year old, SOU has made payments for one year, which normally would reduce liability or increase assets, but instead they sit in deferred outflow. The second element is related to deferred logs on refunding. Refunds should be considered refinancing and something has to be taken off the books to refinance. Rather than take a hit, the amount is amortized over the life of the debt.

Responding to Trustee Slattery's question on the impact this will have, Ms. Bushong and Ms. Barkelew said it would be a non-cash impact. Trustee Nicholson followed up with a question on the impact of the State Supreme Court's Moro decision. Ms. Bushong said the decision addressed the treatment of COLA. It was not in effect on the measurement date but, if it had been, SOU would have had a \$10.2 million swing from an asset to a liability. Ms. Barkelew added that the pension liability figure is an estimate of an estimate because there are no factual numbers to predict what it will be next year.

Ms. Bushong highlighted footnotes 1, 2, 5, 8, 11 and 13. Regarding GASB 68 disclosures in note 13, Trustee Nicholson thought a note should be added in subsequent reports on the balance sheet covering deferred inflow and outflow. Ms. Bushong and Ms. Barkelew said it could be added, but with clarification on which entries GASB 68 applied to.

Ms. Bushong addressed note 18, Subsequent Events, and the removal of SOU's \$90 million state-paid debt. It is debt that has been on SOU's books and paid by SOU and by

debt appropriations from the State. The State is essentially paying for it because SOU receives a debt appropriation for the amount due. It was on the books in the past because SOU was part of the State government. However, SOU will now be considered a component unit. The State can no longer assign that debt to SOU and it is now a State debt. The assets the debt paid for stay on SOU's books. As an example, Mr. Morris mentioned the motions the Finance Committee passed yesterday, saying the Q bonds for the McNeal project stay on the State's balance sheet and the F bonds for the Theater-JPR project will stay on SOU's balance sheet because SOU is paying the debt service.

Regarding the Statement of Net Position, Trustee Nicholson asked if next year SOU's capital assets will remain at \$96 million and the \$90 million for the debt will drop off, raising the net position by some \$90 million. Ms. Bushong replied that he was correct and it would be reflected as an increase in the net investment capital asset.

Ms. Bushong highlighted communications CLA is required to have with the board. CLA must communicate that financial statements have qualitative aspects and that changes in policies may directly impact numbers. When there is a change in the bottom line, the board needs to ask why and, other than GASB 68, there were none this year. CLA must advise the board of difficulties encountered in performing the audit (there were none), corrected and uncorrected misstatements (there were two corrections, neither of which rose to the level of a significant deficiency), disagreements with management (there were none), management representations, management consultations with other independent accountants, and significant issues discussed with management prior to engagement.

CLA's report concluded there were no significant deficiencies and no material weaknesses. CLA issued a management letter, which reported the very minor issues of the timing of cash reconciliations and credit balances in the accounts receivable system that need to be applied and cleaned up.

As a note for next year, Ms. Bushong said SOU will receive its first single audit. The sample size for the audit had been divided among all seven institutions but will now occur entirely at SOU. This type of very focused testing has never happened at SOU.

Trustee Nicholson proposed a resolution recommending acceptance of the audited financial statements of SOU for the year ended June 30, 2015. Whereas the independent certified public accounting firm of CliftonLarsonAllen LLP has completed its review of the financial statements of Southern Oregon University for the fiscal year ended June 30, 2015; and whereas the Executive and Audit Committee of the board has (1) reviewed the audited financial statements and report and (2) met with the external auditors and performed a satisfactory review of these documents; now, therefore, be it resolved the Executive and Audit Committee recommends that the SOU Board of Trustees accept the audited financial statements of the 2015 Annual Financial Report for the university for the fiscal year ended June 30, 2015. Trustee Hennion seconded the motion and it passed unanimously.

Internal Auditor Position - Update

Mr. Morris and Steve Larvick provided the update on the internal auditor position,

saying the search committee will conduct telephonic interviews with all six candidates. The search committee will then select a smaller group to come to campus for interviews.

Presidential Compensation and Recognition

Introducing this item, Chair Thorndike advised the committee on the compensation and recognition items that will be proposed to the board. First, SOU's administrative staff received a 3 percent COLA increase in October 2015 and Chair Thorndike believed it was reasonable to adjust President Saigo's pay to this same level, retroactively to October 2015. Second, President Saigo's unique role for two years required him to move to Ashland and make lifestyle changes beyond what would normally be expected for an interim president. Chair Thorndike proposed increasing the move-out expenses from \$5,000 to \$15,000, to better reflect the Saigos' actual costs. Third, President Saigo's contract ends on June 30 and Chair Thorndike recommended offering President Saigo a one month extension of his pay, which would allow him to be utilized as the new president needs during the transition. Chair Thorndike concluded his comments by saying SOU was also working through existing university systems on recognizing and honoring a retiring president. Part of that is working with the SOU Foundation on how it can participate, considering a presidential portrait and honoring President Saigo through one of SOU's programs. He later added that these proposals meet President Saigo's expectations.

Answering Trustee Hennion's question about the one-month pay extension, Chair Thorndike said SOU would be making a commitment of the extra month regardless when the new president arrives. Depending on the search committee's results, SOU can negotiate with President Saigo later in the year regarding a contract extension but that is an issue separate from this one-month extension. Trustee AuCoin asked whether a one-month buffer would come whenever the new president arrived. Chair Thorndike responded that this proposal would create a 13th month for President Saigo right now. If a one-month buffer is needed later, it would be the board's decision at that time.

Trustee Sayre proposed a resolution, recommending the board adjust President Saigo's contract and compensation model to reflect a retroactive to October 1, 2015, 3 percent adjustment on COLA; an adjustment on moving expenses to reflect \$15,000 rather than \$5,000; and a one month extension of his contract to go through July 2016. Trustee Nicholson seconded the motion. The board secretary clarified that this item on the agenda was not a designated action item, so no vote was taken. As discussed earlier in the meeting, the full board will take action on the item.

Adjournment

Chair Thorndike adjourned the meeting at 11:42 a.m.

Public Comment

Board Staffing Discussion and Process (Action)

**Southern Oregon University
Board of Trustees**

Board Policy on Recommending Candidates for At-Large Board Positions

1. Goal

Under ORS 352.076, Southern Oregon University trustees are appointed by the Governor of the State of Oregon and confirmed by the Oregon Senate. It is a goal of the Board of Trustees to recommend at-large candidates for the Governor's consideration who meet the individual characteristics desired for the board and who complement the needs of the board as a whole.

2. Purpose

The purpose of this policy is to guide the board's efforts in identifying potential candidates to recommend to the Governor for at-large board positions.

3. Board Composition

The board should be composed of members who have:

- A commitment to public higher education;
- A record of public or community service;
- Knowledge of complex organizations or academic institutions;
- Demonstrated collaborative leadership;
- A willingness and availability for constructive engagement;
- A commitment to open-minded, non-partisan decision-making;
- A record of integrity, good judgment, and civic virtue;
- A commitment to engagement in board responsibilities and interests; and
- Qualifications and characteristics that reflect and support the Governor's goals, priorities, and initiatives.

There should be a balance of perspectives, backgrounds, experience, and skills among the members of the board. These could include, but are not limited to:

- Gender, ethnicity, age, geographic location of residence, and other expressions of diversity;
- Unique skills and competencies, including experience that will benefit the board;
- Complementary skills and perspectives;
- A broad range of professional fields (e.g., education, legal, finance, engineering, healthcare, and business); and

- Knowledge of and connection to Southern Oregon University (alumni relation, campus service, etc.).

4. Process

The process for identifying and vetting potential candidates will include the following:

4.1. Conduct Needs Assessment

When a vacancy on the board is anticipated or occurs, the board secretary, in conjunction with the president and board chair, will conduct a needs assessment by analyzing the present board membership against the composition identified in Section 3. The board will also conduct periodic self-assessments, which the board secretary, president, and board chair also will consider in assessing the board's needs.

4.2. Identify and Vet Potential Candidates

Based on the needs assessment, the president and board chair will identify potential candidates. To assist the president and board chair in identifying potential candidates, the board secretary will maintain a list of individuals submitted by sources such as trustees, the president, senior administrators, and others. The president will vet potential candidates in consultation with the board officers. Vetting will include a discussion with potential candidates about the responsibilities of serving as a trustee and their interest, readiness for nomination, and fit with the desired characteristics, which include but are not limited to:

- Commitment of time and talent;
- Attendance at and participation in board and committee meetings;
- Ability to maintain a university-wide perspective on issues and concerns;
- Promotion of the university mission through advocacy and oversight of policy; and
- Active involvement in the life of the university.

4.3. Present Recommendations

The president will present recommendations to the board chair. The board chair will consult with the board members regarding potential candidates who are willing to serve and who satisfy the needs identified by the needs assessment. Candidates will be asked to complete an application packet, including the Governor's Executive Appointments Interest Form, Background Information Form, and other documentation required for

executive appointments. The board chair will recommend candidates on behalf of the Board of Trustees to the Governor for consideration.

It is understood by the board that providing recommendations to the Governor's office regarding potential trustees in no way guarantees or implies appointment of any applicant. As executive appointments, Southern Oregon University trustees are appointed by the Governor and confirmed by the Senate.

Approved on _____.

Board Chair

Board Secretary

DRAFT

Introduction of Internal Auditor

Review of Audit Charter

Executive Summary

16 Steps to Establishing a New Internal Audit Department

Summarized from an Article by The Institute of Internal Auditors

<https://na.theiia.org/standards-guidance/topics/pages/the-internal-audit-function.aspx>

1. Establish the Authority of Internal Audit
2. Interview Leadership
3. Review the Audit Committee Charter
4. Understand Benchmarking Needs
5. Review Policies and Procedures
6. Discuss Control Issues
7. Develop the "Audit Universe"
8. Map Major Processes/Operations
9. Develop Risk Assessment
10. Develop Charter for Internal Audit
11. Build the Budget
12. Develop an Audit Plan
13. Hire Staff and Develop Training Plan
14. Ensure Complete Cooperation
15. Establish Best-Practice Reporting Relationships
16. Establish Quality Assurance Program

*The order in which I have been performing these actions has differed in some ways, but this is essentially the process of establishing a new Internal Audit function. – Ryan Schnobrich

COMMON OBJECTIVES IN THE INTERNAL AUDIT MISSION

The following are common objectives in the Internal Audit Mission of Public Universities stack ranked in order of frequency:

1. Compliance – Auditing compliance with laws and regulations, policy, etc.
2. Operational Auditing – Auditing of operational processes.
3. IT Security & Control – Auditing of IT privacy and security compliance.
4. IT Auditing – Auditing the IT development process, change controls, etc.
 - a. Although included in the internal audit department Mission, the activity is rarely performed.
5. Control Improvement – Providing consulting services on control development or pre-implementation reviews, control self-assessment engagements, etc.
 - a. Although included in the internal audit department Mission, the activity is rarely performed.
6. Financial Auditing – Auditing of financial processes.
7. Governance – Providing administrative support for the audit committee.
8. Anti-fraud Programs – Developing and implementing fraud prevention and detection programs.
9. Risk Management Leadership – Championing risk management.
10. Reporting on Internal Control – Rendering an opinion on internal controls in accordance with COSO.

Rarely included in the internal audit Mission and/or performed:

11. Financial Audit Support – Providing assistance to external auditors during the financial statement audits.
12. Compliance with Statutory Audit Requirements – Performing audits/reviews to ensure compliance with various regulations.
 - a. 60% of Universities outsource this function to one degree or another, but 26.4% outsource it “to a very great extent”.
13. Control Leadership/Continuous Monitoring – Developing systems to provide information to management regarding control on a continuous basis.
14. Auditing Third Parties – Reviewing contract compliance, revenue collection, joint venture/strategic partner relations, etc.
15. Leadership Development – Internal auditing serves as a training ground for organizational management.
16. Other – Defined by participants.

Source – Effective Sizing of Internal Audit Activities for Colleges and Universities, The Institute of Internal Auditors, 2010.

SOUTHERN OREGON UNIVERISTY INTERNAL AUDIT CHARTER

Purpose

It is the purpose of Internal Audit to support the Executive and Audit Committee of the Southern Oregon University Board of Trustees and the University President by providing independent, objective assurance and consulting services designed to add value, support accountability and improve University operations.

Mission

It is the mission of Internal Audit to assist University leadership in accomplishing its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of Southern Oregon University's risk management, internal control and governance processes. Audits will be conducted with objectivity, transparency, fairness and in accordance with the highest professional and ethical standards.

Role

It is required by professional standards that Internal Audit be totally independent and objective. Therefore, Internal Audit is functionally accountable to the Executive and Audit Committee of the Board of Trustees, but reports administratively directly to the University President.

The Board of Trustees demonstrates this relationship by:

1. Approving the Internal Audit Charter;
2. Approving the annual risk-based internal audit plan;
3. Approving the Internal Audit budget and resource plan;
4. Approving decisions regarding the appointment, remuneration and removal of Internal Audit staff;
5. Receiving communication from Internal Audit regarding the performance of its Objectives and Responsibilities;
6. Interacting directly with Internal Audit both in session and between Board meetings as appropriate; and
7. Making inquiries of management and the President to determine if there are inappropriate responsibilities, inappropriate limitations to scope, or insufficient resources to accomplish Objectives and Responsibilities.

Objectives

It is the objective of Internal Audit to determine whether the University's network of governance, risk management and control processes, as designed and represented by management, is adequate and functioning in a manner to confirm that:

1. Risks are appropriately identified and managed; specifically including management compliance with laws and regulations.
2. Governance interaction occurs as needed.
3. Significant financial, managerial, and operating information is accurate, reliable and timely.
4. Employee's actions are in compliance with policies, standards, procedures, professional ethics and applicable laws and regulations; specifically including privacy and security.
5. Resources are acquired economically, used efficiently and adequately protected; specifically including review of management processes and internal controls and the prevention and detection of fraud.
6. Programs, plans and objectives are achieved.
7. Quality and continuous improvement are fostered in the University's control process.
8. Significant legislative or regulatory issues impacting the University are recognized and properly addressed.

Opportunities for improving managements' governance, risk management control processes, effectiveness and the University's image may be identified during audits. They will be communicated to the appropriate level of management. Significant opportunities and feedback will be summarized and reported to the Executive and Audit Committee of the Board of Trustees.

Responsibilities

Southern Oregon University management is responsible for establishing a network of processes with the objective of controlling the operations of Southern Oregon University in a manner which provides the Board of Trustees reasonable assurance that:

1. Data and information published either internally or externally is accurate, reliable, timely, transparent and accessible.
2. The actions of administrators, officers, and employees are in compliance with the organization's policies, standards, plans and procedures, and all relevant laws and regulations.
3. The organization's resources (including its people, systems, data/information bases, records and customer goodwill) are adequately protected.
4. Resources are acquired economically and employed profitably; quality business processes and continuous improvement are emphasized.
5. The organization's plans, programs, goals, and objectives are achieved.

Controlling is a function of management and is an integral part of the overall process of managing operations. As such, it is the responsibility of managers at all levels of the organization to:

1. Identify and evaluate the exposures to loss which relate to their particular sphere of operations.
2. Specify and establish policies, plans, and operating standards, procedures, systems, and other disciplines to be used to minimize, mitigate, and/or limit the risks associated with the exposures identified.
3. Establish practical controlling processes that require and encourage directors, officers, and employees to carry out their duties and responsibilities in a manner that achieves the five control objectives outlined in the preceding paragraph.
4. Maintain the effectiveness of the controlling processes they have established and foster continuous improvement to these processes.

It is the responsibility of Internal Audit to:

1. Develop an annual audit plan using an appropriate risk-based methodology and including the consideration of any risks or control concerns identified by management and submit the plan along with a financial budget, human resource plan and any resource limitations or significant interim changes to the President and Executive and Audit Committee of the Board of Trustees for review and approval.
2. Implement the annual audit plan and report results to the President and Executive and Audit Committee of the Board of Trustees.
3. Periodically provide information to the President and Executive and Audit Committee of the Board of Trustees on the status and results of the annual audit plan, the sufficiency of Internal Audit resources relative to its Objectives and Responsibilities, and emerging trends and successful practices in internal auditing.
4. Provide reports to the Board of Trustees Executive and Audit Committee and President on the implementation status of prior audit recommendations.
5. Provide advisory and consulting services, beyond internal audit assurance services, to assist management in meeting their objectives, including participating in the development or modification of major information systems, significant changes in functions, services, processes, operations, control processes or strategies.
6. Provide an annual assessment on the adequacy and effectiveness of the University's processes for controlling its activities, managing its risks, governance, and the performance of management responsibilities in the areas set forth in Internal Audit's Objectives.
7. Report significant issues related to the processes for controlling the activities of the University and its applicable affiliates, including potential improvements to those processes, and provide information concerning such issues through resolution.
8. Assist in the investigation of allegations of fraud or fraudulent actions in accordance with Southern Oregon University fraud policy.
9. Maintain a professional internal audit function with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this Charter.
10. Report the results of internal and external assessments conducted in association with the Quality Assurance and Improvement Program.
11. Confirm annually the organizational independence of Internal Audit.

Quality Assurance and Improvement Program

IIA Standards require the creation and maintenance of a Quality Assurance and Improvement Program. The Standards currently require an assessment by a qualified independent reviewer or review team from outside the organization at least every five years. Until the first successful assessment it is not appropriate for Internal Audit to state "in conformance with the Standards," or "in conformity to the Standards" in its reports.

Board of Trustees Authorization

Internal Audit is authorized to:

1. Have unrestricted access to all functions, records, information, property, and personnel of Southern Oregon University. Information will be handled in a confidential, secure and prudent manner as required by the Code of Ethics.
2. Audit any function, program, account or system deemed necessary and appropriate in its sole judgement, notwithstanding a pre-approved audit plan.
3. Have full and free access to the Executive and Audit Committee of the Board of Trustees in whole or in part in conjunction with open meeting laws.
4. Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives in accordance with professional standards.
5. Obtain the necessary assistance of personnel, as well as other specialized services from within or outside the organization.
6. Finalize audit reports and provide such reports to relevant parties.

Internal Audit is not authorized to:

1. Perform, direct or manage any operational duties for the University external to Internal Audit. Accordingly, Internal Audit will not design, implement, or approve internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair, or give the perception of impairing, Internal Audit's judgment, independence or objectivity.
2. Direct the activities of any University employee not employed by Internal Audit, except to the extent such employees have been appropriately assigned to an audit team or to otherwise assist the internal auditor(s). Accordingly, although constantly seeking the input and opinions of others, Internal Audit takes direction solely from the Executive and Audit Committee.
3. Initiate or approve accounting transactions external to Internal Audit.
4. Perform audits of any area or activity where they have worked or for which they have been principally responsible for at least two years after they leave the position.

All University employees are expected to comply fully and timely with requests made by Internal Audit and not interfere, impede or affect Internal Audit's necessary independence and objective mental attitude. This includes, but is not limited to, timely provision of information, access to information, or responses to draft reports. Recommendations made by Internal Audit shall be taken seriously and steps shall be taken to assess and comply with said recommendations. Internal Audit may report any non-compliance on the part of University programs or employees to the President and/or the Executive and Audit Committee of the Board of Trustees.

Standards of Practice

Internal Audit operates within the context of The Institute of Internal Auditors (IIA) Definition of Internal Auditing, IIA's International Standards for the Professional Practice of Internal Auditing (*"Standards" or "Red Book"*), IIA's Code of Ethics, when necessary Generally Accepted Government Auditing Standards (*"Yellow Book"*), Committee of Sponsoring Organizations of the Treadway Commission (COSO) control framework, and Internal Audit's procedure manual. The IIA's Practice Advisories, Practice Guides, and

Position Papers will also be adhered to and guide operations as applicable. In addition, the internal audit activity will adhere to Southern Oregon University's relevant policies and procedures.

Internal Audit performs five types of engagements:

Assurance Services - Assurance services are objective examinations of evidence for the purpose of providing an independent assessment. This includes assessing and reporting on the adequacy and effectiveness of the internal controls, the quality of performance in carrying out assigned responsibilities and evaluating risk exposures relating to the University's governance, operations, and information systems. The scope includes reviewing and evaluating:

1. achievement of the University's strategic objectives;
2. internal controls established to ensure compliance with applicable policies, plans, procedures, laws, regulations, and contracts;
3. the means with which assets are safeguarded;
4. the reliability and integrity of financial and operational information;
5. the efficiency and effectiveness with which resources are employed; and
6. IT systems to determine if they are appropriately managed, controlled, and protected.

Areas selected for audit are identified as a part of robust annual planning process. The goal of the annual planning process is to identify what units can most benefit from assurance services. The annual planning process seeks to apply available resources to highest risks identified, but also serves to provide periodic resources to all units.

For the purposes of audit planning, Internal Audit has organized the University into eight major functions: (1) governance and leadership, (2) instruction and academic support including student affairs and the library, (3) research and development, (4) human resources management, (5) fiscal management including the service center, (6) facilities management and planning including plant operations and campus public safety, (7) athletics, auxiliary enterprises, and other self-support enterprises such as student centers and activities, Jefferson Public Radio, housing, food, student health services, parking and the bookstore, (8) information technology and others as identified and necessary.

The audit selection process entails a macro-level risk assessment of the major functional areas using industry trends, past audit experience, fiscal analysis, and University constituent input. Some factors considered in selecting units include:

1. Critical nature of the unit in meeting University objectives.
2. Length of time since and results of last audit.
3. The size and complexity of the operation.
4. Changes in regulations, personnel, operations, programs, systems, or controls.
5. Regulatory requirements of the operation.
6. Degree of manual and automated processing.
7. Sensitivity of unit's operations to the university's image and reputation.
8. Amount of fiscal activity and resources.

Consulting Services - Advisory and related client service activities, the nature and scope of which are agreed upon 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 counsel, advice, facilitation and training.

Investigative Engagements - Investigations evaluate allegations of unethical business practices and/or financial and operational misconduct to determine whether allegations are substantiated and to prevent future occurrences.

Follow-up Engagements - Follow-up engagements evaluate plans and actions taken to correct reported conditions.

External Audit – Internal Audit meets with the external auditors to discuss audit plans, risks, and coordination. Internal Audit attends external audit entrance and exit conferences and may perform follow-up activity based on external audit recommendations.

Code of Ethics

Internal auditors are expected to apply and uphold the following principles as defined in the IIA Code of Ethics:

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.

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.

Approved this _____ day of _____, 2016.

Ryan Schnobrich, Internal Auditor

Dr. Roy H. Saigo, President

Mr. Bill Thorndike, Chair of the Executive and Audit Committee

Adjourn