
AGENDA

UNIVERSITY OF HOUSTON SYSTEM AUDIT AND COMPLIANCE COMMITTEE MEETING

DATE: Wednesday, February 19, 2025
TIME: 10:45 AM
PLACE: Hilton University of Houston Hotel
Conrad Hilton Ballroom, Second Floor
4450 University Drive
Houston, Texas 77204

Chair: Gregory C. King
Vice Chair: John A. McCall Jr.
Members: Alonzo Cantu
Jack Moore
Ricky Raven
Tilman J. Fertitta, Ex Officio

I. **Audit and Compliance Committee**

Presenter: Chair Greg C. King

A. Call to Order

Presenter: Chair Greg C. King

B. Approval of Committee Minutes

- November 21, 2024, Audit & Compliance Committee Meeting

Action: Approval

C. Report on University of Houston System, Institutional Compliance Hotline Report for the three months ended January 31, 2025, and Training Statistics for Fiscal Year 2025 3

Action: Information

D. Report on University of Houston System, Fraud and Non-Compliance Reports, Summary Report, Fiscal Year 2024 13

Action: Information

- E. Report on University of Houston System, External Audit Reports 19
Action: Information
- F. Report on University of Houston System, UHS Financial Statements Certifications, Fiscal Year 2024 104
Action: Information
- G. Report on University of Houston System, Internal Audit Reports 116
Action: Information
- H. Report on University of Houston System, Board of Regents' Policies on Internal Audit, Institutional Compliance, and Identity Theft Prevention 171
Action: Information

II. **Executive Session**

1. Consultation with System Attorney Regarding Legal Matters and/or contemplated Litigation or Settlement Offers
TEXAS GOV'T CODE SECTION 551.071
2. Deliberations regarding the Purchase, Exchange, Sale or Value of Real Property
TEXAS GOV'T CODE SECTION 551.072
3. Deliberations Regarding a Prospective Gift
TEXAS GOV'T CODE SECTION 551.073
4. Personnel Matters Relating to Appointment, Employment, Evaluation, Assignment, Duties, Discipline, or Dismissal of Officers, or Employees including but not limited to the Chancellor, Presidents, Vice Chancellors, in the Division of Athletics and members of the Board of Regents.
TEXAS GOV'T CODE SECTION 551.074
5. Confidentiality of government information related to security or infrastructure issues for computers.
TEXAS GOV'T CODE SECTION 552.139

III. **Report and Action from Executive Session**
Presenter: Chair Greg C. King

IV. **Adjourn**

**UNIVERSITY OF HOUSTON SYSTEM
BOARD OF REGENTS AGENDA**

COMMITTEE: Audit and Compliance

ITEM: Report on University of Houston System, Institutional Compliance Hotline Report for the three months ended January 31, 2025, and Training Statistics for Fiscal Year 2025

DATE PREVIOUSLY SUBMITTED:

SUMMARY:

The Institutional Compliance Hotline Report summarizes the fraud and non-compliance hotline reports received for each institution during the applicable quarter, including the primary issue associated with the reports. The Training Statistics for Fiscal Year 2025 details the percentage of employees completing mandatory compliance training.

SUPPORTING DOCUMENTATION: Institutional Compliance Hotline Report; Training Statistics for Fiscal Year 2025

FISCAL NOTE:

**RECOMMENDATION/
ACTION REQUESTED:** Information

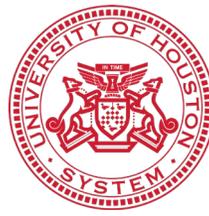
COMPONENT: University of Houston System

	1/31/25
_____ SYSTEM-WIDE COMPLIANCE OFFICER	_____ DATE
	2/14/25
_____ CHANCELLOR	_____ DATE

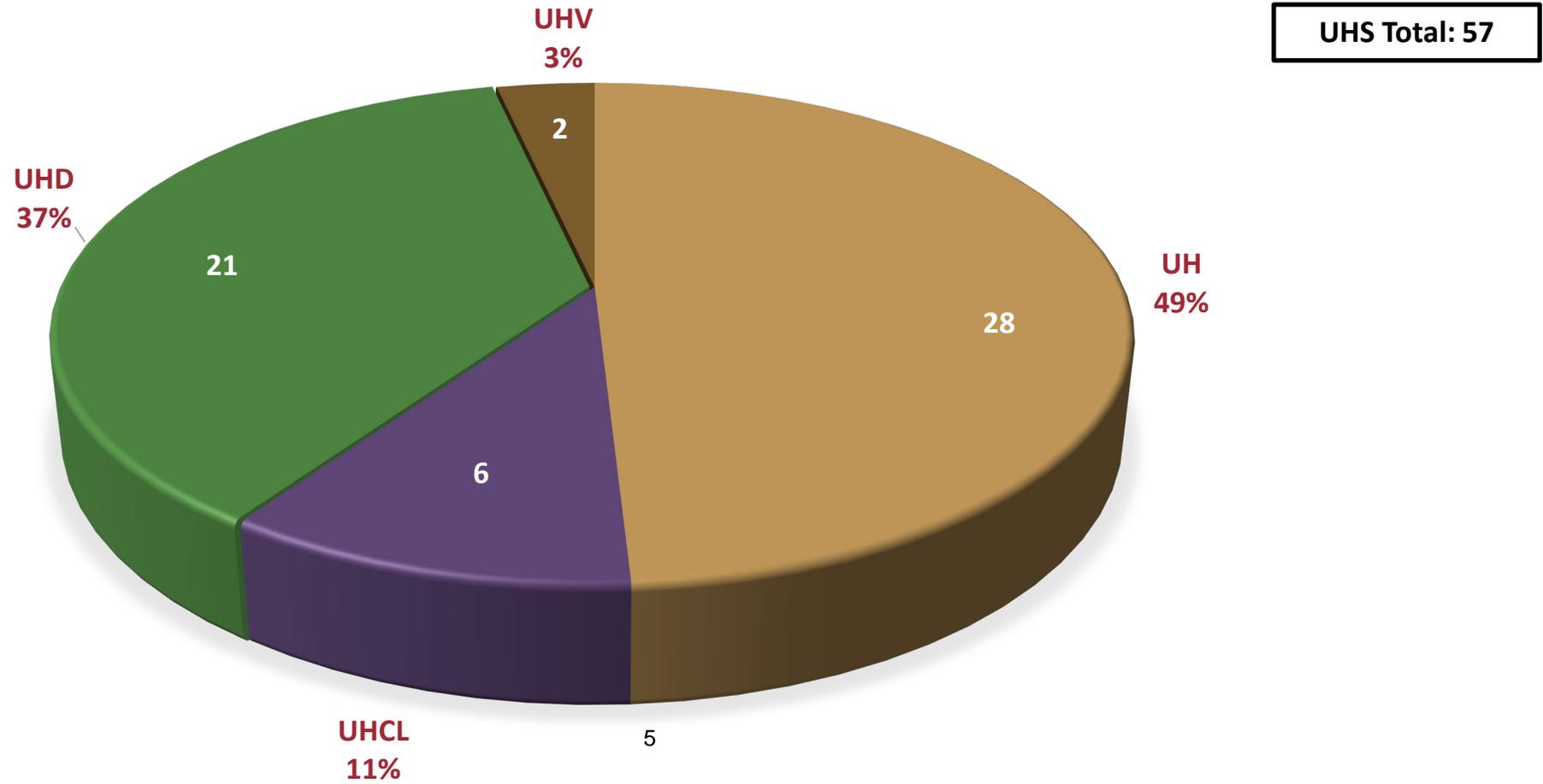


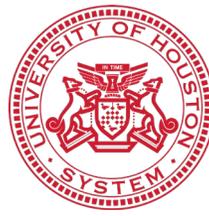
University of Houston System

Institutional Compliance Hotline Report
for the three months ended January 31, 2025 and Training Statistics for Fiscal Year 2024

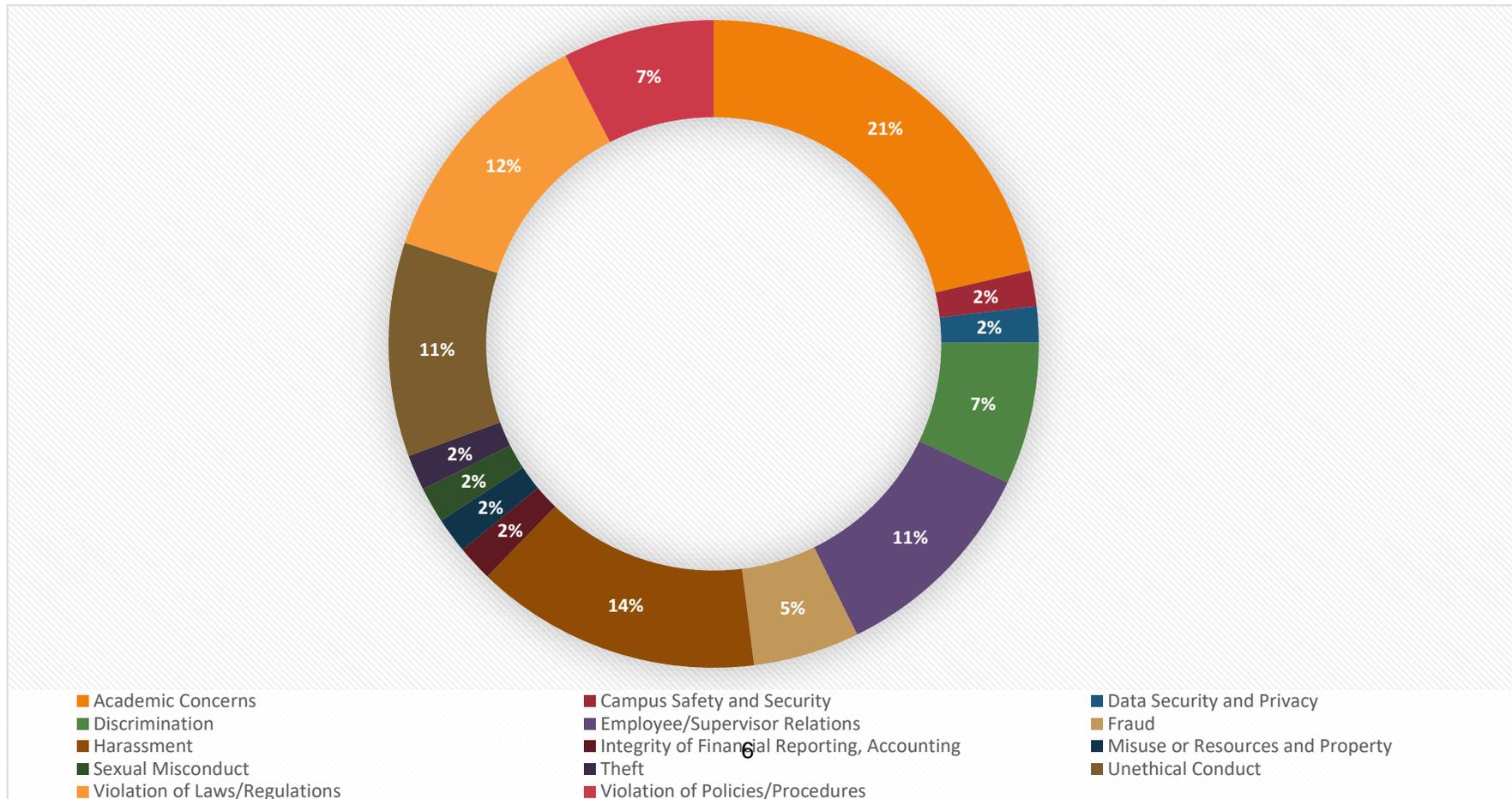


Hotline Reports for all UHS Universities



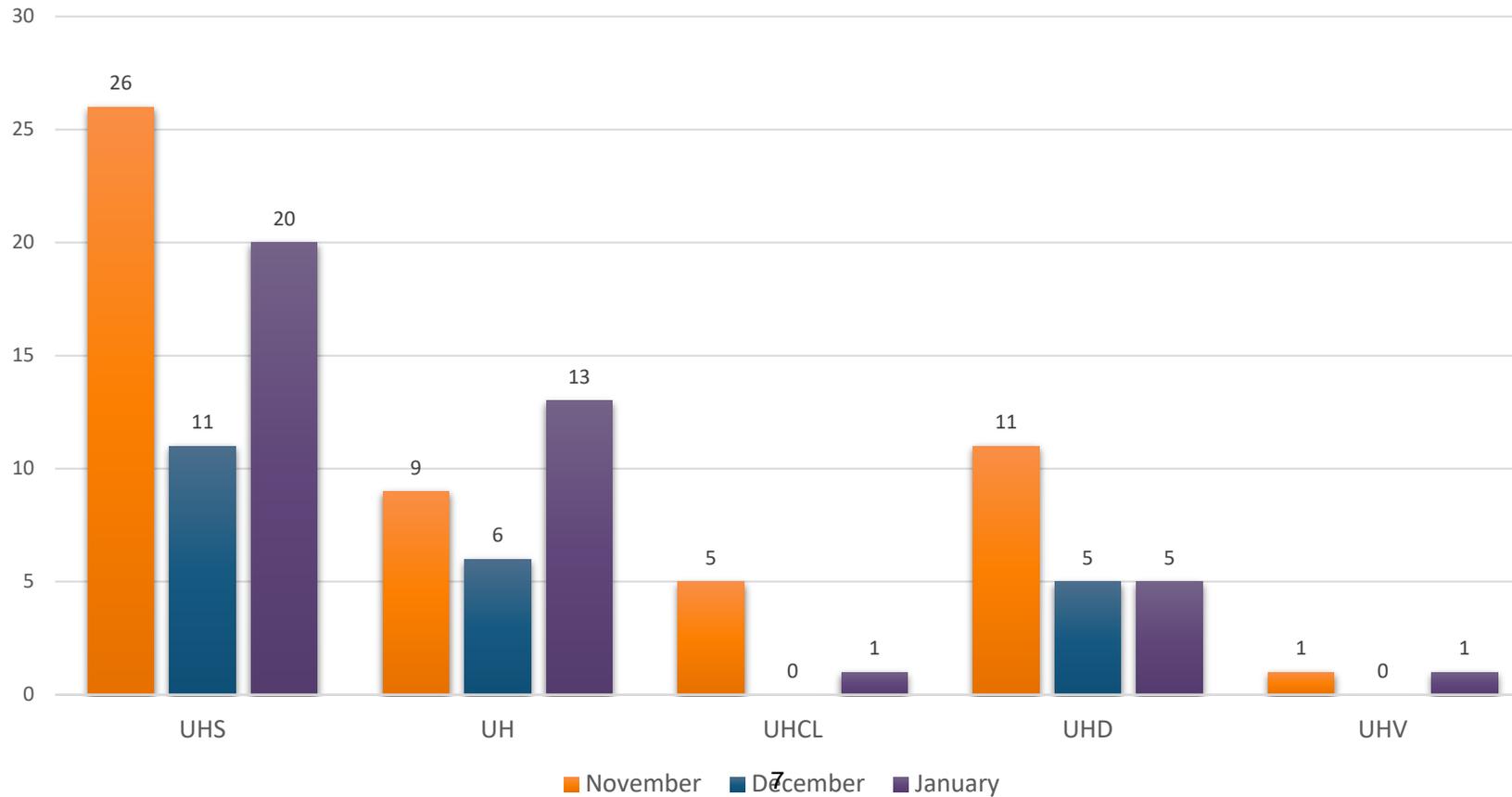


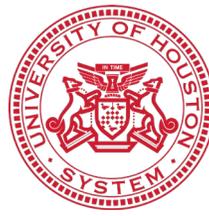
Reported Issues by Type Across UHS



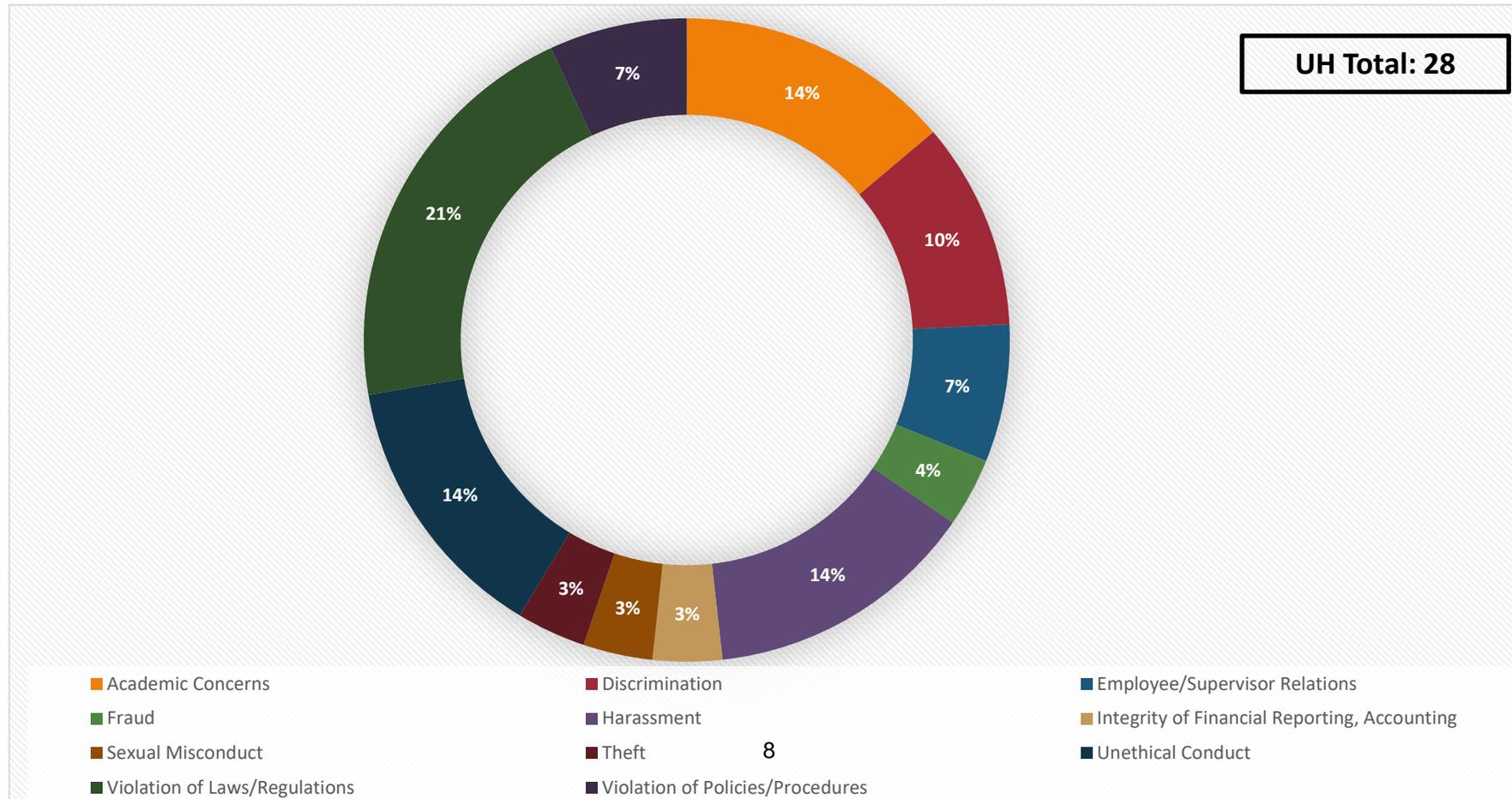


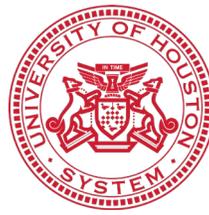
Issues Reported by Month



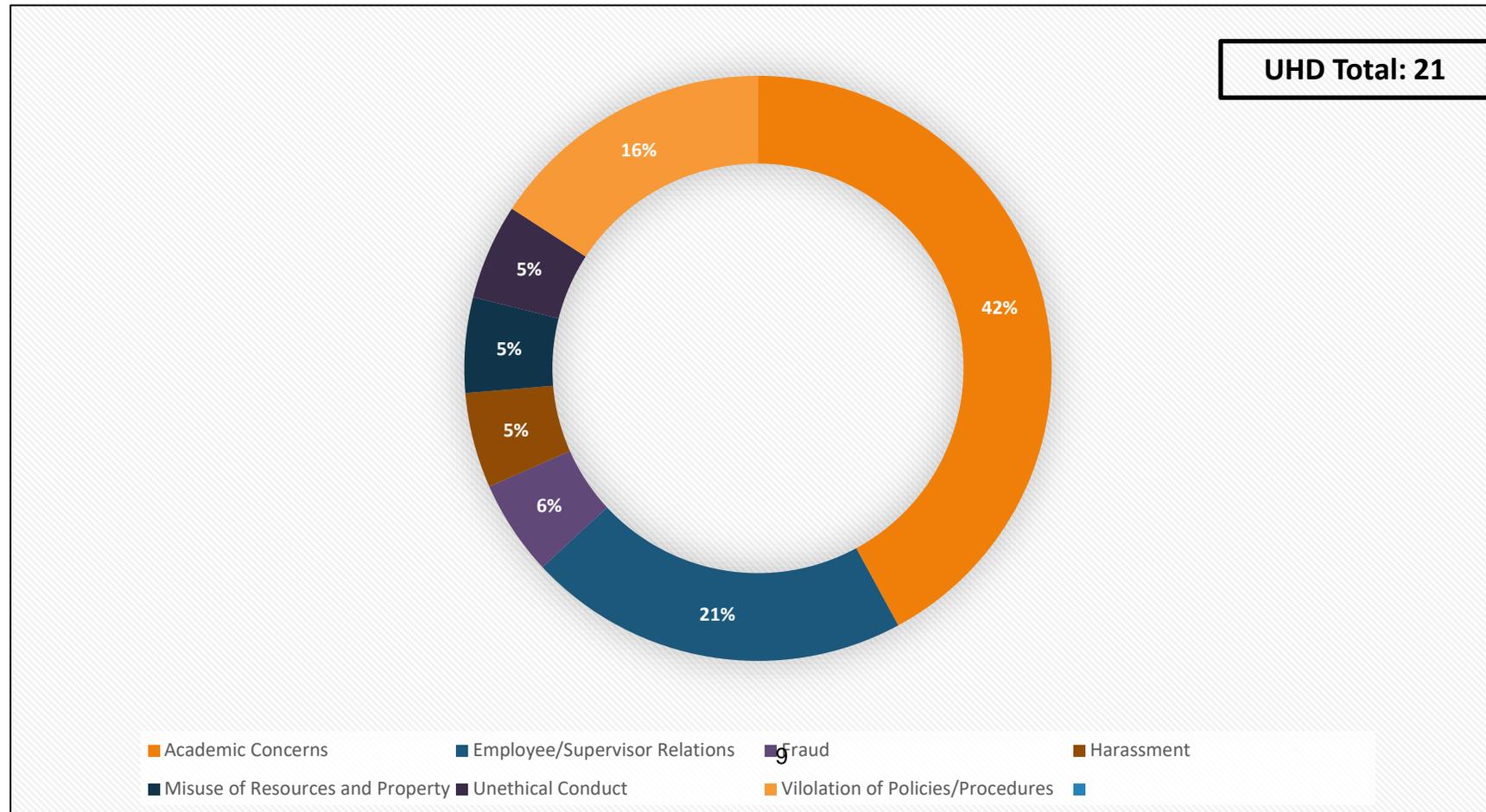


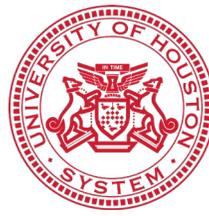
UH Issue Breakdown



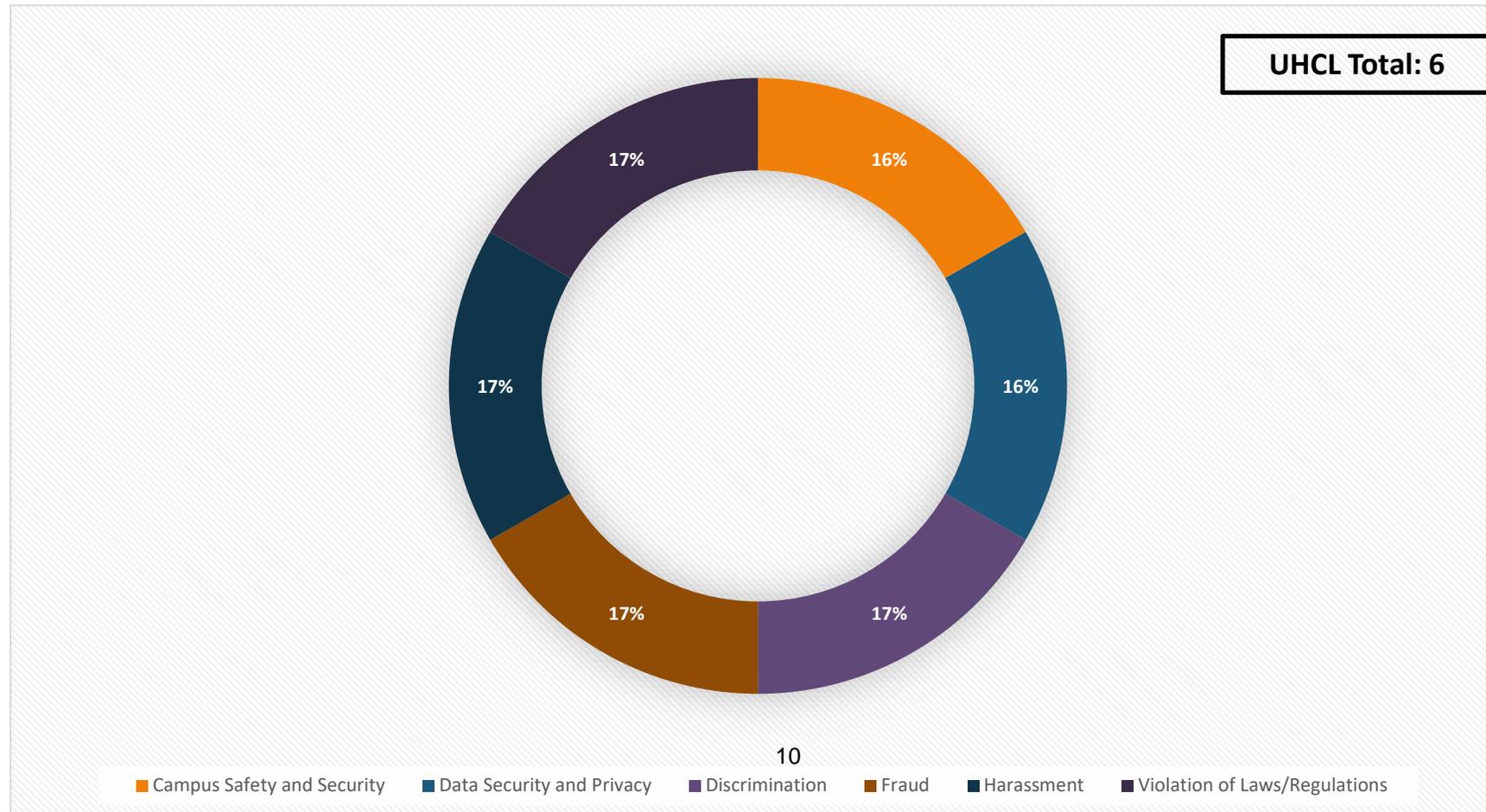


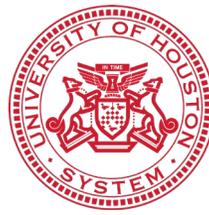
UHD Issue Breakdown



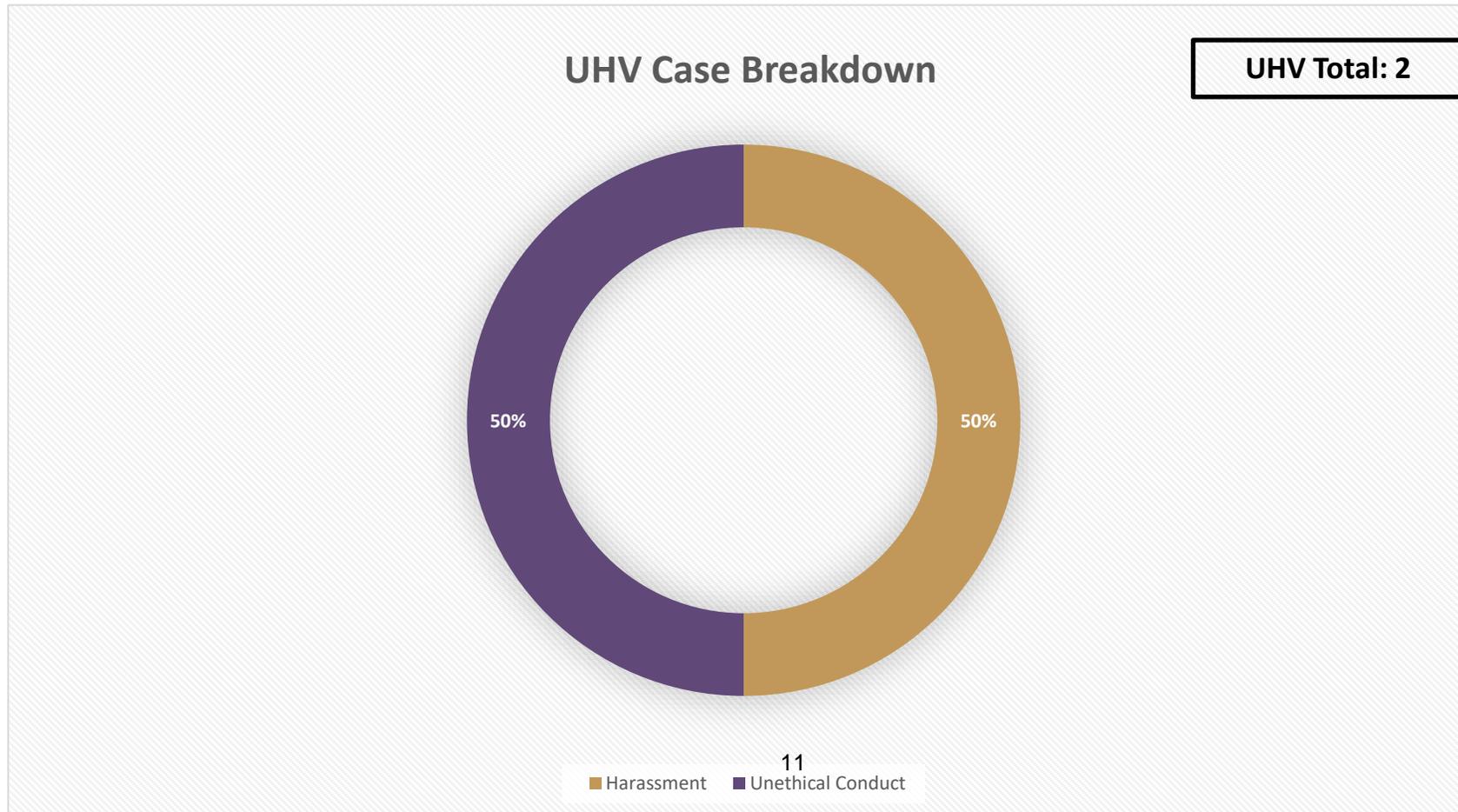


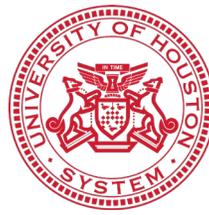
UHCL Issue Breakdown





UHV Issue Breakdown





Fiscal Year 2024 Training Statistics for Mandatory Compliance Training

University	FY 2024	FY 2025
UH	100%	98.4%
UHCL	100%	100%
UHD	100%	99.5%
UHV	100%	98.6%
UHS TOTAL	100%	98.4%

**UNIVERSITY OF HOUSTON SYSTEM
BOARD OF REGENTS AGENDA**

COMMITTEE: Audit and Compliance

ITEM: Report on University of Houston System, Fraud and Non-Compliance Reports, Summary Report, Fiscal Year 2024

DATE PREVIOUSLY SUBMITTED:

SUMMARY:

The attached report summarizes the fraud and non-compliance hotline reports received for Fiscal Year 2024, as well as the top three reported hotline issues in the past three fiscal years. This report also details the outcome of hotline reports that were closed during the fiscal year and the composition of hotline reporters.

SUPPORTING DOCUMENTATION: Fraud and Non-Compliance Reports, Summary Report, Fiscal Year 2024

FISCAL NOTE:

**RECOMMENDATION/
ACTION REQUESTED:** Information

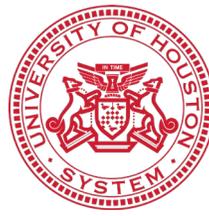
COMPONENT: University of Houston System

	1/31/25
_____ SYSTEM-WIDE COMPLIANCE OFFICER	_____ DATE
	2/14/25
_____ CHANCELLOR	_____ DATE

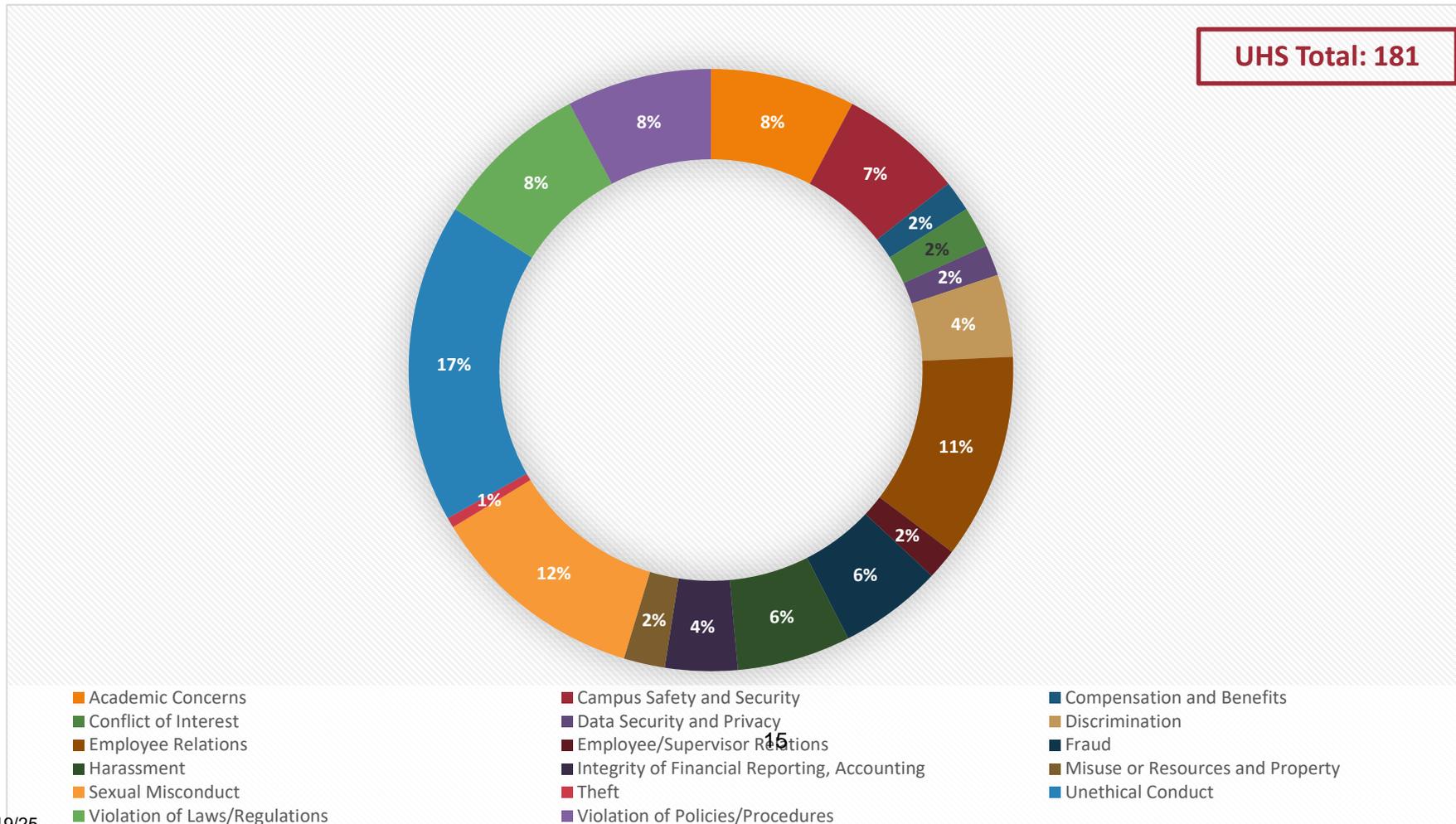


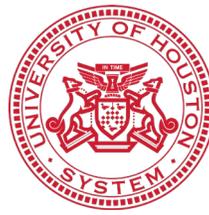
University of Houston System

Report on Fraud and Non-Compliance Reports,
Summary Report, Fiscal Year 2024



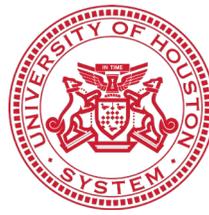
Fiscal Year 2024 Reported Issues by Type Across UHS





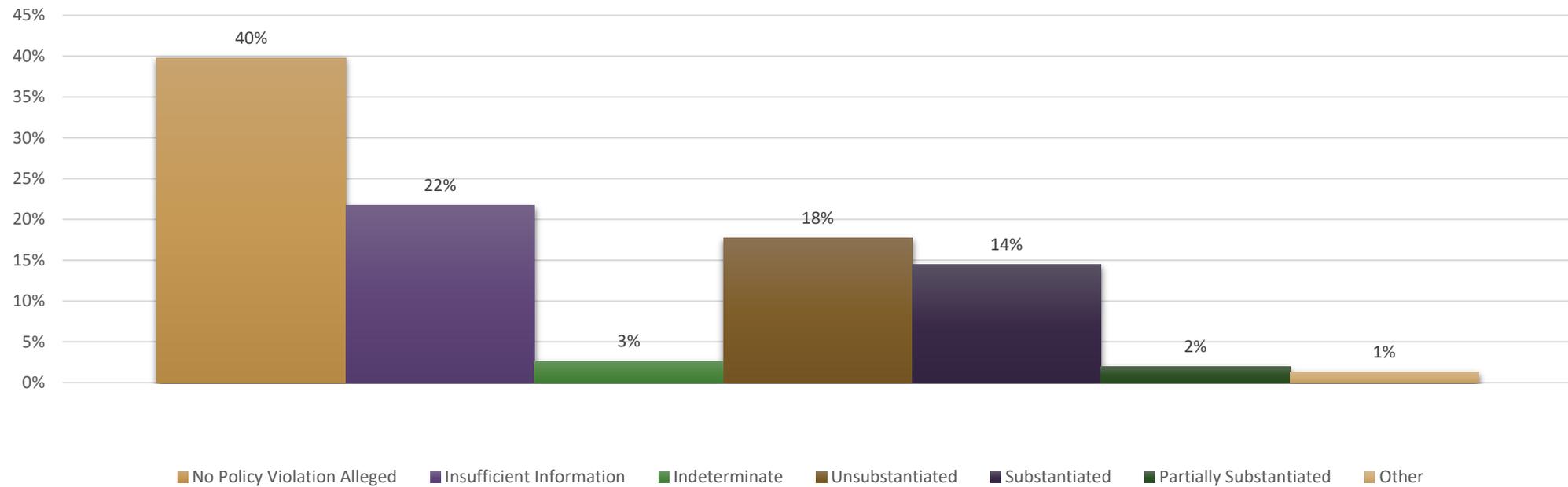
Top 3 Reported Hotline Issues for the past 3 Fiscal Years - UHS

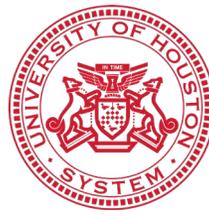
FY24	<ul style="list-style-type: none">• Unethical Conduct• Sexual Misconduct• Employee Relations
FY23	<ul style="list-style-type: none">• Abuse of Power• Compliance Violations• Discrimination
FY22	<ul style="list-style-type: none">• Compliance Violations• Ethics Violations• Discrimination



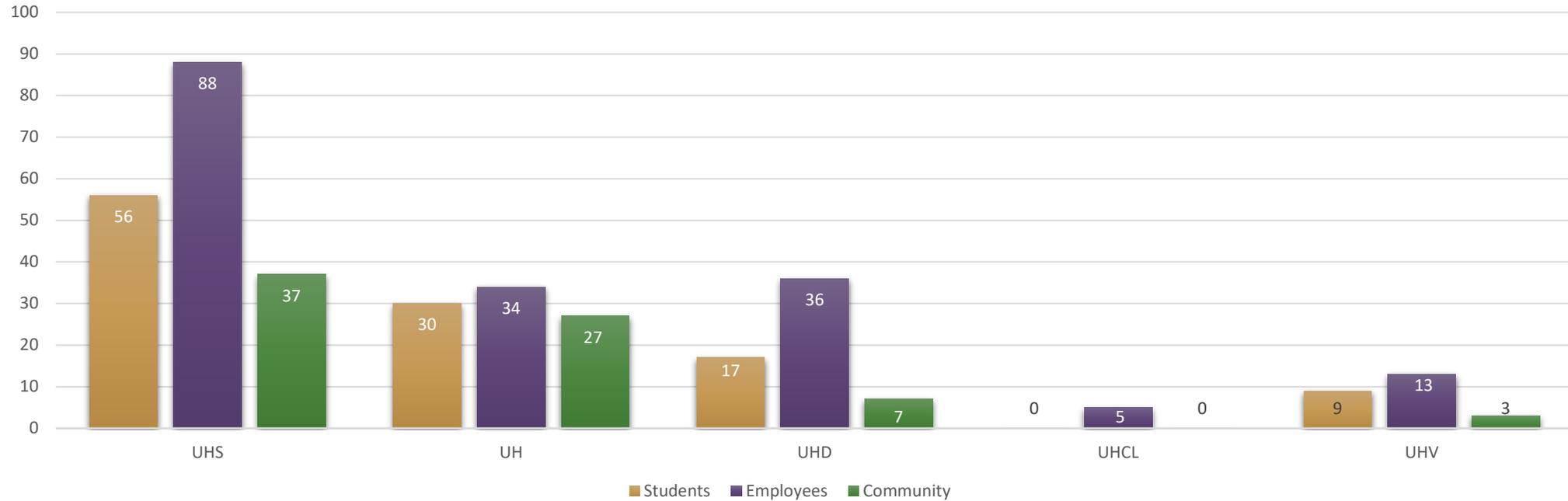
Fiscal Year 2024 Outcome of Closed Hotline Reports

Total Closed: 152





Fiscal Year 2024 Breakdown of Hotline Reports by Type of Reporter



	% Submitted by Students	% Submitted by Employees	% Submitted by Community
UHS	31%	49%	20%
UH	33%	37%	30%
UHD	24%	61%	10%
UHCL	0%	100%	0%
UHV	36%	52%	12%

**UNIVERSITY OF HOUSTON SYSTEM
BOARD OF REGENTS AGENDA**

COMMITTEE: Audit and Compliance

ITEM: Report on University of Houston System, External Audit Reports

DATE PREVIOUSLY SUBMITTED:

SUMMARY:

The Audit & Compliance Committee Charter and Checklist, item number 13, requires the Committee to review any significant findings and recommendations of the State Auditor and any employed public accounting firm or outside expertise.

SUPPORTING DOCUMENTATION: External Audit Reports

FISCAL NOTE:

**RECOMMENDATION/
ACTION REQUESTED:** Information

COMPONENT: University of Houston System



2-3-25

CHIEF AUDIT EXECUTIVE

Phillip W. Hurd

DATE



CHANCELLOR

Renu Khator

2/14/25

DATE

External Audit Reports

The Audit & Compliance Committee Charter and Checklist, item number 13, requires the Committee to review any significant findings and recommendations of the State Auditor and any employed public accounting firm or outside expertise.

Report Name	Name of Firm	Presenter	IAD Page #'s
UH Intercollegiate Athletics Program, Independent Accountants' Report on the Application of Agreed-Upon Procedures, For the Year End August 31, 2024	James Moore & Co., P.L.	Shane Metzler, CPA-Manager (Presenting virtually) Katie Davis, CPA, LSS Certified-Partner (Attending virtually)	2
UHS Endowment Fund, Independent Auditor's Report and Basic Financial Statements	FORVIS, LLP	Shekita S. Rawls, CPA Director, Audit & Attest E: Shekita.Rawls@forvis.com P: 713-499-4622 (in person)	25
UH Cancer Prevention and Research Institute of Texas' (CPRIT) Independent Accountants Report on the Application of Agreed-Upon Procedures, August 31, 2024	FORVIS, LLP	Shekita S. Rawls, CPA Director, Audit & Attest E: Shekita.Rawls@forvis.com P: 713-499-4622 (in person)	76

**UNIVERSITY OF HOUSTON
INTERCOLLEGIATE ATHLETICS PROGRAM
INDEPENDENT ACCOUNTANTS' REPORT ON THE
APPLICATION OF AGREED-UPON PROCEDURES
FOR THE YEAR ENDED AUGUST 31, 2024**

**UNIVERSITY OF HOUSTON
INTERCOLLEGIATE ATHLETICS PROGRAM
TABLE OF CONTENTS
AUGUST 31, 2024**

	<u>Page(s)</u>
Independent Accountants' Report on the Application of Agreed-Upon Procedures	1 – 17
Exhibits	
Exhibit I – Statement of Revenues and Expenses	18
Exhibit II – Notes to Statement of Revenues and Expenses	19 –20
Exhibit III – Supplement to Statement of Revenues and Expenses	21

**INDEPENDENT ACCOUNTANTS' REPORT ON THE
APPLICATION OF AGREED-UPON PROCEDURES**

Dr. Renu Khator, President,
University of Houston:

We have performed the procedures enumerated below on the accompanying Statement of Revenues and Expenses (the Statement, see Exhibit I) of the University of Houston (the University) Intercollegiate Athletics Program (the Program) in compliance with the National Collegiate Athletic Association's (NCAA) Bylaw 20.2.4.17 for the year ended August 31, 2024. The University's management is responsible for the accompanying Statement and the Statement's compliance with those requirements for the year ended August 31, 2024.

The University has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of evaluating whether the accompanying Statement is in compliance with the NCAA's Bylaw 20.2.4.17 for the year ended August 31, 2024. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

Exceptions totaling the lesser of \$100,000 or 10% of the line item total to which an agreed-upon procedure has been applied to, other than exceptions related to internal control procedures of the Program, for which there are no thresholds, have been reported. The procedures and the associated findings are as follows:

Agreed-Upon Procedures Related to the Statement of Revenues and Expenses

Procedure	Finding
All Revenue Categories	
<ul style="list-style-type: none"> Compare and agree each operating revenue category reported in the statement during the reporting period to supporting schedules provided by the Program. If a specific reporting category is less than 4.0% of the total revenues, no procedures are required for that specific category. 	No exceptions noted.
<ul style="list-style-type: none"> Compare and agree a sample of operating revenue receipts obtained from the above operating revenue supporting schedules to adequate supporting documentation. 	No exceptions noted.
<ul style="list-style-type: none"> Compare each major revenue account over 10% of the total revenues to prior period amounts and budget estimates. Obtain and document an explanation of any variations greater than 10%. Report the analysis as a supplement to the final Agreed-Upon procedures report. 	No exceptions noted and amounts and explanations for variations from the prior period are included in the supplement on page 21.

Procedure

Finding

1. Ticket Sales

- a. Compare tickets sold during the reporting period, complimentary tickets provided during the reporting period and unsold tickets to the related revenue reported by the Program in the statement and the related attendance figures and recalculate totals.

No exceptions noted.

2. Direct State or Other Governmental Support

- a. Compare direct state or other governmental support recorded by the Program during the reporting period with state appropriations, institutional authorizations and/or other corroborative supporting documentation and recalculate totals.

As there was no direct state or other governmental support for the year ended August 31, 2024, this procedure was not performed.

3. Student Fees

- a. Compare and agree student fees reported by the Program in the statement for the reporting period to student enrollments during the same reporting period and recalculate totals.
- b. Obtain documentation of Institute's methodology for allocating student fees to intercollegiate athletics programs.
- c. If the Program is reporting that an allocation of student fees should be countable as generated revenue, recalculate the totals of their methodology for supporting that they are able to count each sport. Tie the calculation to supporting documents such as seat manifests, ticket sales reports and student fee totals.

We were unable to perform the procedure as outlined; however, we noted that the Student Fees Advisory Committee determines the amount of student fees the Program receives. We agreed the amount to support from the Committee and noted no exceptions.

An understanding of the University's methodology was gained, and we noted the allocation was in accordance with the University's methodology.

No exceptions noted.

4. Direct Institutional Support

- a. Compare the direct institutional support recorded by the Program during the reporting period with the institutional supporting budget transfers documentation and other corroborative supporting documentation and recalculate totals.

No exceptions noted.

5. Less - Transfers to Institution

- a. Compare the transfers back to the institution with permanent transfers back to the institution from the Program and recalculate totals.

As there were no transfers to institution for the year ended August 31, 2024, this procedure was not performed.

Procedure

Finding

6. Indirect Institutional Support (6 and 6A)

- a. Compare the indirect institutional support recorded by the Program during the reporting period with expense payments, cost allocation detail and other corroborative supporting documentation and recalculate totals.

As there was no indirect institutional support for the year ended August 31, 2024, this procedure was not performed.

7. Guarantees

- a. Select a sample of settlement reports for away games during the reporting period and agree each selection to the Program's general ledger and/or the statement and recalculate totals.
- b. Select a sample of contractual agreements pertaining to revenues derived from guaranteed contests during the reporting period and compare and agree each selection to the Program's general ledger and/or the statement and recalculate totals.

As guarantees for the year ended August 31, 2024 were below 4% of total revenues, this procedure was not performed.

As guarantees for the year ended August 31, 2024 were below 4% of total revenues, this procedure was not performed.

8. Contributions

- a. Any contributions of moneys, goods or services received directly by an intercollegiate athletics program from any affiliated or outside organization, agency or group of individuals (two or more) not included above (e.g., contributions by corporate sponsors) that constitutes 10 percent or more in aggregate for the reporting year of all contributions received for intercollegiate athletics during the reporting periods shall obtain and review supporting documentation for each contribution and recalculate totals.

No exceptions noted.

9. In-Kind

- a. Compare the in-kind recorded by the Program during the reporting period with a schedule of in-kind donations and recalculate totals.

As there were no in-kind revenues for the year ended August 31, 2024, this procedure was not performed.

10. Compensation and Benefits Provided by a Third-Party

- a. Obtain the summary of revenues from affiliated and outside organizations (the "Summary") as of the end of the reporting period from the Program and select a sample of funds from the Summary and compare and agree each selection to supporting documentation, the Program's general ledger and/or the Summary and recalculate totals.

As there were no compensation and benefits provided by a third-party for the year ended August 31, 2024, this procedure was not performed.

Procedure	Finding
11. Media Rights	
<ul style="list-style-type: none"> a. Obtain and inspect agreements to understand the institution's total media (broadcast, television, radio) rights received by the Program or through their conference offices as reported in the statement. b. Compare and agree the media rights revenues to a summary statement of all media rights identified, if applicable, and the Program's general ledger and recalculate totals. Ledger totals may be different for total conference distributions if media rights are not broken out separately. 	<p>Agreements were obtained and an understanding of relevant terms and conditions was gained.</p> <p>No exceptions noted.</p>
12. NCAA Distributions	
<ul style="list-style-type: none"> a. Compare the amounts recorded in the revenue and expense categories reporting to general ledger detail for NCAA distributions and other corroborative supporting documents and recalculate totals. 	<p>As NCAA distributions for the year ended August 31, 2024 were below 4% of total revenues, this procedure was not performed.</p>
13. Conference Distributions and Conference Distributions of Football Bowl Generated Revenue (13 and 13A)	
<ul style="list-style-type: none"> a. Obtain and inspect agreements related to the Program's conference distributions and participation in revenues from tournaments during the reporting period for relevant terms and conditions. b. Compare and agree the related revenues to the Program's general ledger, and/or the statement and recalculate totals. 	<p>Agreements were obtained and an understanding of relevant terms and conditions was gained.</p> <p>No exceptions noted.</p>
14. Program Sales, Concessions, Novelty Sales and Parking	
<ul style="list-style-type: none"> a. Compare the amount recorded in the revenue reporting category to a general ledger detail of program sales, concessions, novelty sales and parking as well as any other corroborative supporting documents and recalculate totals. 	<p>As program sales, concessions, novelty sales and parking for the year ended August 31, 2024 were below 4% of total revenues, this procedure was not performed</p>
15. Royalties, Licensing, Advertisements and Sponsorships	
<ul style="list-style-type: none"> a. Obtain and inspect agreements related to the Program's participation in revenues from royalties, licensing, advertisements and sponsorships during the reporting period for relevant terms and conditions. b. Compare and agree the related revenues to the Program's general ledger, and/or the statement and recalculate totals. 	<p>Agreements were obtained and an understanding of relevant terms and conditions was gained.</p> <p>No exceptions noted.</p>

Procedure

Finding

16. Sports Camp Revenues

a. Inspect sports camp contract(s) between the institution and person(s) conducting institutional sports-camps or clinics during the reporting period to obtain documentation of the Program's methodology for recording revenues from sports- camps.

As sports camp revenues for the year ended August 31, 2024 were below 4% of total revenues, this procedure was not performed.

b. Obtain schedules of camp participants and select a sample of individual camp participant cash receipts from the schedule of sports-camp participants and agree each selection to the Program's general ledger, and/or the statement and recalculate totals.

As sports camp revenues for the year ended August 31, 2024 were below 4% of total revenues, this procedure was not performed.

17. Athletics Restricted Endowment and Investment Income

a. Obtain and inspect endowment agreements, if any, for relevant terms and conditions.

As athletics restricted endowment and investment income for the year ended August 31, 2024 were below 4% of total revenues, this procedure was not performed.

b. Compare and agree the classification and use of endowment and investment income reported in the statement during the reporting period to the uses of income deferred within the related endowment agreement and recalculate totals.

As athletics restricted endowment and investment income for the year ended August 31, 2024 were below 4% of total revenues, this procedure was not performed.

18. Other Operating Revenue

a. Perform minimum agreed-upon procedures referenced for all revenue categories and recalculate totals.

As other operating revenues for the year ended August 31, 2024 were below 4% of total revenues, this procedure was not performed.

19. Football Bowl Revenues

a. Obtain and inspect agreements related to the Program's revenues from post-season football bowl participation during the reporting period to gain an understanding of the relevant term and conditions.

As there were no football bowl revenues for the year ended August 31, 2024, this procedure was not performed.

b. Compare and agree the related revenues to the Program's general ledger, and or the statement and recalculate totals.

As there were no football bowl revenues for the year ended August 31, 2024, this procedure was not performed.

All Expense Categories

- | | |
|---|---|
| <ul style="list-style-type: none"> • Compare and agree each expense category reported in the statement during the reporting period to supporting schedules provided by the institution. If a specific reporting category is less than 4.0% of the total expenses, no procedures are required for that specific category. | <p>No exceptions noted.</p> |
| <ul style="list-style-type: none"> • Compare and agree a sample of expenses obtained from the above operating expense supporting schedules to adequate supporting documentation. | <p>No exceptions noted.</p> |
| <ul style="list-style-type: none"> • Compare each major expense account over 10% of the total expenses to prior period amounts and budget estimates. Obtain and document an explanation of any variations greater than 10%. Report the analysis as a supplement to the final Agreed-Upon procedures report. | <p>No exceptions noted and amounts and explanations for variations from the prior period are included in the supplement on page 21.</p> |

20. Athletic Student Aid

- | | |
|--|--|
| <p>a. Using the criteria below select a sample of student-athletes receiving athletic aid during the reporting period. Data should be captured by the institution through the creation of a squad/eligibility list for each sport sponsored.</p> <ul style="list-style-type: none"> • If using the NCAA's Compliance Assistant (CA) application, select 10% of the total student-athletes with a maximum sample size of 40. • If using a compliance application other than the NCAA's CA application, select 20% of total student-athletes with a maximum sample size of 60). <p><i>Note: The Division I revenue distribution equivalencies (athletic grant amount divided by the full grant amount) should only include tuition, fees, living expenses and required course-related books, per Bylaw 20.02.10. Cost of Attendance or Other Expenses Related to Attendance are not countable for revenue distribution purposes.</i></p> <p><i>Note: The Calculation of Revenue Distribution Equivalencies Report (CRDE) within Compliance Assistant should provide equivalencies that do not contain Cost of Attendance or Other Expenses Related to Attendance.</i></p> | <p>A sample of 39 student aid recipients was selected.</p> |
| <p>b. Obtain individual student-athlete account detail for each selection. Reconcile the total athletic aid reported by the institution to the student-athlete's account detail reported in CA or the institution report that reconciles to the NCAA Membership Financial Reporting System.</p> | <p>No exceptions noted.</p> |

Procedure	Finding
<p>c. Division I Institutions Only: Perform a check of each student selected to ensure their information was reported accurately in either the NCAA’s CA software or entered directly into the NCAA Membership Financial Reporting System using the following criteria:</p> <ul style="list-style-type: none"> • Grants-in-aid is calculated by using the revenue distribution equivalencies, athletic grant amount divided by the full grant amount. • Other expenses related to attendance (also known as cost of attendance) should not be included in grants-in-aid revenue distribution equivalencies. Only tuition, fees, living expenses, and course-related books are countable for grants-in-aid revenue distribution per Bylaw 20.02.10. <u>Note:</u> For compliance purposes equivalencies may include other expenses related to attendance per Bylaw 15.02.2. However, other expenses related to attendance are not allowed to be included for revenue distribution equivalencies. If using the NCAA CA application, the Calculation of Revenue Distribution Equivalencies Report (CRDE) should provide equivalencies that do not include other expenses related to attendance. • Full grant amount should be entered as a full year of tuition, not a semester or quarter. • Student-athletes are to be counted once, regardless of multiple sport participation, and should not receive a revenue distribution equivalency greater than 1.00. • Athletic grants are valid for revenue distribution purposes only in sports in which the NCAA conducts championships competition, emerging sports for women and football bowl subdivision football. • Grants-in-aid are valid for revenue distribution purposes in NCAA sports that do not meet the minimum contests and participants’ requirements of Bylaw 20.10.6.3. • Institutions providing grants to student-athletes listed on the CRDE as “Exhausted Eligibility (fifth-year)” or “Medical” receive credit in the grants-in-aid component. 	<p>No exceptions noted.</p>

Procedure	Finding
<ul style="list-style-type: none"> The athletics aid equivalency cannot exceed maximum equivalency limits. However, the total revenue distribution equivalency can exceed maximum equivalency limits due to exhausted eligibility and medical equivalencies, Bylaw 15.5.3.1. <u>Note:</u> The NCAA Membership Financial Reporting System's Revenue Distribution data entry webpage will automatically reduce the Total Revenue Distribution Equivalencies Awarded column to adhere to Bylaw 15.5.3.1. 	No exceptions noted.
<ul style="list-style-type: none"> If a sport is discontinued and athletic aid is still being awarded/honored by the institution, the athletic aid is countable for revenue distribution purposes. <u>Note:</u> The discontinued sport will need to be added to the NCAA Membership Financial Reporting System's Revenue Distribution data entry Webpage. 	As there were no discontinued sports for the year ended August 31, 2024, this procedure was not performed.
<ul style="list-style-type: none"> All equivalency calculations should be rounded to two decimal places. 	No exceptions noted.
<ul style="list-style-type: none"> If a selected student received a Pell Grant, ensure the value of the grant is not included in the calculation of equivalencies or the total dollar amount of student athletic aid expense for the institution. 	No exceptions noted.
<ul style="list-style-type: none"> If a selected student received a Pell Grant, ensure the student's grant was included in the total number and total dollar value of Pell Grants reported for Revenue Distribution purposes in the NCAA Membership Financial Reporting System. 	No exceptions noted.
<p>d. Recalculate totals for each sport and overall.</p>	No exceptions noted.
21. Guarantees	
<p>a. Obtain and inspect visiting institution's away-game settlement reports received by the institution during the reporting period and agree related expenses to the Program's general ledger and/or the statement and recalculate totals.</p>	As guarantees for the year ended August 31, 2024 were below 4% of total expenses, this procedure was not performed.
<p>b. Obtain and inspect contractual agreements pertaining to expenses recorded by the institution from guaranteed contests during the reporting period. Compare and agree related amounts expensed by the institution during the reporting period to the institution's general ledger and/or the statement and recalculate totals.</p>	As guarantees for the year ended August 31, 2024 were below 4% of total expenses, this procedure was not performed.

22. Coaching Salaries, Benefits, and Bonuses Paid by the University and Related Entities

- a. Obtain and inspect a listing of coaches employed by the Program and related entities during the reporting period. Select a sample of coaches' contracts that must include football, and men's and women's basketball from the listing.
- b. Compare and agree the financial terms and conditions of each selection to the related coaching salaries, benefits, and bonuses recorded by the Program and related entities in the statement during the reporting period.
- c. Obtain and inspect payroll summary registers for the reporting year for each selection. Compare and agree payroll summary registers from the reporting period to the related coaching salaries, benefits and bonuses paid by the Program and related entities expense recorded by the Program in the statement during the reporting period.
- d. Compare and agree the totals recorded to any employment contracts executed for the sample selected and recalculate totals.

A listing of all coaches employed by the Program was obtained. A sample of five coaches for two pay periods each was selected, including the men's and women's basketball head coaches and the men's football head coach.

No exceptions noted.

No exceptions noted.

No exceptions noted.

23. Coaching Salaries, Benefits, and Bonuses Paid by a Third-Party

- a. Obtain and inspect a listing of coaches employed by third parties during the reporting period. Select a sample of coaches' contracts that must include football, and men's and women's basketball from the listing.
- b. Compare and agree the financial terms and conditions of each selection to the related coaching other compensation and benefits paid by a third party and recorded by the Program in the statement during the reporting period.
- c. Obtain and inspect reporting period payroll summary registers for each selection. Compare and agree related payroll summary register to the coaching other compensation and benefits paid by a third-party recorded by the institution in the statement during the reporting period and recalculate totals.

As there were no coaching salaries, benefits, and bonuses paid by a third-party for the year ended August 31, 2024, this procedure was not performed.

As there were no coaching salaries, benefits, and bonuses paid by a third-party for the year ended August 31, 2024, this procedure was not performed.

As there were no coaching salaries, benefits, and bonuses paid by a third-party for the year ended August 31, 2024, this procedure was not performed.

Procedure

Finding

24. Support Staff/Administrative Compensation, Benefits and Bonuses Paid by the University and Related Entities

- a. Select a sample of support staff/administrative personnel employed by the Program and related entities during the reporting period.
- b. Obtain and inspect reporting period summary payroll register for each selection. Compare and agree related summary payroll register to the related support staff administrative salaries, benefits and bonuses paid by the Program and related entities expense recorded by the Program in the statement during the reporting period and recalculate totals.

A sample of five support staff/administrative personnel for two pay periods each was selected.

No exceptions noted.

25. Support Staff/Administrative Compensation, Benefits, and Bonuses Paid by a Third-Party

- a. Select a sample of support staff/administrative personnel employed by the third parties during the reporting period.
- b. Obtain and inspect reporting period payroll summary registers for each selection. Compare and agree related payroll summary registers to the related support staff administrative other compensation and benefits expense recorded by the Program in the statement during the reporting period and recalculate totals.

As there were no support staff/administrative compensation, benefits, and bonuses paid by a third-party for the year ended August 31, 2024, this procedure was not performed.

As there were no support staff/administrative compensation, benefits, and bonuses paid by a third-party for the year ended August 31, 2024, this procedure was not performed.

26. Severance Payments

- a. Select a sample of employees receiving severance payments by the institution during the reporting period and agree each severance payment to the related termination letter or employment contract and recalculate totals.

As severance payments for the year ended August 31, 2024, were below 4% of total expenses, this procedure was not performed.

27. Recruiting

- a. Obtain documentation of the Program's recruiting expense policies.
- b. Compare and agree to existing institutional- and NCAA-related policies.

As recruiting expenses for the year ended August 31, 2024 were below 4% of total expenses, this procedure was not performed.

As recruiting expenses for the year ended August 31, 2024 were below 4% of total expenses, this procedure was not performed.

Procedure	Finding
<ul style="list-style-type: none"> c. Obtain general ledger detail and compare to the total expenses reported and recalculate totals. 	<p>As recruiting expenses for the year ended August 31, 2024 were below 4% of total expenses, this procedure was not performed.</p>
28. Team Travel	
<ul style="list-style-type: none"> a. Obtain documentation of the Program’s team travel policies. 	<p>We obtained and documented an understanding of the Program’s team travel policies.</p>
<ul style="list-style-type: none"> b. Compare and agree to existing institutional- and NCAA-related policies. 	<p>No exceptions noted and policies are consistent with institutional and NCAA-related policies.</p>
<ul style="list-style-type: none"> c. Obtain general ledger detail and compare to the total expenses reported and recalculate totals. 	<p>No exceptions noted.</p>
29. Sports Equipment, Uniforms and Supplies	
<ul style="list-style-type: none"> a. Obtain general ledger detail and compare to the total expenses reported. Select a sample of transactions to validate existence of transaction and accuracy of recording and recalculate totals. 	<p>As sports equipment, uniforms and supplies for the year ended August 31, 2024 were below 4% of total expenses, this procedure was not performed.</p>
30. Game Expenses	
<ul style="list-style-type: none"> a. Obtain general ledger detail and compare to the total expenses reported. Select a sample of transactions to validate existence of transaction and accuracy of recording and recalculate totals. 	<p>As game expenses for the year ended August 31, 2024 were below 4% of total expenses, this procedure was not performed.</p>
31. Fund Raising, Marketing and Promotion	
<ul style="list-style-type: none"> a. Obtain general ledger detail and compare to the total expenses reported. Select a sample of transactions to validate existence of transaction and accuracy of recording and recalculate totals. 	<p>As fund raising, marketing and promotion for the year ended August 31, 2024 were below 4% of total expenses, this procedure was not performed.</p>
32. Sports Camp Expenses	
<ul style="list-style-type: none"> a. Obtain general ledger detail and compare to the total expenses reported. Select a sample of transactions to validate existence of transaction and accuracy of recording and recalculate totals. 	<p>As sports camp expenses for the year ended August 31, 2024 were below 4% of total expenses, this procedure was not performed.</p>

Procedure	Finding
33. Spirit Groups	
<ul style="list-style-type: none"> a. Obtain general ledger detail and compare to the total expenses reported. Select a sample of transactions to validate existence of transaction and accuracy of recording and recalculate totals. 	As there were no spirit groups for the year ended August 31, 2024, this procedure was not performed.
34. Athletic Facilities Debt Service, Leases and Rental Fees	
<ul style="list-style-type: none"> a. Obtain a listing of debt service schedules, lease payments and rental fees for athletics facilities for the reporting year. Compare a sample of facility payments including the top two highest facility payments to additional supporting documentation (e.g. debt financing agreements, leases, rental agreements). b. Compare amounts recorded to amounts listed in the general ledger detail and recalculate totals. 	<p>No exceptions noted.</p> <p>No exceptions noted.</p>
35. Direct Overhead and Administrative Expenses	
<ul style="list-style-type: none"> a. Obtain general ledger detail and compare to the total expenses reported. Select a sample of transactions to validate existence of transaction and accuracy of recording and recalculate totals. 	No exceptions noted.
36. Indirect Institutional Support	
<ul style="list-style-type: none"> a. Tested with revenue section- Indirect Institutional Support. 	As there was no indirect institutional support for the year ended August 31, 2024, this procedure was not performed.
37. Medical Expenses and Insurance	
<ul style="list-style-type: none"> a. Obtain general ledger detail and compare to the total expenses reported. Select a sample of transactions to validate existence of transaction and accuracy of recording and recalculate totals. 	As medical expenses and insurance for the year ended August 31, 2024 were below 4% of total expenses, this procedure was not performed.
38. Memberships and Dues	
<ul style="list-style-type: none"> a. Obtain general ledger detail and compare to the total expenses reported. Select a sample of transactions to validate existence of transaction and accuracy of recording and recalculate totals. 	As memberships and dues for the year ended August 31, 2024 were below 4% of total expenses, this procedure was not performed.
39. Student-Athlete Meals (non-travel)	
<ul style="list-style-type: none"> a. Obtain general ledger detail and compare to the total expenses reported. Select a sample of transactions to validate existence of transaction and accuracy of recording and recalculate totals. 	As student-athlete meals for the year ended August 31, 2024 were below 4% of total expenses, this procedure was not performed.

Procedure

Finding

40. Other Operating Expenses

- a. Obtain general ledger detail and compare to the total expenses report. Select a sample of transactions to validate existence of transaction and accuracy of recording and recalculate totals.

As other operating expenses for the year ended August 31, 2024 were below 4% of total expenses, this procedure was not performed.

41. Football Bowl Expenses (41 and 41A)

- a. Obtain general ledger detail and compare to the total expenses reported. Select a sample of transactions to validate existence of transaction and accuracy of recording and recalculate totals.

As there were no football bowl expenses for the year ended August 31, 2024, this procedure was not performed.

ADDITIONAL MINIMUM AGREED-UPON PROCEDURES

In order for the NCAA to place reliance on the Division I financial reporting to calculate the Division I NCAA revenue distributions, which is a financial benefit to the institution, the following procedures are required:

1. Grants-in-Aid:

- a. Compare and agree the sports sponsored reported in the NCAA Membership Financial Reporting System to the Calculation of Revenue Distribution Equivalencies Report (CRDE) from Compliance Assistant (CA) or other report that supports the equivalency calculations from the institution. The NCAA Membership Financial Reporting System populates the sports from the NCAA Sports Sponsorship and Demographics Form as they are reported by the institution between April and June. If there is a discrepancy in the sports sponsored between the NCAA Membership Financial Reporting System and the CRDE or other report that supports the equivalency calculations, inquire about the discrepancy, and report the justification in the AUP report.
- b. Compare current year Grants-in-Aid revenue distribution equivalencies to prior year reported equivalencies per the Membership Financial Report submission. Inquire and document an explanation for any variance great than +/- 4%. The submitted data is reviewed by NCAA staff. Providing a detailed variance explanation will assist with the review process.

No exceptions noted.

We noted no variance greater than the threshold.

2. Sports Sponsorship:

- | | |
|---|-----------------------------|
| <p>a. Obtain the institution’s Sports Sponsorship and Demographics Forms submitted to the NCAA for the reporting year. Validate that the countable NCAA sports reported by the institution met the minimum requirements, set forth in Bylaw 20.9.6.3, related to the number of contests and the number of participants. If the institution requested and/or received a waiver related to minimum contests or minimum participants for a sport, that sport would not qualify as a sponsored sport for the purposes of revenue distribution. Also, only sports in which the NCAA conducts championships competition, emerging sports for women and bowl subdivision football are eligible. Once the countable sports have been validated, ensure that the institution has properly reported these sports as countable for revenue distribution purposes within the NCAA Membership Financial Reporting System. Any discrepancies MUST be resolved within the NCAA Membership Financial Reporting System prior to the report being submitted to the NCAA.</p> | <p>No exceptions noted.</p> |
| <p>b. Compare current year number of Sports Sponsored to prior year reported total per the Membership Financial Report submission. Inquire and document an explanation for any variance. The submitted data is reviewed by NCAA staff. Providing a detailed variance explanation will assist with the review process.</p> | <p>No variance noted.</p> |

3. For Pell Grants:

- | | |
|--|-----------------------------|
| <p>a. Agree the total number of Division I student-athletes who, during the academic year, received a Pell Grant award (e.g. Pell Grant recipients on Full Athletic Aid, Pell Grant recipients on Partial Athletic Aid and Pell Grant recipients with no Athletic Aid) and the total dollar amount of these Pell Grants reported in the NCAA Membership Financial Reporting System to a report generated out of the institutions financial aid records of all student-athlete Pell Grants.</p> <ul style="list-style-type: none"> ● Note 1: Only Pell Grants for sports in which the NCAA conducts championships competition, emerging sports for women and bowl subdivision football are countable. ● Note 2: Student-athletes should only be counted once even if the athlete participates in multiple sports. ● Note 3: Individual student-aid file testing in step 31 above should tie any selected student athletes who received Pell Grants back to the report of all student athlete Pell Grants to test the completeness and accuracy of the report. | <p>No exceptions noted.</p> |
|--|-----------------------------|

Procedure	Finding
<p>b. Compare current year Pell Grants total to prior year reported total per the Membership Financial Report submission. Inquire and document an explanation for any variance greater than +/- 20 grants. The submitted data is reviewed by NCAA staff. Providing a detailed variance explanation will assist with the review process.</p>	<p>We noted no variance exceeding the threshold.</p>

MINIMUM AGREED-UPON PROCEDURES FOR OTHER REPORTING ITEMS

50. Excess Transfers to Institution

- | | |
|---|---|
| <p>a. Obtain general ledger detail and compare to the total expenses reported. Select a sample of transactions to validate existence of transaction and accuracy of recording and recalculate totals.</p> | <p>As there were no excess transfers to institution for the year ended August 31, 2024, this procedure was not performed.</p> |
|---|---|

51. Conference Realignment Expenses

- | | |
|---|-----------------------------|
| <p>a. Obtain general ledger detail and compare to the total expenses reported. Select a sample of transactions to validate existence of transaction and accuracy of recording and recalculate totals.</p> | <p>No exceptions noted.</p> |
|---|-----------------------------|

52. Total Athletics Related Debt

- | | |
|---|-----------------------------|
| <p>a. Obtain repayment schedules for all outstanding intercollegiate athletics debt during the reporting period. Recalculate annual maturities (consisting of principal and interest) provided in the schedules obtained.</p> | <p>No exceptions noted.</p> |
| <p>b. Agree the total annual maturities and total outstanding athletic related debt to supporting documentation and the institution's general ledger, if applicable.</p> | <p>No exceptions noted.</p> |

53. Total Institutional Debt

- | | |
|---|-----------------------------|
| <p>a. Agree the total outstanding institutional debt to supporting documentation and the institution's audited financial statements, if available, or the institution's general ledger.</p> | <p>No exceptions noted.</p> |
|---|-----------------------------|

54. Value of Athletics Dedicated Endowments

- | | |
|---|-----------------------------|
| <p>a. Obtain a schedule of all athletics dedicated endowments maintained by the Program, the institution, and affiliated organizations. Agree the fair market value in the schedules(s) to supporting documentations, the general ledger(s) and audited financial statements, if available.</p> | <p>No exceptions noted.</p> |
|---|-----------------------------|

Procedure

Finding

55. Value of Institutional Endowments

- | | |
|--|----------------------|
| a. Agree the total fair market value of institutional endowments to supporting documentation, the institution's general ledger and/or audited financial statements, if available. | No exceptions noted. |
|--|----------------------|

56. Total Athletics Related Capital Expenditures

- | | |
|---|----------------------|
| a. Obtain a schedule of athletics related capital expenditures made by the Program, the institution, and affiliated organizations during the reporting period, additions only. | No exceptions noted. |
| b. Obtain general ledger detail and compare to the total expenses reported. Select a sample of transactions to validate existence of transaction and accuracy of recording and recalculate totals. | No exceptions noted. |

Agreed-Upon Procedures Related to Affiliated and Outside Organizations**Procedure**

1. The Program shall identify all intercollegiate athletics-related affiliated and outside organizations and obtain those organizations' statements for the reporting period. Once the Program has made these statements available, the independent accountant shall agree the amounts reported in the statement to the organization's general ledger or, alternatively, confirm revenues and expenses directly with a responsible official of the organization. In addition, the Program shall prepare a summary of revenues and expenses for or on behalf of intercollegiate athletics programs affiliated and outside organizations to be included with the agreed-upon procedures report.

Results

The Program identified the University of Houston Foundation (the Foundation) as the only athletics-related affiliated and outside organization making expenditures for, or on behalf of the Program or its employees. The Foundation serves as the official legal conduit for the acceptance, investment, and distribution of private gifts in support of the activities and programs of Program. For the year ended August 31, 2024, the Foundation recognized expenses of \$661,082 on behalf of the Program.

Finding

No exceptions noted.

Procedure

2. The independent accountant shall obtain and review the audited financial statements of the organization and any additional reports regarding internal control matters if the organization is audited independent of the agreed-upon procedures required by NCAA legislation. The Program's independent accountant shall also inquire of institutional and outside organization management as to corrective action taken in response to comments concerning internal control structure (if any).

Results

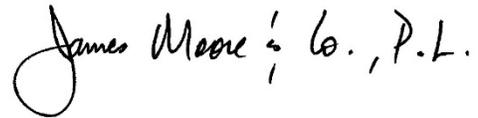
We noted that the audited financial statements of the Foundation for the year ended August 31, 2024 had not yet been released as of the date of the report; however, we obtained and read the audited financial statements of the Foundation for the year ended August 31, 2023. The results of this procedure disclosed that the independent auditors expressed an unmodified opinion on the financial statements of the Foundation.

Finding

No exceptions noted.

We were engaged by the University to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the AICPA. We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the compliance of the accompanying Statement of Revenues and Expenses (Exhibit I) of the University and the accompanying notes to the Statement of Revenues and Expenses (Exhibit II). Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We are required to be independent of the University and to meet our ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

A handwritten signature in black ink that reads "James Moore & Co., P.L." The signature is written in a cursive style with a large loop at the beginning of the word "James".

Gainesville, Florida
January 13, 2025

UNIVERSITY OF HOUSTON
 INTERCOLLEGIATE ATHLETICS PROGRAM
 STATEMENT OF REVENUES AND EXPENSES
 FOR THE YEAR ENDED AUGUST 31, 2024
 (UNAUDITED - SEE ACCOMPANYING INDEPENDENT ACCOUNTANTS'
 REPORT ON THE APPLICATION OF AGREED-UPON PROCEDURES)

	Football	Men's Basketball	Women's Basketball	Other Sports	Nonprogram Specific	Total
Revenues						
1 Ticket sales	\$ 6,646,509	\$ 2,171,293	\$ 66,484	\$ 445,580	\$ 367,068	\$ 9,696,934
2 Direct state or other governmental support	-	-	-	-	-	-
3 Student fees	-	-	-	-	8,133,527	8,133,527
4 Direct institutional support	-	-	-	-	30,263,602	30,263,602
5 Less - transfers to institution	-	-	-	-	-	-
6 Indirect institutional support	-	-	-	-	-	-
6A Indirect institutional support - athletic facilities debt service, lease and rental fees	-	-	-	-	-	-
7 Guarantees	-	-	-	15,000	-	15,000
8 Contributions	208,147	509,401	250	1,057,937	12,103,688	13,879,423
9 In-kind	-	-	-	-	-	-
10 Compensation and benefits provided by a third-party	-	-	-	-	-	-
11 Media rights	7,227,535	2,688,099	-	-	543,896	10,459,530
12 NCAA distributions	-	1,334,517	-	-	1,375,236	2,709,753
13 Conference distributions (non media and non football bowl)	-	-	-	-	1,286,590	1,286,590
13A Conference distributions of football bowl generated revenue	3,499,949	-	-	-	-	3,499,949
14 Program sales, concessions, novelty sales and parking	184,759	19,083	-	-	1,117,410	1,321,252
15 Royalties, licensing, advertisement and sponsorships	-	-	-	-	5,074,091	5,074,091
16 Sports camp revenues	4,820	103,333	14,645	93,184	-	215,982
17 Athletics restricted endowment and investment income	21,599	13,327	-	92,375	255,383	382,684
18 Other operating revenue	76,212	3,089	643	106,025	1,105,531	1,291,500
19 Football bowl revenues	-	-	-	-	-	-
Total operating revenues	<u>17,869,530</u>	<u>6,842,142</u>	<u>82,022</u>	<u>1,810,101</u>	<u>61,626,022</u>	<u>88,229,817</u>
Expenses						
20 Athletic student aid	3,764,408	561,887	615,508	4,240,310	312,452	9,494,565
21 Guarantees	325,000	760,414	92,150	60,078	-	1,237,642
22 Coaching salaries, benefits, and bonuses paid by the university and related entities	9,501,863	6,490,525	866,241	3,874,545	-	20,733,174
23 Coaching salaries, benefits, and bonuses paid by a third-party	-	-	-	-	-	-
24 Support staff/administrative compensation, benefits, and bonuses paid by the university and related entities	2,394,100	1,606,714	273,825	518,535	11,394,651	16,187,825
25 Support staff/administrative compensation, benefits, and bonuses paid by a third-party	-	-	-	-	-	-
26 Severance payments	3,645,284	-	-	-	60,527	3,705,811
27 Recruiting	809,206	157,167	62,932	382,268	-	1,411,573
28 Team travel	759,320	1,178,675	440,685	1,503,682	229,454	4,111,816
29 Sports equipment, uniforms and supplies	1,191,029	305,358	104,928	836,837	161,462	2,599,614
30 Game expenses	935,350	416,657	91,406	336,511	393,661	2,173,585
31 Fund raising, marketing and promotion	45,129	42,378	1,327	34,763	920,778	1,044,375
32 Sports camp expenses	5,696	45,175	3,782	70,789	-	125,442
33 Spirit groups	-	-	-	-	-	-
34 Athletic facilities debt service, leases and rental fees	-	-	-	-	10,073,026	10,073,026
35 Direct overhead and administrative expenses	1,299,631	462,155	220,832	788,779	13,343,775	16,115,172
36 Indirect institutional support	-	-	-	-	-	-
37 Medical expenses and insurance	23,095	2,315	-	37,426	1,526,757	1,589,593
38 Memberships and dues	417	150	600	6,145	17,814	25,126
39 Student-athlete meals (non-travel)	2,193,400	429,208	171,733	542,202	135,884	3,472,427
40 Other operating expenses	41,563	93,260	5,079	36,303	2,137,514	2,313,719
41 Football bowl expenses	-	-	-	-	-	-
41A Football bowl expenses - coaching compensation/bonuses	-	-	-	-	-	-
Total operating expenses	<u>26,934,491</u>	<u>12,552,038</u>	<u>2,951,028</u>	<u>13,269,173</u>	<u>40,707,755</u>	<u>96,414,485</u>
Results of operations	<u>\$ (9,064,961)</u>	<u>\$ (5,709,896)</u>	<u>\$ (2,869,006)</u>	<u>\$ (11,459,072)</u>	<u>\$ 20,918,267</u>	<u>(8,184,668)</u>
50 Excess transfers to institution						-
51 Conference realignment expenses						2,500,000
Excess (deficiency) of revenues over (under) expenses (see Note 5)						<u>\$ (10,684,668)</u>
Other reported items						
52 Total athletics related debt						<u>\$ 121,383,900</u>
53 Total institutional debt						<u>\$ 1,664,193,080</u>
54 Value of athletics dedicated endowments						<u>\$ 10,107,066</u>
55 Value of institutional endowments						<u>\$ 862,005,038</u>
56 Total athletics related capital expenditures						<u>\$ 186,646</u>

**UNIVERSITY OF HOUSTON
INTERCOLLEGIATE ATHLETICS PROGRAM
NOTES TO STATEMENT OF REVENUES AND EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2024
(UNAUDITED – SEE ACCOMPANYING INDEPENDENT ACCOUNTANTS’
REPORT ON THE APPLICATION OF AGREED-UPON PROCEDURES)**

(1) **Basis of Accounting:**

The statement of revenues and expenses of the University of Houston (the University) Intercollegiate Athletics Program (the Program) has been prepared using the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recognized when they are incurred.

(2) **Capital Assets:**

Capital assets purchased with an original cost of \$5,000 or more are recorded at cost and depreciated utilizing the straight-line method over the estimated useful lives of assets (generally ranging from 5 to 10 years). Costs to maintain or repair these assets are expensed as incurred. Costs incurred for the construction of buildings or other permanent facilities are not capitalized as part of the Program’s accounts but are recorded by the University as assets of other funds.

(3) **Contributions:**

The University and the University of Houston Foundation (the Foundation) serve as the official legal conduits for the acceptance, investment, and distribution of private gifts in support of the activities and programs of the Program. The Program received contributions of \$13,879,423 during the year ended August 31, 2024. There were no individual contributions exceeding 10% of total contributions, as reported in the statement of revenues and expenses, for the year ended August 31, 2024.

(4) **Long-term Debt:**

The following is a schedule of future principal and interest payments for long term debt as of August 31, 2024:

Fiscal Year Ending August 31,	Long Term Debt		Total Principal and Interest
	Principal	Interest	
2025	\$ 4,657,475	\$ 4,284,316	\$ 8,941,791
2026	5,793,920	3,985,624	9,779,544
2027	5,889,810	3,895,491	9,785,301
2028	6,000,700	3,788,755	9,789,455
2029	6,113,590	3,670,428	9,784,018
2030-2034	32,818,405	16,283,729	49,102,134
2035-2039	27,230,000	10,312,865	37,542,865
2040-2044	12,070,000	6,459,215	18,529,215
2045-2049	12,035,000	3,692,242	15,727,242
2050-2052	8,775,000	660,921	9,435,921
Total	<u>\$121,383,900</u>	<u>\$ 57,033,586</u>	<u>\$178,417,486</u>

**UNIVERSITY OF HOUSTON
INTERCOLLEGIATE ATHLETICS PROGRAM
NOTES TO STATEMENT OF REVENUES AND EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2024
(UNAUDITED – SEE ACCOMPANYING INDEPENDENT ACCOUNTANTS’
REPORT ON THE APPLICATION OF AGREED-UPON PROCEDURES)**

(5) **Surplus/Deficit Allocations:**

The Program is allowed to carry forward all available fund equity balances at the end of each fiscal year to the next fiscal year. Deficits are funded by the Program using the accumulated fund equity from sufficient net position available. For the fiscal year ended August 31, 2024, the Program incurred a deficiency of revenues under expenses totaling \$(10,684,668). To address the deficit, the surplus fund balance carried forward from prior fiscal years was supplemented by an eleven-year, \$10 million loan from the University of Houston System Endowment Fund.

UNIVERSITY OF HOUSTON INTERCOLLEGIATE ATHLETICS PROGRAM
 SUPPLEMENT TO STATEMENT OF REVENUES AND EXPENSES
 VARIATION ANALYSIS OF TOTAL REVENUES AND EXPENSES
 TO PRIOR PERIOD AMOUNTS AND BUDGET ESTIMATES
 FOR THE YEAR ENDED AUGUST 31, 2024
 (UNAUDITED - SEE ACCOMPANYING INDEPENDENT ACCOUNTANTS'
 REPORT ON THE APPLICATION OF AGREED-UPON PROCEDURES)

	2024	2023	\$ Variance	% Variance	Variation Explanation
Revenues					
1 Ticket sales	\$ 9,696,934	\$ 4,904,800	\$ 4,792,134	97.70%	The increase in ticket sales was driven by the transition to the Big 12 Conference, which resulted in improved attendance and higher ticket prices. Football revenue increased by approximately \$4.1 million year-over-year, supported by the transition to the Big 12, enhanced ticket pricing, better attendance, and the addition of a seventh home game. With ticket sales already nearing capacity, Men's Basketball generated an additional \$500,000, primarily from the incremental impact of increased pricing.
4 Direct institutional support	\$ 30,263,602	\$ 39,658,543	\$ (9,394,941)	-23.69%	A \$10 million internal loan was secured to replace the direct institutional support provided in the prior year.
8 Contributions	\$ 13,879,423	\$ 10,114,611	\$ 3,764,812	37.22%	The transition to the Big 12 Conference also positively impacted fundraising, mirroring the effect on ticket sales. The athletics annual fund increased by over \$2 million, driven by higher prices and an increased volume of per-seat commitments for Football and Men's Basketball. Significant contributions to the positive variance also came from capital project giving, including approximately \$500,000 for the Football Operations Center construction and \$500,000 for renovations to golf facility spaces. Additionally, one-time fundraising from the Hall of Honor gala event contributed approximately \$370,000.
Expenses					
22 Coaching salaries, benefits, and bonuses paid by the university and related entities	\$ 20,733,174	\$ 18,240,589	\$ 2,492,585	13.67%	The variance in Coaching Salaries, Benefits, and Bonuses Paid by the University and Related Entities is primarily driven by changes in the football coaching staff, including an increased salary pool for the new staff and relocation costs, collectively contributing approximately \$1 million. Additionally, a new contract for the Head Men's Basketball Coach and adjustments for other basketball staff accounted for approximately \$1.3 million of the increase.
24 Support staff/administrative compensation, benefits, and bonuses paid by the university and related entities	\$ 16,187,825	\$ 13,714,764	\$ 2,473,061	18.03%	The variance in Support Staff/Administration Salaries, Benefits, and Bonuses Paid by the University and Related Entities is attributable to the transition to the Big 12 which prompted a comprehensive staffing review, leading to the addition of key support positions (e.g., Mental Health, Cougar Productions, Compliance) and the transfer of units and personnel to the Athletics budget, such as Development (from campus) and Ticket Sales (from a third party). These changes collectively contributed approximately \$2 million to the increase.
35 Direct overhead and administrative expenses	\$ 16,115,172	\$ 12,407,630	\$ 3,707,542	29.88%	The variance in Direct Overhead and Administrative Expenses for FY24 is attributable to several one-time expenses, including approximately \$1 million in non-salary costs associated with the football staff transition (e.g., buyouts), \$350,000 for event cancellation insurance for football (not provided by the Big 12), and \$1.5 million for Big 12 readiness facility upgrades. The overall rise in expenditures also led to a proportional increase of approximately \$500,000 in the University's administrative fee.

Note 1: The budget estimates for the University of Houston Intercollegiate Athletics Program generated by their ERP system are prepared in a format consistent with GAAP rather than in a format consistent with the revenue and expense categories specified by the NCAA. Thus, the variance analysis of total revenues and expenses to the budget estimates for the year ended August 31, 2024, was not performed. However, management does perform budget to actual comparison and analysis on a variety of budgetary bases throughout the fiscal year.

Forvis Mazars Report to the Board of Regents, Audit and Compliance Committee, and Management

University of Houston System Endowment Fund

Results of the 2024 Financial Statement Audit, Including Required Communications

August 31, 2024

Required Communications Regarding Our Audit Strategy & Approach (AU-C 260)

Overview & Responsibilities

Matter	Discussion
Scope of Our Audit	<p>This report covers audit results related to your financial statements and supplementary information:</p> <ul style="list-style-type: none"> As of and for the year ended August 31, 2024 Conducted in accordance with our contract dated July 23, 2024
Our Responsibilities	<p>Forvis Mazars is responsible for forming and expressing an opinion about whether the financial statements that have been prepared by management, with the oversight of those charged with governance, are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP).</p>
Audit Scope & Inherent Limitations to Reasonable Assurance	<p>An audit performed in accordance with auditing standards generally accepted in the United States of America (GAAS) is designed to obtain reasonable, rather than absolute, assurance about the financial statements. The scope of our audit tests was established in relation to the financial statements taken as a whole and did not include a detailed audit of all transactions.</p>
Extent of Our Communication	<p>In addition to areas of interest and noting prior communications made during other phases of the engagement, this report includes communications required in accordance with GAAS that are relevant to the responsibilities of those charged with governance in overseeing the financial reporting process, including audit approach, results, and internal control. The standards do not require the auditor to design procedures for the purpose of identifying other matters to be communicated with those charged with governance.</p>
Independence	<p>The engagement team, others in our firm, as appropriate, and our firm have complied with all relevant ethical requirements regarding independence.</p>

Matter	Discussion
Your Responsibilities	Our audit does not relieve management or those charged with governance of your responsibilities. Your responsibilities and ours are further referenced in our contract.
Distribution Restriction	<p>This communication is intended solely for the information and use of the following and is not intended to be, and should not be, used by anyone other than these specified parties:</p> <ul style="list-style-type: none"> • The Board of Regents, Audit and Compliance Committee, and Management • Others within the Entity

Qualitative Aspects of Significant Accounting Policies & Practices

Significant Accounting Policies

Significant accounting policies are described in Note 2 of the audited financial statements.

With respect to new accounting standards adopted during the year, we call to your attention the following topics detailed in the following pages:

- No matters are reportable

Unusual Policies or Methods

With respect to significant unusual accounting policies or accounting methods used for significant unusual transactions (significant transactions outside the normal course of business or that otherwise appear to be unusual due to their timing, size, or nature), we noted the following:

- No matters are reportable

Alternative Accounting Treatments

We had discussions with management regarding alternative accounting treatments within GAAP for policies and practices for material items, including recognition, measurement, and disclosure considerations related to the accounting for specific transactions as well as general accounting policies, as follows:

- No matters are reportable

Management Judgments & Accounting Estimates

Accounting estimates are an integral part of financial statement preparation by management, based on its judgments. A significant area of such estimates for which we are prepared to discuss management's estimation process and our procedures for testing the reasonableness of those estimates includes:

- Fair value of investments

Financial Statement Disclosures

The following area involves particularly sensitive financial statement disclosures for which we are prepared to discuss the issues involved and related judgments made in formulating those disclosures:

- Determination of fair values

Our Judgment About the Quality of the Entity’s Accounting Principles

During the course of the audit, we made the following observations regarding the Entity’s application of accounting principles:

- No matters are reportable

Adjustments Identified by Audit

During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments that, in its judgment, are required to prevent the financial statements from being materially misstated.

A misstatement is a difference between the amount, classification, presentation, or disclosure of a reported financial statement item and that which is required for the item to be presented fairly in accordance with the applicable financial reporting framework.

Proposed & Recorded Adjustments

Auditor-proposed and management-recorded entries include the following:

- No matters are reportable

Uncorrected Misstatements

No uncorrected misstatements to report.

Other Required Communications

Other Material Communications

Listed below are other material communications between management and us related to the audit:

- Management representation letter (see Attachment)

Attachments

Management Representation Letter (Attachment A)

As a material communication with management, included herein is a copy of the representation letter provided by management at the conclusion of our engagement.



Attachment A

Management Representation Letter

Representation of:

University of Houston System Endowment Fund
Ezekiel W. Cullen Building
4302 University Drive, Room 10F
Houston, Texas 77204-0901

Provided to:

Forvis Mazars, LLP
Certified Public Accountants
2700 Post Oak Boulevard, Suite 1500
Houston, TX 77056

The undersigned (“We”) are providing this letter in connection with Forvis Mazars’ audits of our financial statements as of and for the year ended August 31, 2024 and 2023.

Our representations are current and effective as of the date of Forvis Mazars’ report: January 31, 2025.

Our engagement with Forvis Mazars is based on our contract for services dated: July 23, 2024.

Our Responsibility & Consideration of Material Matters

We confirm that we are responsible for the fair presentation of the financial statements subject to Forvis Mazars’ report in conformity with accounting principles generally accepted in the United States of America.

We are also responsible for adopting sound accounting policies; establishing and maintaining effective internal control over financial reporting, operations, and compliance; and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

Confirmation of Matters Specific to the Subject Matter of Forvis Mazars’ Report

We confirm, to the best of our knowledge and belief, the following:

Broad Matters

1. We have fulfilled our responsibilities, as set out in the terms of our contract, for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.
2. We acknowledge our responsibility for the design, implementation, and maintenance of:
 - a. Internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.
 - b. Internal control to prevent and detect fraud.
3. We have provided you with:

- a. Access to all information of which we are aware that is relevant to the preparation and fair presentation of the financial statements, such as financial records and related data, documentation, and other matters.
 - b. Additional information that you have requested from us for the purpose of the audit.
 - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
 - d. All minutes of the governing body meetings held through the date of this letter or summaries of actions of recent meetings for which minutes have not yet been prepared. All unsigned copies of minutes provided to you are copies of our original minutes approved by the governing body, if applicable, and maintained as part of our records.
 - e. All significant contracts and grants.
4. We have responded fully and truthfully to all your inquiries.

Government Auditing Standards

5. We acknowledge that we are responsible for compliance with applicable laws, regulations, and provisions of contracts and grant agreements.
6. We have identified and disclosed to you all laws, regulations, and provisions of contracts and grant agreements that have a direct and material effect on the determination of amounts in our financial statements or other financial data significant to the audit objectives.
7. We have identified and disclosed to you any violations or possible violations of laws, regulations, including those pertaining to adopting, approving, and amending budgets, and provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for recognition and/or disclosure in the financial statements or for your reporting on noncompliance.
8. We have taken or will take timely and appropriate steps to remedy any fraud, abuse, illegal acts, or violations of provisions of contracts or grant agreements that you or other auditors report.
9. We have a process to track the status of audit findings and recommendations.
10. We have identified to you any previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of your audit and the corrective actions taken to address any significant findings and recommendations made in such audits, attestation engagements, or other studies.

Misappropriation, Misstatements, & Fraud

11. We have informed you of all current risks of a material amount that are not adequately prevented or detected by our procedures with respect to:
 - a. Misappropriation of assets.
 - b. Misrepresented or misstated assets, liabilities, or net position.
12. We have no knowledge of fraud or suspected fraud affecting the entity involving:
 - a. Management or employees who have significant roles in internal control over financial reporting, or

- b. Others when the fraud could have a material effect on the financial statements.
13. We understand that the term “fraud” includes misstatements arising from fraudulent financial reporting and misstatements arising from misappropriation of assets. Misstatements arising from fraudulent financial reporting are intentional misstatements, or omissions of amounts or disclosures in financial statements to deceive financial statement users. Misstatements arising from misappropriation of assets involve the theft of an entity’s assets where the effect of the theft causes the financial statements not to be presented in conformity with accounting principles generally accepted in the United States of America.
 14. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, customers, analysts, SEC or other regulators, suppliers, or others.
 15. We have assessed the risk that the financial statements may be materially misstated as a result of fraud and disclosed to you any such risk identified.

Ongoing Operations

16. We acknowledge the current economic volatility presents difficult circumstances and challenges for our industry. Entities are potentially facing declines in the fair values of investments and other assets, declines in the volume of business, contributions, constraints on liquidity, difficulty obtaining financing or bonding, significant credit quality problems, including significant volatility in the values of real estate and other collateral supporting loans, etc. We understand the values of the assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments to asset values, allowances for accounts receivable, capital, etc., that could negatively impact the entity’s ability to meet regulatory capital requirements or maintain sufficient liquidity.

We acknowledge that you have no responsibility for future changes caused by the current economic environment and the resulting impact on the entity’s financial statements. Further, management and governance are solely responsible for all aspects of managing the entity, including questioning the quality and valuation of investments, inventory, and other assets; evaluating assumptions regarding defined benefit pension plan obligations, reviewing allowances for uncollectible amounts; or loan losses evaluating capital needs and liquidity plans; etc.

Related Parties

17. We have disclosed to you the identity of all of the entity’s related parties and all the related-party relationships of which we are aware.

In addition, we have disclosed to you all related-party transactions and amounts receivable from or payable to related parties of which we are aware, including any modifications during the year that were made to related-party transaction agreements which existed prior to the beginning of the year under audit, as well as new related-party transaction agreements that were executed during the year under audit.

Related-party relationships and transactions have been appropriately accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America.

18. We understand that the term related party refers to:
 - Affiliates
 - Management and members of their immediate families

- Any other party with which the entity may deal if one party can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests.

Another party is also a related party if it can significantly influence the management or operating policies of the transacting parties or if it has an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.

The term affiliate refers to a party that directly or indirectly controls, or is controlled by, or is under common control with, the entity.

Litigation, Laws, Rulings & Regulations

19. We are not aware of any pending or threatened litigation or claims whose effects should be considered when preparing the financial statements. We have not sought or received attorney's services related to pending or threatened litigation or claims during or subsequent to the audit period. Also, we are not aware of any litigation or claims, pending or threatened, for which legal counsel should be sought.
20. We have no knowledge of communications, other than those specifically disclosed, from regulatory agencies, governmental representatives, employees, or others concerning investigations or allegations of noncompliance with laws and regulations, deficiencies in financial reporting practices, or other matters that could have a material adverse effect on the financial statements.

Financial Statements & Reports

21. With regard to supplementary information:
 - a. We acknowledge our responsibility for the presentation of the supplementary information in accordance with the applicable criteria.
 - b. We believe the supplementary information is fairly presented, both in form and content, in accordance with the applicable criteria.
 - c. The methods of measurement and presentation of the supplementary information are unchanged from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.
 - d. We believe the significant assumptions or interpretations underlying the measurement and/or presentation of the supplementary information are reasonable and appropriate.

Transactions, Records, & Adjustments

22. All transactions have been recorded in the accounting records and are reflected in the financial statements.
23. We have everything we need to keep our books and records.
24. We have disclosed any significant unusual transactions the entity has entered into during the period, including the nature, terms, and business purpose of those transactions.

Governmental Accounting & Disclosure Matters

25. With regard to deposit and investment activities:
- a. All deposit, repurchase and reverse repurchase agreements, and investment transactions have been made in accordance with legal and contractual requirements.
 - b. Investments, derivative instrument transactions, and land and other real estate held by endowments are properly valued.
 - c. Disclosures of deposit and investment balances and risks in the financial statements are consistent with our understanding of the applicable laws regarding enforceability of any pledges of collateral.
 - d. We understand that your audit does not represent an opinion regarding the enforceability of any collateral pledges.
26. Components of net position (restricted and unrestricted) are properly classified and, if applicable, approved.
27. We have appropriately disclosed the entity's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position/fund balance is available and have determined that net position is properly recognized under the policy.
28. The entity's ability to continue as a going concern was evaluated and that appropriate disclosures are made in the financial statements as necessary under GASB requirements.
29. The supplementary information required by the Governmental Accounting Standards Board, consisting of management's discussion and analysis, has been prepared and is measured and presented in conformity with the applicable GASB pronouncements, and we acknowledge our responsibility for the information. The information contained therein is based on all facts, decisions, and conditions currently known to us and is measured using the same methods and assumptions as were used in the preparation of the financial statements. We believe the significant assumptions underlying the measurement and/or presentation of the information are reasonable and appropriate. There has been no change from the preceding period in the methods of measurement and presentation.

Louis W. Edwards

Louis W. Edwards (Jan 31, 2025 10:49 CST)

Louis W. Edwards, Treasurer

lwedwar2@central.uh.edu

Lavonda Lockett

Lavonda Lockett (Jan 31, 2025 10:30 CST)

Lavonda M. Lockett, Executive Director of Financial Reporting, University of Houston System

lmlockett@central.uh.edu



University of Houston System Endowment Fund

Independent Auditor's Report and Financial Statements

August 31, 2024 and 2023

University of Houston System Endowment Fund

Contents

August 31, 2024 and 2023

Independent Auditor’s Report	1
Management’s Discussion and Analysis (Unaudited)	3
The Basic Financial Statements	
Statements of Net Position.....	11
Statements of Revenues, Expenses, and Changes in Net Position	12
Statements of Cash Flows	13
Notes to Basic Financial Statements	14

Independent Auditor's Report

Board of Regents
University of Houston System
Houston, Texas

Opinion

We have audited the financial statements of the University of Houston System (System) Endowment (Endowment Fund), which comprise the statements of net position as of August 31, 2024 and 2023, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Endowment Fund as of August 31, 2024 and 2023, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the System and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the financial position, changes in net position, and cash flows of the Endowment Fund and do not purport to and do not present fairly the financial position of the System as of August 31, 2024 and 2023, the changes in its net position, and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Endowment Fund's ability to continue as a going concern within one year after the date that these financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Endowment Fund's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Endowment Fund's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Forvis Mazars, LLP

**Houston, Texas
January 31, 2025**

University of Houston System Endowment Fund

Management's Discussion and Analysis (Unaudited)

August 31, 2024

Introduction

The following Management's Discussion and Analysis (MD&A) provides an overview of the activities and the financial position of the fund for the fiscal year ended August 31, 2024, as compared to the fiscal year ended August 31, 2023, with summary comparisons for the fiscal year ended August 31, 2022. This MD&A offers a summary of significant current year activities of the University of Houston System (the UH System) Endowment Fund (the Endowment Fund), resulting changes in net assets, and currently known economic conditions and facts. This analysis should be read in conjunction with the Endowment Fund's basic financial statements and the notes to the financial statements. Responsibility for the financial statements, related footnote disclosures, and MD&A rests with the Endowment Fund's management.

The UH System is a governmental entity of the State of Texas. The Endowment Fund is a fund group of the UH System's reporting entity. The financial statements of the Endowment Fund have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

During fiscal year 2024, the Endowment Management Committee of the UH System Board of Regents (Board of Regents) continued to review existing objectives, risks, asset allocation, and manager structure within the endowment portfolio and adjust as deemed appropriate. The Endowment Fund Statement of Investment Objectives and Policies, among other things, establishes financial objectives for the endowment and an asset allocation with targets and ranges and categorizes each asset class as either a risk reducer or a driver of return.

Endowment Fund Structure

Gifts to the UH System are placed in the Endowment Fund for investment and oversight purposes. The Board of Regents strives to maintain a plan to preserve and augment the value of the endowment. The Board of Regents works to preserve the broad objective of investing endowment assets so as to preserve both their real value and the long-range purchasing power of endowment income. The Endowment Management Committee of the Board of Regents is responsible for reviewing and approving investment managers and monitoring investment performance and allocations of funds to asset classes to ensure appropriate diversification of investment risks for the Endowment Fund, as well as making recommendations to the Board of Regents for any changes to the investment policy.

The Endowment Fund is a pooled investment fund consisting of approximately 2,178 individual endowments benefiting the four UH System universities. The investment pool functions similarly to a mutual fund, with each endowment account owning units that represent a claim on the Endowment Fund's net position. By pooling the investments, the UH System achieves increased diversification of investment risks and more effective management of endowment assets.

Management of the Fund

The Endowment Fund retains 110 independent investment managers who pursue various portfolio management strategies to diversify risk and maximize the total return through a variety of capital market cycles. Investment manager diversification of the Endowment Fund's assets is as follows:

	<u>2024</u>	<u>2023</u>	<u>2022</u>
<u>Developed U.S. Equity</u>			
Northern Trust	11%	11%	11%
Columbia Management	6	6	4
Vulcan Value Partners	5	5	5
Jennison Global Opportunity Fund	1	0	0
Cougar Investment Fund	<2	<2	<1
Subtotal – developed U.S. equity	<u>23</u>	<u>22</u>	<u>20</u>
<u>Developed International Equity</u>			
William Blair	6	4	4
Silchester	5	5	5
Global Alpha	4	3	3
Subtotal – developed international equity	<u>15</u>	<u>12</u>	<u>12</u>
<u>Developing Markets</u>			
Doddington Emerging Markets	1	1	1
Somerset	1	0	0
Edgbaston Asian Equity	1	1	1
Subtotal – developing markets	<u>3</u>	<u>2</u>	<u>2</u>
<u>Global Equity</u>			
Arrowstreet Global Equity	4	4	4
<u>Absolute Return</u>			
Anchorage Capital Partners	1	0	0
HBK	1	2	2
Davidson Kempner	1	2	2
Whipporwill	1	0	0
Standard Life	1	0	0
400 Capital Credit Opps	2	2	2
Subtotal – absolute return	<u>7</u>	<u>6</u>	<u>6</u>
<u>Hedged Equity</u>			
Highline Capital	1	0	0
Lakewood	1	0	0
SRS Partners	1	1.5	2
Subtotal – hedged equity	<u>3</u>	<u>1.5</u>	<u>2</u>
<u>Marketable Real Assets</u>			
Vanguard	1	1	1
T. Rowe Price	1	1	2
Subtotal – marketable real assets	<u>2</u>	<u>2</u>	<u>3</u>

	2024	2023	2022
<u>Fixed Income</u>			
Lord Abbett	4.2%	4.2%	4%
Loop Capital (Formerly Smith Graham)	4.5	4.5	2
Loomis Sayles	1.6	1.6	1
PIMCO	1.6	1.6	2
Subtotal – fixed income	<u>11.9</u>	<u>11.9</u>	<u>9</u>
<u>Private Investments</u>			
Berwind Property Group VII	<1	<1	<1
Berwind Property Group VIII	<1	<1	<1
Newlin Realty Partners	<1	<1	<1
Newlin Realty Partners II	<1	<1	<1
Commonfund Capital International VI	<1	<1	<1
Commonfund Capital PE VII	<1	<1	<1
Commonfund Capital Venture VIII	<1	<1	<1
Denham Commodity Partners	<1	1	<1
Denham Oil and Gas	<1	<1	<1
EnCap Flatrock Midstream II-C	<1	<1	<1
EnCap Flatrock Midstream III	<1	<1	<1
Embarcadero Capital	<1	<1	<1
Enervest Fund XIV-A	<1	<1	<1
Frontenac Fund XII	<1	<1	<1
Advent International GPE VII	<1	<1	<1
Advent International GPE VIII-B	<1	<1	<1
Advent International GPE IX	<1	<1	<1
GCM Grosvenor Advance	<1	<1	<1
EnCap Energy VII-B	<1	<1	<1
J.H. Whitney VII	<1	<1	<1
TrueBridge – Kauffman Fellows II	<1	<1	<1
TrueBridge – Kauffman Fellows III	<1	<1	<1
TrueBridge – Kauffman Fellows IV	1	1	<1
TrueBridge – Kauffman Fellows V	<1	<1	<1
TrueBridge – Kauffman Fellows VI	<1	<1	<1
TrueBridge Capital Partners – VII	<1	<1	<1
Dover Street VIII	<1	<1	<1
Dover Street X	<1	0	<1
LiveOak Venture Partners I	<1	<1	<1
Silver Lake Partners V	<1	<1	<1
Jackson Square Ventures II	<1	<1	<1
Jackson Square Ventures III	<1	<1	<1
Mercury Fund IV	<1	<1	<1
Penzance DC Real Estate Fund	<1	<1	<1
Penzance DC Real Estate Fund II	<1	<1	<1
Silver Lake Partners IV	<1	<1	<1
Silver Lake Partners VI	<1	<1	0
Acme Fund III	<1	<1	<1
Silver Lake Partners VI	<1	<1	<1
SV Life Sciences Fund VI	<1	<1	<1
Great Hill Equity Partners V	<1	<1	<1

	<u>2024</u>	<u>2023</u>	<u>2022</u>
<u>Private Investments (Continued)</u>			
Mill Point Capital Partners III	1%	0%	0%
Great Hill Equity Partners VI	<1	<1	<1
Great Hill Equity Partners VII	<1	<1	<1
Dover Street IX	<1	<1	<1
Fisher Lynch Buyout II	<1	<1	<1
Binary Capital Fund II	<1	<1	<1
Fisher Lynch Venture II	<1	<1	<1
ASF VIII B	<1	<1	<1
Vivo Capital Fund IX	<1	<1	<1
US Venture Partners XII	<1	<1	<1
Kelso X	<1	<1	<1
Kelso XI	<1	<1	0
Thoma Bravo XIII-A	<1	<1	<1
Thoma Bravo XIV-A	<1	<1	<1
Energy Spectrum VIII	<1	<1	<1
Great Point Partners III	<1	<1	<1
PeakSpan II	<1	<1	<1
Clear Ventures II	<1	<1	<1
Hastings IV-B	<1	<1	<1
Lexington Capital VIII	<1	<1	<1
Lexington Capital IX	<1	<1	<1
LiveOak Venture II	<1	<1	<1
Weathergage Venture IV	<1	<1	<1
Blackstone Europe V	<1	<1	<1
Blackstone Real Estate IX	<1	<1	<1
Blackstone Real Estate Europe VI	<1	<1	<1
EnCap Energy XI	<1	<1	<1
Insight Equity III	<1	<1	<1
Francisco Partners IV-A	1	1	<1
Francisco Partners V	<1	<1	1
Francisco Partners VI	<1	<1	<1
Trident VII	1	1	<1
Trident VIII	<1	<1	<1
EnCap Energy X	<1	<1	<1
EnCap Midstream IV	<1	<1	<1
Blackstone Real Estate Partners VIII	<1	<1	<1
Warren Equity Partners ELIDO Fund II	1	0	<1
Windrose Health Investors VI	0	0	<1
Subtotal – private investments	<u>31</u>	<u>38</u>	<u>36</u>
Cash and equivalents	<u>3</u>	<u>3</u>	<u>4</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

Investment Manager Allocation

Investment managers are given discretion to manage the assets in each portfolio to best achieve investment objectives within the policies and requirements established by the Board of Regents. The objectives and comparative benchmarks are used to evaluate manager performance. The Endowment Management Committee reviews performance and adjusts allocation to investment managers and asset classes in response to current or future anticipated market conditions. Quarterly performance reports are distributed to the Endowment Management Committee.

Endowment Payout Policy

The Endowment Management Committee is responsible for reviewing the income payout rate of the Endowment Fund, which is a balance between current income needs and long-term investment objectives. The Endowment Fund will maintain a payout rate of approximately 4% to 5%, with any change to this range to be approved by the Board of Regents. The endowment income payout rate for the fiscal years ended August 31, 2024, 2023, and 2022 was 4% of the average market value for the 12 prior fiscal quarters. If an endowment has been in existence less than 12 quarters, the average is based on the number of quarters in existence. This trailing 12-quarter method is used to smooth large year-over-year changes in market value, thereby allowing the UH System's colleges and departments to more reasonably predict future distributions of endowment income intended to benefit their area.

In the three fiscal years 2022 through 2024, endowment payouts to the beneficiary accounts, excluding distributed income returned to principal, in total and by the System's components were as follows:

	2024	2023	2022
University of Houston	\$ 31,418,321	\$ 29,002,071	\$ 25,553,818
UH – Clear Lake	1,245,065	1,169,459	1,058,335
UH – Downtown	1,751,173	1,612,583	1,418,119
UH – Victoria	615,670	581,108	527,258
System-wide endowments	5,786,108	5,480,380	5,008,240
Totals	<u>\$ 40,816,337</u>	<u>\$ 37,845,601</u>	<u>\$ 33,565,770</u>

Overview of the Financial Statements

The financial statements for the fiscal year ended August 31, 2024 are presented comparatively to financial statements issued for the fiscal year ended August 31, 2023. The financial statements have been prepared in accordance with the standards of GASB, which establishes generally accepted accounting principles for state and local governments. The three primary financial statements presented are (1) the statements of net position, (2) the statements of revenues, expenses, and changes in net position, and (3) the statements of cash flows. The information contained in the financial statements of the Endowment Fund is incorporated within the UH System's Combined Annual Financial Report.

The financial operations of the UH System, and therefore inclusively the Endowment Fund, are considered a business-type (or proprietary fund) activity. The operating activities of the UH System are financed by tuition and fees, state appropriations, contracts and grants, and auxiliary enterprise revenue. The Endowment Fund is an internally managed pooled-fund and its beneficiaries are internal to the UH System. The statements of net position report resources held and administered by the UH System, as described in the previous sections of this MD&A. These resources are customarily characterized by the existence of a written agreement that affects the degree of management involvement, the programs supported by income earned by the resources, and the length of time that the resources are held by the UH System.

Statements of Net Position

The statements of net position reflect the Endowment Fund's assets and liabilities using the economic resources measurement focus and accrual basis of accounting and represents the financial position as of the conclusion of the fiscal year. Net position is equal to assets minus liabilities. Unrestricted net position is available to the UH System for any lawful purpose. Unrestricted net position often has constraints imposed by management, but such constraints can be removed or modified. Restricted net position represents net position that can be utilized only in accordance with third-party-imposed restrictions. On August 31, 2024, the Endowment Fund's assets totaled \$1.162 billion and liabilities totaled \$48.7 million, resulting in a net position of \$1.113 billion.

The net position of the Endowment Fund as contributed by the UH System's components as of August 31, 2024, compared to the corresponding values as of August 31, 2023 and 2022, was as follows:

	<u>2024</u>	<u>2023</u>	<u>2022</u>
University of Houston	\$ 862,005,038	\$ 785,766,425	\$ 756,835,268
UH – Clear Lake	34,047,761	31,228,552	30,256,010
UH – Downtown	49,201,663	45,009,811	42,921,200
UH – Victoria	16,332,744	15,240,961	14,868,641
System-wide endowments	<u>151,453,851</u>	<u>142,104,711</u>	<u>139,330,686</u>
Totals	<u>\$1,113,041,057</u>	<u>\$1,019,350,460</u>	<u>\$ 984,211,805</u>

Variance Analysis – Changes in the Statements of Net Position

	<u>2024</u>	<u>2023</u>	<u>Change 2024–2023</u>	<u>2022</u>
Total assets	\$ 1,161,755,834	\$1,065,404,503	\$ 96,351,331	\$1,027,784,534
Total liabilities	48,714,776	46,054,043	2,660,733	43,572,729
Restricted, nonexpendable endowments	795,091,006	723,518,238	71,572,768	695,670,162
Restricted, expendable endowments	66,937,885	61,693,693	5,244,192	60,434,582
Unrestricted endowments	<u>251,012,166</u>	<u>234,138,529</u>	<u>16,873,637</u>	<u>228,107,061</u>
Net position	<u>\$1,113,041,057</u>	<u>\$1,019,350,460</u>	<u>\$ 93,690,597</u>	<u>\$ 984,211,805</u>

- Total assets: The \$96.3 million increase in fiscal year 2024 is primarily attributable to an increase in the fair value of investments.
- Total liabilities: The \$2.661 million increase in liabilities is primarily attributable to an increase in amounts payable to other System components at fiscal year-end 2024.
- Restricted, nonexpendable endowments: The \$71.6 million increase in restricted nonexpendable endowments is primarily attributable to an increase in the fair value of investments.
- Restricted, expendable endowments: The \$5.2 million increase in restricted expendable endowments is primarily attributable to an increase in the fair value of investments.
- Unrestricted endowments: The \$16.9 million increase is primarily attributable to an increase in the fair value of investments.

Statements of Revenues, Expenses, and Changes in Net Position

The statement of revenues, expenses, and changes in net position contains information about the additions to, the deductions from, and the resulting net increase or decrease in the fair value of the net assets for the fiscal year. During fiscal year 2024, the Endowment Fund received \$24.7 million of gifts and other receipts, interest and investment income of \$19.5 million and a \$107.2 million net increase in the fair value of investments. The Endowment Fund's total deductions for fiscal year 2024 were \$57.7 million, including \$40.8 million earmarked for distribution to the beneficiary endowment accounts under the planned payout policy and \$7.6 million for gift acquisition and fundraising efforts. As a result of these activities, the Endowment Fund realized an increase in net position of \$93.7 million for fiscal year 2024.

Variance Analysis – Changes in the Statements of Revenues, Expenses, and Changes in Net Position

	2024	2023	Change 2024–2023	2022
Contributions to endowments	\$ 24,727,378	\$ 22,102,454	\$ 2,624,924	\$ 45,440,623
Net realized and unrealized appreciation (depreciation)	107,220,251	53,434,934	53,785,317	(88,273,792)
Other nonoperating expenses	(57,727,920)	(55,408,811)	2,319,109	(48,230,386)
Interest and investment income	<u>19,470,888</u>	<u>15,010,078</u>	<u>4,460,810</u>	<u>18,233,369</u>
Increase (decrease) in net position	<u>\$ 93,690,597</u>	<u>\$ 35,138,655</u>	<u>\$ 63,190,160</u>	<u>\$(72,830,186)</u>

- Contributions to endowments increased \$2.6 million in 2024 as compared to 2023.
- Changes in investment activities included a \$107.2 million net appreciation in the fair value of investments in fiscal year 2024 compared to \$53.4 million net appreciation in fiscal year 2023. This net change fiscal year-over-year is the result of an increase in global equities, hedge funds, and private real assets in fiscal year 2024. Interest and investment income increased by \$4.5 million as compared to 2023. Fund deductions increased by \$2.3 million from 2023 to 2024. The Endowment Fund established a tiered payout policy for underwater endowments effective 2016. The institutional advancement fee was approved by the Board of Regents to offset costs associated with gift acquisition and fundraising efforts at the UH System components. Administrative costs decreased by \$522K from fiscal year 2024 compared to fiscal year 2023. Administrative costs are comprised primarily of investment management fees and consulting fees, and these costs will fluctuate year-over-year as fees are calculated based on the market value of the funds under each firm's advisement.

Statements of Cash Flows

The statements of cash flows explain the changes during the fiscal year in cash and cash equivalents, regardless of whether there are restrictions on their use. The statements of cash flows should be read in conjunction with related disclosures and information in the other financial statements.

Capital Assets

The Endowment Fund does not hold any capitalized assets, such as buildings or furniture and equipment. The Endowment Fund invests in financial instruments, which constitutes most of the Endowment Fund's assets. Although the Endowment Fund is generally not prohibited from acquiring tangible physical assets to be held as investments for their appreciation qualities, such assets are typically not acquired or held by the Endowment Fund. Presently, the Endowment Fund holds certain parcels of land, which were received as gifts and are being held for future sale.

Debt Administration

The Endowment Fund does not issue long-term debt. The Endowment Fund is not currently engaged in any long-term financing transactions. The operation and administration of the Endowment Fund is currently structured such that its annual financial obligations and expenses are satisfied through earnings and other fund additions.

Economic Outlook

Global growth is projected at 3.1 percent in 2024 and 3.2 percent in 2025, with the 2024 forecast 0.2 percentage point higher than that in the October 2023 World Economic Outlook (WEO), on account of greater-than-expected resilience in the United States and several large emerging market and developing economies, as well as fiscal support in China. The forecast for 2024–25 is, however, below the historical (2000–19) average of 3.8 percent, with elevated central bank policy rates to fight inflation, a withdrawal of fiscal support amid high debt weighing on economic activity, and low underlying productivity growth. Inflation is falling faster than expected in most regions, in the midst of unwinding supply-side issues and restrictive monetary policy. Global headline inflation is expected to fall to 5.8 percent in 2024 and to 4.4 percent in 2025, with the 2025 forecast revised down.

With disinflation and steady growth, the likelihood of a hard landing has receded, and risks to global growth are broadly balanced. On the upside, faster disinflation could lead to further easing of financial conditions. Looser fiscal policy than necessary and then assumed in the projections could imply temporarily higher growth, but at the risk of a more costly adjustment later on. Stronger structural reform momentum could bolster productivity with positive cross-border spillovers. On the downside, new commodity price spikes from geopolitical shocks—including continued attacks in the Red Sea—and supply disruptions or more persistent underlying inflation could prolong tight monetary conditions. Deepening property sector woes in China or, elsewhere, a disruptive turn to tax hikes and spending cuts could also cause growth disappointments.

Policymakers' near-term challenge is to successfully manage the final descent of inflation to target, calibrating monetary policy in response to underlying inflation dynamics and—where wage and price pressures are clearly dissipating—adjusting to a less restrictive stance. At the same time, in many cases, with inflation declining and economies better able to absorb effects of fiscal tightening, a renewed focus on fiscal consolidation to rebuild budgetary capacity to deal with future shocks, raise revenue for new spending priorities, and curb the rise of public debt is needed. Targeted and carefully sequenced structural reforms would reinforce productivity growth and debt sustainability and accelerate convergence toward higher income levels. More efficient multilateral coordination is needed for, among other things, debt resolution, to avoid debt distress and create space for necessary investments, as well as to mitigate the effects of climate change.

Any questions related to the MD&A or financial statements should be directed to the University of Houston, Office of the Treasurer, P.O. Box 988, Houston, TX 77001-0988.

The Basic Financial Statements

University of Houston System Endowment Fund
Statements of Net Position
August 31, 2024 and 2023

	2024	2023
Assets		
Current assets:		
Cash and cash equivalents	\$ 41,591,887	\$ 26,768,052
Interest and dividends receivable	860,286	937,931
Total current assets	42,452,173	27,705,983
Noncurrent assets:		
Investments	1,119,303,661	1,037,698,520
Total assets	1,161,755,834	1,065,404,503
Liabilities		
Current liabilities:		
Payable for investments purchased	253,226	433,994
Due to other components	48,461,551	45,620,049
Total liabilities	48,714,777	46,054,043
Net Position		
Restricted for nonexpendable endowments	795,091,006	723,518,238
Restricted for expendable endowments	66,937,885	61,693,693
Unrestricted	251,012,166	234,138,529
Total net position	\$ 1,113,041,057	\$ 1,019,350,460

University of Houston System Endowment Fund
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended August 31, 2024 and 2023

	2024	2023
Nonoperating Revenues (Expenses)		
Interest and investment income	\$ 19,470,888	\$ 15,010,078
Net realized and unrealized appreciation (depreciation)	107,220,251	53,434,934
Other nonoperating expenses	<u>(57,727,920)</u>	<u>(55,408,811)</u>
Total nonoperating revenues (expenses)	68,963,219	13,036,201
Contributions to Endowments	<u>24,727,378</u>	<u>22,102,454</u>
Change in Net Position	93,690,597	35,138,655
Net Position, Beginning of Year	<u>1,019,350,460</u>	<u>984,211,805</u>
Net Position, End of Year	\$ <u>1,113,041,057</u>	\$ <u>1,019,350,460</u>

University of Houston System Endowment Fund
Statements of Cash Flows
Years Ended August 31, 2024 and 2023

	2024	2023
Cash Flows from Operating Activities	\$ 0	\$ 0
Cash Flows from Noncapital and Related Financing Activities		
Contributions to endowments	24,727,378	22,102,454
Increase in due to other components	2,841,502	4,353,880
Net cash provided by noncapital and related financing activities	27,568,880	26,456,334
Cash Flows from Capital and Related Financing Activities	0	0
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	1,971,316,878	3,166,757,857
Payments to purchase investments	(1,994,266,442)	(3,214,287,257)
Interest and dividends received on investments	19,470,888	15,010,078
Payments for asset management and stewardship	(9,266,369)	(9,788,763)
Net cash used in investing activities	(12,745,045)	(42,308,085)
Increase (Decrease) in Cash and Cash Equivalents	14,823,835	(15,851,751)
Cash and Cash Equivalents, Beginning of Year	26,768,052	42,619,803
Cash and Cash Equivalents, End of Year	\$ 41,591,887	\$ 26,768,052

University of Houston System Endowment Fund

Notes to Basic Financial Statements

August 31, 2024 and 2023

1) Reporting Entity

University of Houston System (the System) is an agency of the State of Texas, established by the State of Texas to provide undergraduate and graduate university instruction, scholarly research, and public service in the Houston, Texas, area. The System is the State of Texas' only metropolitan higher education system, encompassing four universities and two multi-institution teaching centers. University of Houston System Endowment Fund (the Endowment Fund) is a fund group of the System reporting entity, with the earliest endowment having been established in 1950. The accompanying financial statements present only the Endowment Fund of the System as of August 31, 2024 and 2023, the changes in its financial position, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Endowment Fund is a fund group that accounts for all of the System's endowment assets pooled together to ensure better management and uniform accountability for those assets. The Endowment Fund provides financial support for the System's students and the System's research endeavors. The Endowment Fund is presently comprised of approximately 2,108 restricted and unrestricted endowment funds located in the System's four universities and multi-institution teaching centers. Restricted endowment funds are funds with respect to which a donor or other outside entity has stipulated that the principal be maintained inviolate and in perpetuity, and that only the income from the investments is available for expenditure. Unrestricted endowment funds consist of funds for which the donor did not impose any restriction as to their use, as well as funds that are designated by the System's Board of Regents, rather than the donor, to function as endowment funds. The principal of these funds may be expended at the discretion of the System's Board of Regents.

2) Summary of Significant Accounting Policies

(a) General

All financial accounting records of the Endowment Fund are maintained by the System's Office of the Associate Vice Chancellor for Finance in accordance with accounting principles generally accepted in the United States of America for colleges and universities.

(b) Basis of Accounting and Presentation

The Endowment Fund is reported as a single-purpose business-type activity entity. The financial statements of the Endowment Fund have been prepared using the economic resources measurement focus and accrual basis of accounting whereby all revenues are recorded when earned and all expenses are recorded when they are incurred.

(c) Cash and Cash Equivalents

The Endowment Fund believes the carrying value of cash and temporary investments approximates fair value. The Endowment Fund considers investments purchased with a maturity of three months or less from the statement of net position date to be cash equivalents.

University of Houston System Endowment Fund

Notes to Basic Financial Statements

August 31, 2024 and 2023

(d) *Investments*

In accordance with GASB No. 72, *Fair Value Measurement and Application*, investments are recorded at fair value. Fair value is based on published closing market prices on the last trading day of the fiscal year. In the case of pooled funds or mutual funds, the fair value is determined as the number of units or shares held in the fund multiplied by the price per unit or share as publicly quoted. Investments in which a public market does not exist are based on the Endowment Fund's ownership interest in the net asset value (NAV) of each fund as reported by the fund managers. When fund managers do not provide the NAV of each fund at fiscal year-end, the fair value is estimated by the System using the most recent statement and adding contributions and subtracting the distributions during the intervening period. In accordance with GASB No. 52, *Land and Other Real Estate Held as Investments by Endowments*, land and other real estate held as investments are recorded at fair value. Chapter 163 of the Texas Property Code (also cited as the *Uniform Prudent Management of Institutional Funds Act*) grants the System the authority to spend net appreciation.

Because of inherent uncertainties of valuations, management's and fund managers' estimates of fair value may differ from the values that would have been used had a ready market existed.

Investments received as gifts are initially recorded at estimated fair value based on appraised values or broker closing prices for stocks at the date of the gift.

Short-term investments comprise U.S. government obligations and corporate obligations with a maturity date of less than one year as of the statement of net position date.

(e) *Net Position*

The Endowment Fund's net position is classified as follows:

Restricted for nonexpendable endowments: Net position for restricted nonexpendable endowment funds are maintained permanently by the System following the externally imposed stipulations.

Restricted for expendable endowments: Net position for restricted expendable endowment funds are those that may be expended for either a stated purpose or for a general purpose subject to externally imposed stipulations.

Unrestricted: Net position for unrestricted endowment funds are donated by third parties or created internally by the System and represent resources that are available without restrictions to the System.

When both restricted and unrestricted resources are available for use, it is the Endowment Fund's policy to use restricted resources first, then unrestricted resources as they are needed.

University of Houston System Endowment Fund

Notes to Basic Financial Statements

August 31, 2024 and 2023

(f) Revenue Recognition

Contributions to the Endowment Fund and transfers-in from other funds, such as distribution payouts returned by beneficiaries for reinvestment, are recognized as additions to the Endowment Fund's assets. Dividend income is recorded as income on the date the stock traded ex-dividend. Interest is recognized on fixed-income investments on the accrual basis.

Net realized and unrealized appreciation represents both realized and unrealized gains and losses on investments. The calculation of realized gains and losses is independent of the calculation of the net change in the fair value of investments. Realized gain or loss is computed as the difference between the cost of marketable securities sold and the sale price. The cost of marketable securities sold is determined on specific identification of investments sold. Realized gain is recorded as of the trade date regardless of when the transaction is settled. Unrealized gains or losses are calculated based on the changes in investment fair value between the beginning and end of the fiscal year for investments held since the beginning of the year, or as the difference between the fair value at end-of-year and the purchase cost for investments purchased during the year. Unrealized gains (losses) are determined and recorded as of the fiscal year-end.

The Endowment Fund does not currently earn or incur operating revenues and expenses.

(g) Distribution Payout

Effective September 1, 2018, the System's Board of Regents adopted an endowment payout policy whereby the payout rate is based on a percentage of the fiscal year-end net position averaged over a 12-quarter rolling period. For the fiscal years 2024 and 2023, the payout rate was 4% applied to the endowment's average net position balances for the preceding 12 quarters. If an endowment was in existence less than 12 quarters, the average was based on the number of quarters the endowment was in existence. Effective May 1, 2009, no endowment receives a pro rata income distribution from current fiscal year contributions. The payout is calculated and recorded at the end of each fiscal year. Actual endowment return earned in excess of distributions is reinvested. For years actual endowment return is less than the distribution payout, the shortfall is covered by realized returns from prior years.

(h) Institutional Advancement Assessment

The System will annually assess a reasonable fee against the earnings of specified endowment funds to offset expenses associated with gift acquisition and fundraising at the component universities. The System's Board of Regents shall annually review and approve the fee. The fee will be based as a percentage of the fiscal year-end market value averaged over rolling 12 quarter periods. For the fiscal years 2024 and 2023, the assessment fee was 1.0%. If an endowment has been in existence less than 12 quarters, the average will be based on the number of quarters in existence.

The assessment is made at the end of each fiscal year to make funds available for the System's institutional advancement activities in the following fiscal year. The total amount assessed for the years ended August 31, 2024 and 2023 was \$7,645,214 and \$7,774,448, respectively.

University of Houston System Endowment Fund

Notes to Basic Financial Statements

August 31, 2024 and 2023

(i) **Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues, expenses, and other changes in net position during the reporting period. Actual results could differ from those estimates.

3) **Authorized Investments**

The System's Board of Regents is charged with the fiduciary responsibility for preserving and augmenting the value of the Endowment Fund. The System retains the services of a custodial financial institution under a master trust custodian agreement, as well as the services of independent investment managers each of whom plays a part in meeting the System's goals over a variety of capital market cycles. The System's Board of Regents has adopted a written investment policy, including investment manager guidelines for each of the separately invested accounts of the Endowment Fund, regarding the investment of endowment assets as defined in the System's Investment Policies. The primary long-term financial objective for the Endowment Fund is to preserve the real (inflation adjusted) purchasing power of endowment assets when measured over rolling periods of at least five years. The medium-term objective is to outperform each of the capital markets in which the endowment assets are invested, measured over rolling periods of 3 to 5 years or complete market cycles, with emphasis on whichever measure is longer.

4) **Derivatives**

Derivatives are investment products that may be a security or contract that derives its value from another security, currency, commodity, or index, regardless of the source of funds used. The Endowment Fund did not directly invest in derivatives during the years ended August 31, 2024 or 2023 and held no direct derivative instruments at August 31, 2024 or 2023.

5) **Cash and Investments**

(a) **Composition of Cash and Cash Equivalents**

Cash and cash equivalents consist of money market funds and securities maturing within three months totaling \$41,591,887 and \$26,768,052 at August 31, 2024 and 2023, respectively. The money market funds are invested in commercial paper, certificates of deposit, treasuries, corporate notes, time deposits, and similar short-term investments considered generally acceptable and prudent for money market funds.

University of Houston System Endowment Fund
Notes to Basic Financial Statements
August 31, 2024 and 2023

Cash and cash equivalents included in the statements of net position consist of the items reported below:

	2024	2023
Cash	\$ 6,411	\$ 6,141
Money market funds	41,585,476	26,978,128
Claim on cash	-	(216,217)
	\$ 41,591,887	\$ 26,768,052

(b) Reconciliation of Cash and Investments to Statements of Net Position

Total cash and investments at August 31, 2024 and 2023 are as follows:

Type of Security	Fair Value	
	2024	2023
Cash	\$ 6,411	\$ 6,141
Money market funds	41,585,476	26,978,128
U.S. government obligations	7,430,387	7,305,472
U.S. government agencies	14,451,598	13,942,023
Fixed income (non-government/agency)	21,920,162	18,082,269
U.S. equity securities	264,574,475	257,078,705
Global equities excluding U.S.	247,972,937	195,136,724
Hedged equity funds	30,075,590	28,269,427
Inflation hedge funds (including REITs)	21,139,998	31,692,338
Absolute return funds	41,710,152	38,158,857
Private equity investments	470,028,362	448,032,705
	1,160,895,548	1,064,682,789
Less cash and cash equivalents	(41,591,887)	(26,984,269)
	\$ 1,119,303,661	\$ 1,037,698,520

University of Houston System Endowment Fund
Notes to Basic Financial Statements
August 31, 2024 and 2023

(c) Investment Maturities

As of August 31, 2024 and 2023, the Endowment Fund had the following investments and weighted-average maturities:

Investment Type	2024		2023	
	Fair Value	Weighted-Average Maturity (Years)	Fair Value	Weighted-Average Maturity (Years)
U.S. government obligations ⁽¹⁾	\$ 7,430,387	4.96	\$ 7,305,473	4.17
U.S. government agencies ⁽¹⁾	14,451,598	24.76	13,942,024	23.86
U.S. fixed income (non-government/agency) ⁽¹⁾	21,920,162	9.75	18,082,269	11.75
Equity, mutual funds, other investments	<u>1,117,093,401</u>	Untenured	<u>1,025,353,023</u>	Untenured
Total investments at fair value	<u>\$1,160,895,548</u>		<u>\$ 1,064,682,789</u>	
Weighted-average maturity of tenured portfolio		13.89		14.64

(1) Includes tenured securities classified as cash equivalents and short-term investments.

(d) Asset Selection and Allocation

The Endowment Fund's Statement of Investment Objectives and Policies governs the overall allocation of endowment funds to asset classes and considerations of limits to investment risk exposures. Allocation of funds to asset classes is based on expected returns, risk levels, desired risk diversification, interaction of various asset classes, and income generation and capital appreciation potentials of each asset class. The market value of investments in each asset class is maintained within an approved range of ratios to the market value of the Endowment Fund's total investments, except for minor deviations due to fluctuations in market value. The Endowment Management Committee monitors asset allocation targets and limits and may authorize the reallocation of funds among investment managers. The Endowment Fund currently invests in a broad array of asset classes in order to diversify the portfolio's risk. Marketable securities, such as domestic or international common stocks, domestic bonds, equity money market funds, and cash equivalents, comprise 59% of the overall investment portfolio ("portfolio") at the end of fiscal year 2024. Marketable alternative investments (*i.e.*, inflation hedges, commingled funds invested in marketable securities, absolute return, and hedged equity) represent 7% of the portfolio, and non-marketable alternative investments (*i.e.*, venture capital, private equity, real estate, natural resources, energy) constitute 34% of the portfolio on a funded basis. The Endowment Fund's overall investment risk is diversified by asset class and within each class by strategy, economic sector, geography, industry, market capitalization, manager and, with regard to non-

University of Houston System Endowment Fund

Notes to Basic Financial Statements

August 31, 2024 and 2023

marketable alternatives, by vintage year as well. Such diversification is aimed at managing the risks specifically associated with any single strategy, economic sector, geographic area, industry, vintage year, or manager.

(e) *Investment-Related Risks*

Custodial Credit Risk – Custodial credit risk for deposits is the risk that, in the event of failure of a depository financial institution, the Endowment Fund will not be able to recover its deposits. Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Endowment Fund will not be able to recover the value of its investment or collateral securities that may be in the possession of another party. Securities owned by the endowment but held in custody by the endowment custodian may be lent to other parties through a contract between the System and the custodian pursuant to a written agreement approved by the Board of Regents. As of August 31, 2024 and 2023, the System did not have a securities-lending agreement with its custodian. Managers may not enter into securities-lending agreements without the consent of the Board of Regents. The System recognizes, however, that, for those investments placed in commingled vehicles, the Board of Regents cannot dictate whether or not the manager will engage in securities lending. Therefore, the System and its investment consultant make every effort either to avoid commingled investments, or to otherwise limit investment to those managers who will not engage in securities lending. The limited partnerships of marketable and non-marketable alternative investments are excluded from this limitation. At August 31, 2024 and 2023, the Endowment Fund's total investments at fair value under a master trust custodian agreement with a third-party financial institution were \$201,403,099 and \$197,763,098, respectively. The third-party custodian operates its business world-wide and, at August 31, 2024 and 2023, held risk insurance contracts with various local and foreign insurance organizations providing coverage for loss due to theft, fraud, and damage to securities while in the custodian's custody; loss of securities while in transit; property damage; and loss due to business interruption, acts of terrorism, officer negligence, and general liability. The insurance coverage limits ranged from \$1,000,000 to \$500,000,000. The coverage did not protect against market risks and fluctuations associated with market investments.

At August 31, 2024 and 2023, the Endowment Fund's investments at fair value not covered by the master trust custodian agreement were \$960,099,509 and \$867,423,627, respectively. These investments were under various custodian agreements between the investment managers and the investment funds or limited partnerships in which the Endowment Fund is invested. The investments are subject to custodial risks associated with those independent investment managers and to market risks and fluctuations associated with market investments. The System controls these risks through its credit and concentration risk policies as described in the credit risk and concentration of credit risk paragraph below.

Interest Rate Risk – Interest rate risk is the risk that changes in market interest rates will adversely affect the value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its value to changes in market interest rates. The System's investment policy, by way of the investment manager guidelines, requires the weighted average duration of the portfolio should remain in a range of a minimum of 90% and a maximum of 110% of the Barclays Aggregate Bond Index for active fixed income managers in which a separate account structure exists. The System's investment policy is driven primarily by the goal to preserve the long-term real (inflation adjusted) purchasing power of endowment assets while achieving short-term maximum earnings with an

University of Houston System Endowment Fund

Notes to Basic Financial Statements

August 31, 2024 and 2023

acceptable level of risk. In order to balance these two primary goals, the Board of Regents is closely involved in managing the exposure to declines in investment fair value and earnings.

Credit Risk and Concentration of Credit Risk – Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization (NRSRO). Pursuant to GASB Statement No. 40, *Deposit and Investment Risk Disclosures, and amendment to GASB Statement No. 3*, unless there is information to the contrary, obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. In accordance with the System’s investment policy and manager guidelines, where applicable, investments in securities within the fixed income allocation of the portfolio must have an average portfolio credit quality of AA or better, although active managers may choose to hold select investment grade securities with lower ratings. Securities should be readily marketable and liquid. The investment manager guidelines, where applicable, limit the amount each active manager may invest in any one issuer.

Other than U.S. government securities (including agency securities), no security may be purchased so that it will constitute more than 5% of the market value of the portfolio; however, obligations issued or guaranteed by the full faith and credit of the U.S. government may be held without limitation. The System’s endowment funds also include an allocation to alternative investments, which by their nature, include higher levels of risk, including credit and concentration of credit risk, with the expectation of higher returns relative to traditional equities and fixed income securities. The investment policy does not specify limits as to credit quality or concentration for alternatives as these investments may include highly concentrated positions and may include investing in companies that are either privately held or in financial distress.

The credit quality (ratings) of tenured securities and concentration of credit exposure as a percentage of total investments as of August 31, 2024 are as follows:

Issuer	Coupon Rate	Maturity Date	Fair Value	S&P Risk Rating	Concentration of Credit Exposure
US Treas-Cpi Inflat	0.13%	04/15/2025	\$ 831,836.08	NA	0.07%
U S Treasury Note	1.25%	12/31/2026	1,739,133.90	NA	0.15%
U S Treasury Note	2.63%	05/31/2027	72,682.50	NA	0.01%
U S Treasury Note	1.25%	04/30/2028	315,461.10	NA	0.03%
U S Treasury Note	2.38%	05/15/2029	1,811,829.25	NA	0.16%
U S Treasury Note	4.13%	11/15/2032	387,185.80	NA	0.03%
U S Treasury Note	3.50%	02/15/2033	2,272,258.55	NA	0.20%
FNMA Pool #0AI4911	3.00%	10/01/2027	11,455.83	NA	0.00%
FNMA Pool #0AI3802	3.00%	02/01/2028	27,545.77	NA	0.00%

University of Houston System Endowment Fund

Notes to Basic Financial Statements

August 31, 2024 and 2023

Issuer	Coupon Rate	Maturity Date	Fair Value	S&P Risk Rating	Concentration of Credit Exposure
FHLMC Pool #G1-8561	3.00%	07/01/2030	\$ 3,573.30	NA	0.00%
FNMA Pool #0555330	5.50%	04/01/2033	21,796.25	NA	0.00%
FHLMC Multiclass Mtg 5231 Va	4.00%	07/25/2033	293,301.01	NA	0.03%
FNMA Pool #0254903	5.00%	10/01/2033	40,964.83	NA	0.00%
FNMA Pool #0725231	5.00%	02/01/2034	6,823.62	NA	0.00%
FNMA Pool #0725690	6.00%	08/01/2034	12,714.87	NA	0.00%
FNMA Pool #0725704	6.00%	08/01/2034	13,926.65	NA	0.00%
FNMA Pool #0725773	5.50%	09/01/2034	44,927.55	NA	0.00%
FHLMC Pool #G0-1837	5.00%	07/01/2035	10,004.29	NA	0.00%
FNMA Pool #0735925	5.00%	10/01/2035	52,667.36	NA	0.00%
FNMA Pool #0745428	5.50%	01/01/2036	30,211.51	NA	0.00%
FNMA Pool #0995112	5.50%	07/01/2036	12,281.55	NA	0.00%
FHLMC Pool #Sb-8186	4.50%	09/01/2037	488,869.85	NA	0.04%
FNMA Pool #0Ad0198	5.50%	09/01/2038	16,129.78	NA	0.00%
FNMA Pool #0Fs6523	5.50%	11/01/2038	374,640.68	NA	0.03%
FNMA Pool #0AI7521	5.00%	06/01/2039	175,184.51	NA	0.02%
FNMA Pool #0Ad7128	4.50%	07/01/2040	41,311.51	NA	0.00%
FNMA Pool #0Ae0698	4.50%	12/01/2040	5,558.73	NA	0.00%
FNMA Pool #0Ah3384	3.50%	01/01/2041	229,316.33	NA	0.02%
FNMA Pool #0Ae0949	4.00%	02/01/2041	40,944.30	NA	0.00%
FNMA Pool #0AI0160	4.50%	05/01/2041	53,837.58	NA	0.00%
GNMA II Pool #0005056	5.00%	05/20/2041	24,176.49	NA	0.00%
FNMA Pool #0AI1697	4.00%	10/01/2041	6,275.00	NA	0.00%

University of Houston System Endowment Fund
Notes to Basic Financial Statements
August 31, 2024 and 2023

Issuer	Coupon Rate	Maturity Date	Fair Value	S&P Risk Rating	Concentration of Credit Exposure
FNMA Pool #0AI3519	4.50%	11/01/2041	\$ 7,513.71	NA	0.00%
FNMA Pool #0AI7306	4.50%	09/01/2042	29,378.23	NA	0.00%
FNMA Pool #0AI3322	4.00%	02/01/2043	8,386.39	NA	0.00%
FHLMC Pool #G6-0024	3.50%	05/01/2043	48,150.55	NA	0.00%
FHLMC Pool #G0-8588	4.00%	05/01/2044	25,895.17	NA	0.00%
FNMA Pool #0AI7767	4.50%	06/01/2044	91,229.47	NA	0.01%
FHLMC Pool #G0-8615	3.50%	11/01/2044	10,430.62	NA	0.00%
FNMA Pool #0Bm1909	4.00%	02/01/2045	172,261.08	NA	0.01%
FNMA Pool #0AI9578	4.00%	06/01/2045	12,023.20	NA	0.00%
FNMA Pool #0As5696	3.50%	08/01/2045	19,143.65	NA	0.00%
FHLMC Pool #G0-8667	3.50%	09/01/2045	82,685.07	NA	0.01%
FNMA Pool #0AI8383	4.50%	10/01/2045	15,165.68	NA	0.00%
FHLMC Pool #G0-8681	3.50%	12/01/2045	183,388.19	NA	0.02%
FHLMC Pool #G0-8687	3.50%	01/01/2046	267,365.06	NA	0.02%
FHLMC Pool #G0-8698	3.50%	03/01/2046	49,781.73	NA	0.00%
FHLMC Pool #G0-8699	4.00%	03/01/2046	84,473.28	NA	0.01%
FHLMC Pool #G0-8707	4.00%	05/01/2046	117,745.46	NA	0.01%
GNMA II Pool #0Ma3663	3.50%	05/20/2046	83,890.37	NA	0.01%
FHLMC Pool #G0-8732	3.00%	11/01/2046	308,121.08	NA	0.03%
FHLMC Pool #G6-7702	4.00%	01/01/2047	434,884.80	NA	0.04%
FHLMC Pool #G0-8747	3.00%	02/01/2047	306,758.98	NA	0.03%
FNMA Pool #0Ma3088	4.00%	07/01/2047	41,133.49	NA	0.00%
FHLMC Pool #Sd-7524	3.00%	08/01/2050	696,382.42	NA	0.06%

University of Houston System Endowment Fund

Notes to Basic Financial Statements

August 31, 2024 and 2023

Issuer	Coupon Rate	Maturity Date	Fair Value	S&P Risk Rating	Concentration of Credit Exposure
FNMA Pool #0Fm7973	4.00%	08/01/2051	\$ 555,171.32	NA	0.05%
FNMA Pool #0Cb2283	2.00%	12/01/2051	592,248.20	NA	0.05%
FNMA Pool #0Ma4562	2.00%	03/01/2052	306,369.78	NA	0.03%
FNMA Pool #0Ma4656	4.50%	06/01/2052	274,003.07	NA	0.02%
FHLMC Pool #Sd-1392	3.50%	07/01/2052	687,680.99	NA	0.06%
FNMA Pool #0Fs2535	2.50%	08/01/2052	378,665.25	NA	0.03%
FNMA Pool #0Ma4785	5.00%	10/01/2052	541,992.02	NA	0.05%
FNMA Pool #0Ma4807	5.50%	10/01/2052	561,359.30	NA	0.05%
GNMA II Pool #0Ma8348	5.00%	10/20/2052	802,513.36	NA	0.07%
FHLMC Pool #Sd-1966	4.00%	11/01/2052	729,602.05	NA	0.06%
FHLMC Pool #Ra-8249	5.50%	11/01/2052	1,068,688.99	NA	0.09%
FNMA Pool #0Fs5635	4.00%	11/01/2052	674,928.50	NA	0.06%
FHLMC Pool #Sd-8289	5.50%	01/01/2053	290,513.20	NA	0.03%
GNMA II Pool #0Ma8569	5.00%	01/20/2053	1,036,925.00	NA	0.09%
GNMA II Pool #0Ma9018	6.00%	07/20/2053	513,858.12	NA	0.04%
FHLMC Pool #Sd-5420	6.00%	05/01/2054	302,452.35	NA	0.03%
American Express Co	3.95%	08/01/2025	277,866.40	BBB+	0.02%
Baker Hughes Holdings LLC/Ba Bank 2018-Bnk12	3.34%	12/15/2027	169,743.00	A-	0.01%
Bn12 As	4.47%	05/15/2061	324,866.60	AAA	0.03%
Bank of America Corp	3.42%	12/20/2028	602,618.75	A-	0.05%
Bank of America Corp	1.92%	10/24/2031	327,627.30	A-	0.03%
Bank of New York Mellon Corp/T	5.61%	07/21/2039	285,230.00	A-	0.02%
Blackstone Private Credit Fund	2.63%	12/15/2026	502,044.00	BBB-	0.04%

University of Houston System Endowment Fund
Notes to Basic Financial Statements
August 31, 2024 and 2023

Issuer	Coupon Rate	Maturity Date	Fair Value	S&P Risk Rating	Concentration of Credit Exposure
Boeing Co/The	3.25%	02/01/2035	\$ 161,480.00	BBB-	0.01%
California St	4.60%	04/01/2038	370,263.75	AA-	0.03%
Campbell Soup Co	5.40%	03/21/2034	139,457.70	BBB-	0.01%
Cantor Fitzgerald Lp 144A	7.20%	12/12/2028	105,779.00	BBB-	0.01%
Capital One Financial Corp	5.70%	02/01/2030	231,540.75	BBB	0.02%
Carmax Auto Owner Trust 2 2 A3	3.49%	02/16/2027	305,581.79	AAA	0.03%
Cbre Services Inc	5.95%	08/15/2034	105,727.00	BBB+	0.01%
Charles Schwab Corp/The	5.64%	05/19/2029	387,982.50	A-	0.03%
Citigroup Inc	3.98%	03/20/2030	252,415.80	BBB+	0.02%
Citigroup Inc	3.79%	03/17/2033	180,086.40	BBB+	0.02%
Cousins Properties Lp	5.88%	10/01/2034	367,255.70	BBB	0.03%
Eastman Chemical Co	5.00%	08/01/2029	304,395.00	BBB	0.03%
Eversource Energy	5.13%	05/15/2033	225,301.50	BBB+	0.02%
Exelon Corp	5.15%	03/15/2029	590,300.75	BBB	0.05%
F&G Annuities & Life Inc	6.50%	06/04/2029	204,012.00	BBB-	0.02%
Fifth Third Bancorp	4.77%	07/28/2030	124,261.25	BBB+	0.01%
Ge Healthcare Technologies Inc	4.80%	08/14/2029	226,768.50	BBB	0.02%
General Motors Financial Co In	2.70%	08/20/2027	393,117.05	BBB	0.03%
Goldman Sachs Group Inc/The	2.64%	02/24/2028	286,269.00	BBB+	0.02%
Goldman Sachs Group Inc/The	2.60%	02/07/2030	313,090.95	BBB+	0.03%
Home Partners of Amer 3 A 144A	2.20%	01/17/2041	315,178.53	NA	0.03%
Hyundai Auto Receivables B A4	0.60%	02/16/2027	414,188.00	AAA	0.04%
Intel Corp	3.15%	05/11/2027	335,345.50	BBB+	0.03%
J.P. Morgan Mortgage 4 A12 144A	3.00%	10/25/2052	405,940.92	NA	0.03%
Jbs Usa Holding Lux Sarl/ Jbs	5.50%	01/15/2030	151,074.00	BBB-	0.01%
Jefferies Financial Group Inc	6.20%	04/14/2034	315,738.00	BBB	0.03%

University of Houston System Endowment Fund

Notes to Basic Financial Statements

August 31, 2024 and 2023

Issuer	Coupon Rate	Maturity Date	Fair Value	S&P Risk Rating	Concentration of Credit Exposure
Jones Lang Lasalle Inc	6.88%	12/01/2028	\$ 107,714.00	BBB+	0.01%
JPMorgan Chase & Co	4.01%	04/23/2029	515,093.25	A-	0.04%
JPMorgan Chase & Co	2.07%	06/01/2029	311,154.40	A-	0.03%
Kroger Co/The	5.00%	09/15/2034	124,685.00	BBB	0.01%
Kyndryl Holdings Inc	3.15%	10/15/2031	559,137.60	BBB-	0.05%
Marsh & McLennan Cos Inc	5.15%	03/15/2034	181,410.25	A-	0.02%
Mexico Government International	6.00%	05/07/2036	201,432.00	BBB	0.02%
Microchip Technology Inc	5.05%	03/15/2029	229,412.25	NA	0.02%
Morgan Stanley	2.94%	01/21/2033	373,953.25	A-	0.03%
Morgan Stanley Bank of C29 A4	3.33%	05/15/2049	629,895.50	NA	0.05%
Morgan Stanley Bank of C32 A4	3.72%	12/15/2049	874,710.00	NA	0.08%
Morgan Stanley Capital I L5 A4	2.73%	05/15/2054	794,205.00	AAA	0.07%
Nov Inc	3.60%	12/01/2029	573,866.70	BBB	0.05%
Paypal Holdings Inc	5.15%	06/01/2034	436,611.00	A-	0.04%
Polaris Inc	6.95%	03/15/2029	160,866.00	BBB	0.01%
Public Storage Operating Co	2.25%	11/09/2031	530,521.60	A	0.05%
Simon Property Group Lp	2.20%	02/01/2031	376,962.30	A-	0.03%
South Bow USA Infrastruct 144A	5.03%	10/01/2029	199,568.00	BBB-	0.02%
Southern California Edison Co	4.20%	03/01/2029	74,007.00	A-	0.01%
State Street Corp	5.16%	05/18/2034	307,152.00	A	0.03%
Synchrony Financial	5.94%	08/02/2030	254,475.00	BBB-	0.02%
Tapestry Inc	7.85%	11/27/2033	80,296.50	BBB	0.01%
Targa Resources Partners Lp /	6.88%	01/15/2029	\$ 411,180.00	BBB	0.04%
T-Mobile Usa Inc	3.38%	04/15/2029	380,128.00	BBB	0.03%
Towd Point Mortgage 2 A1 144A	3.25%	03/25/2058	174,827.98	NA	0.02%
Toyota Auto Receivables 2 A A3	1.23%	06/15/2026	130,928.13	NA	0.01%

University of Houston System Endowment Fund
Notes to Basic Financial Statements
August 31, 2024 and 2023

Issuer	Coupon Rate	Maturity Date	Fair Value	S&P Risk Rating	Concentration of Credit Exposure
Triton Container Fin 1A A 144A	2.11%	09/20/2045	\$ 397,727.76	A	0.03%
United Airlines 2016-1 Class A	3.10%	01/07/2030	146,216.06	NA	0.01%
United Airlines 2018-1 Class A	3.50%	09/01/2031	88,000.06	NA	0.01%
UnitedHealth Group Inc	5.00%	04/15/2034	137,262.60	A+	0.01%
Viatrix Inc	2.70%	06/22/2030	132,048.00	BBB-	0.01%
Vmware LLC	3.90%	08/21/2027	781,333.95	BBB	0.07%
W R Berkley Corp	6.25%	02/15/2037	214,694.00	BBB+	0.02%
Wells Fargo & Co	5.57%	07/25/2029	294,296.70	BBB+	0.03%
Wells Fargo & Co	5.39%	04/24/2034	383,666.25	BBB+	0.03%
Wells Fargo Bank Na	6.17%	08/07/2026	252,217.50	A+	0.02%
Wisconsin Power and Light Co	3.95%	09/01/2032	395,959.20	A	0.03%

The credit quality (ratings) of tenured securities and concentration of credit exposure as a percentage of total investments as of August 31, 2023 are as follows:

Issuer	Coupon Rate	Maturity Date	Fair Value	S&P Risk Rating	Concentration of Credit Exposure
U.S. Treasury Note	0.13%	01/15/2024	\$ 1,324,107.00	NA	0.12%
U.S. Treasury Note	0.25%	06/15/2024	1,176,673.75	NA	0.11%
U.S. Treasury Note	1.25%	12/31/2026	2,371,523.60	NA	0.22%
U.S. Treasury Note	2.63%	05/31/2027	70,386.00	NA	0.01%
U.S. Treasury Note	1.25%	04/30/2028	300,808.95	NA	0.03%
U.S. Treasury Note	1.88%	02/15/2032	75,677.40	NA	0.01%
U.S. Treasury Note	3.50%	02/15/2033	1,986,296.10	NA	0.19%
FHLMC Pool #G0- 1837	5.00%	07/01/2035	11,351.61	NA	0.00%
FHLMC Pool #G0- 8588	4.00%	05/01/2044	28,116.38	NA	0.00%
FHLMC Pool #G0- 8615	3.50%	11/01/2044	11,160.67	NA	0.00%
FHLMC Pool #G0- 8667	3.50%	09/01/2045	88,143.10	NA	0.01%
FHLMC Pool #G0- 8698	3.50%	03/01/2046	52,674.83	NA	0.00%
FHLMC Pool #G0- 8699	4.00%	03/01/2046	91,102.39	NA	0.01%

University of Houston System Endowment Fund
Notes to Basic Financial Statements
August 31, 2024 and 2023

Issuer	Coupon Rate	Maturity Date	Fair Value	S&P Risk Rating	Concentration of Credit Exposure
FHLMC Pool #G0-8681	3.50%	12/01/2045	\$ 195,411.31	NA	0.02%
FHLMC Pool #G0-8687	3.50%	01/01/2046	285,195.95	NA	0.03%
FHLMC Pool #G0-8732	3.00%	11/01/2046	322,098.59	NA	0.03%
FHLMC Pool #G0-8707	4.00%	05/01/2046	126,233.90	NA	0.01%
FHLMC Pool #G0-8747	3.00%	02/01/2047	320,784.03	NA	0.03%
FHLMC Pool #G1-8561	3.00%	07/01/2030	4,407.71	NA	0.00%
Federal Home Ln Bk Cons Bd	5.45%	04/25/2025	273,179.50	NA	0.03%
Federal Home Ln Bk Cons Bd	6.00%	08/28/2026	349,678.00	NA	0.03%
FHLMC Pool #Sb-8186	4.50%	09/01/2037	559,490.28	NA	0.05%
FHLMC Pool #Sd-1392	3.50%	07/01/2052	718,403.69	NA	0.07%
FHLMC Pool #Sd-1966	4.00%	11/01/2052	753,407.71	NA	0.07%
FHLMC Pool #Sd-7524	3.00%	08/01/2050	740,685.35	NA	0.07%
FHLMC Pool #Sd-8289	5.50%	01/01/2053	306,483.38	NA	0.03%
FHLMC Pool #G6-7702	4.00%	01/01/2047	470,167.86	NA	0.04%
FHLMC Pool #G6-0024	3.50%	05/01/2043	51,106.05	NA	0.00%
FHLMC Pool #Ra-8249	5.50%	11/01/2052	1,125,476.17	NA	0.11%
FNMA Pool #0254903	5.00%	10/01/2033	48,135.18	NA	0.00%
FHLMC Multiclass Mtg 5231 Va	4.00%	07/25/2033	306,775.82	NA	0.03%
FNMA Pool #0555330	5.50%	04/01/2033	26,346.16	NA	0.00%
FNMA Pool #0Ah3384	3.50%	01/01/2041	248,345.49	NA	0.02%
FNMA Pool #0AI0160	4.50%	05/01/2041	59,209.86	NA	0.01%
FNMA Pool #0AI1697	4.00%	10/01/2041	6,871.56	NA	0.00%
FNMA Pool #0AI3802	3.00%	02/01/2028	42,644.31	NA	0.00%

University of Houston System Endowment Fund
Notes to Basic Financial Statements
August 31, 2024 and 2023

Issuer	Coupon Rate	Maturity Date	Fair Value	S&P Risk Rating	Concentration of Credit Exposure
FNMA Pool #0AI4911	3.00%	10/01/2027	\$ 18,310.93	NA	0.00%
FNMA Pool #0AI7306	4.50%	09/01/2042	33,211.09	NA	0.00%
FNMA Pool #0AI7521	5.00%	06/01/2039	205,048.50	NA	0.02%
FNMA Pool #0AI7767	4.50%	06/01/2044	97,477.33	NA	0.01%
FNMA Pool #0AI9578	4.00%	06/01/2045	12,973.38	NA	0.00%
FNMA Pool #0AI8383	4.50%	10/01/2045	16,748.17	NA	0.00%
FNMA Pool #0As5696	3.50%	08/01/2045	20,440.36	NA	0.00%
FNMA Pool #0725231	5.00%	02/01/2034	8,006.55	NA	0.00%
FNMA Pool #0725690	6.00%	08/01/2034	14,795.00	NA	0.00%
FNMA Pool #0725704	6.00%	08/01/2034	16,364.62	NA	0.00%
FNMA Pool #0725773	5.50%	09/01/2034	52,344.70	NA	0.00%
FNMA Pool #0735925	5.00%	10/01/2035	59,567.44	NA	0.01%
FNMA Pool #0745428	5.50%	01/01/2036	34,514.13	NA	0.00%
FNMA Pool #0Bm1909	4.00%	02/01/2045	186,744.43	NA	0.02%
FNMA Pool #0Cb2283	2.00%	12/01/2051	601,645.06	NA	0.06%
FNMA Pool #0Fm7973	4.00%	08/01/2051	602,260.87	NA	0.06%
FNMA Pool #0995112	5.50%	07/01/2036	14,151.43	NA	0.00%
FNMA Pool #0Ma3088	4.00%	07/01/2047	44,894.14	NA	0.00%
FNMA Pool #0Ma4562	2.00%	03/01/2052	315,069.80	NA	0.03%
FNMA Pool #0Ma4656	4.50%	06/01/2052	286,433.62	NA	0.03%
FNMA Pool #0Ma4785	5.00%	10/01/2052	580,463.21	NA	0.05%
FNMA Pool #0Ma4807	5.50%	10/01/2052	597,460.02	NA	0.06%
FNMA Pool #0Ad0198	5.50%	09/01/2038	18,505.48	NA	0.00%

University of Houston System Endowment Fund
Notes to Basic Financial Statements
August 31, 2024 and 2023

Issuer	Coupon Rate	Maturity Date	Fair Value	S&P Risk Rating	Concentration of Credit Exposure
FNMA Pool #0Ad7128	4.50%	07/01/2040	\$ 45,310.87	NA	0.00%
FNMA Pool #0Ae0698	4.50%	12/01/2040	6,157.55	NA	0.00%
FNMA Pool #0Ae0949	4.00%	02/01/2041	44,732.20	NA	0.00%
GNMA II Pool #0Ma3663	3.50%	05/20/2046	90,996.70	NA	0.01%
GNMA II Pool #0Ma8348	5.00%	10/20/2052	854,796.95	NA	0.08%
GNMA II Pool #0Ma8569	5.00%	01/20/2053	1,097,029.02	NA	0.10%
GNMA II Pool #0005056	5.00%	05/20/2041	26,545.75	NA	0.00%
AT&T Inc	5.40%	02/15/2034	539,532.15	BBB	0.05%
American Express Co	3.95%	08/01/2025	271,661.60	BBB+	0.03%
Autonation Inc	3.85%	03/01/2032	372,658.00	BBB-	0.04%
Baker Hughes Holdings LLC / Ba	3.34%	12/15/2027	162,265.25	A-	0.02%
Bank of America Corp	3.42%	12/20/2028	573,006.25	A-	0.05%
Bank 2021-Bnk31 Bn31 A4	2.04%	02/15/2054	506,720.00	AAA	0.05%
Bank 2018-Bnk12 Bn12 As	4.48%	05/15/2061	313,146.80	AAA	0.03%
Blackstone Private Credit Fund	2.63%	12/15/2026	460,180.25	BBB-	0.04%
Citigroup Inc	3.98%	03/20/2030	239,379.40	BBB+	0.02%
Citigroup Inc	3.79%	03/17/2033	169,597.35	BBB+	0.02%
Expedia Group Inc	2.95%	03/15/2031	145,528.38	BBB	0.01%
Fifth Third Bancorp	4.77%	07/28/2030	116,975.00	BBB+	0.01%
General Motors Financial Co In	2.70%	08/20/2027	368,997.25	BBB	0.03%
Goldman Sachs Group Inc/The	2.60%	02/07/2030	291,273.15	BBB+	0.03%
Goldman Sachs Group Inc/The	2.64%	02/24/2028	271,458.00	BBB+	0.03%
Home Partners Of Amer 3 A 144A	2.20%	01/17/2041	306,245.01	NA	0.03%
Hyundai Auto Receivables B A4	0.60%	02/16/2027	393,554.25	AAA	0.04%
Jbs Usa Lux Sa / Jbs Usa Food	5.50%	01/15/2030	145,218.00	NA	0.01%

University of Houston System Endowment Fund
Notes to Basic Financial Statements
August 31, 2024 and 2023

Issuer	Coupon Rate	Maturity Date	Fair Value	S&P Risk Rating	Concentration of Credit Exposure
JPMorgan Chase & Co	4.01%	04/23/2029	\$ 492,392.25	A-	0.05%
JPMorgan Chase & Co	2.07%	06/01/2029	291,709.80	A-	0.03%
JPMorgan Mortgage 4 A12 144A	3.00%	10/25/2052	460,282.95	NA	0.04%
Kyndryl Holdings Inc	3.15%	10/15/2031	501,287.55	BBB-	0.05%
Morgan Stanley Bank of C32 A4	3.72%	12/15/2049	839,673.00	NA	0.08%
Morgan Stanley Capital I L5 A4	2.73%	05/15/2054	740,187.00	AAA	0.07%
Morgan Stanley	2.94%	01/21/2033	348,253.50	A-	0.03%
Morgan Stanley Bank of C29 A4	3.33%	05/15/2049	608,835.50	NA	0.06%
Nov Inc	3.60%	12/01/2029	542,146.55	BBB	0.05%
National Rural Utilities Coope	4.15%	12/15/2032	374,723.60	A-	0.04%
Oshkosh Corp	3.10%	03/01/2030	286,068.25	BBB	0.03%
Public Storage Operating Co	2.25%	11/09/2031	501,797.00	A	0.05%
Charles Schwab Corp/The	5.64%	05/19/2029	373,916.25	A-	0.04%
Simon Property Group Lp	2.20%	02/01/2031	346,681.95	A-	0.03%
Southern California Edison Co	4.20%	03/01/2029	71,109.00	A-	0.01%
State Street Corp	5.16%	05/18/2034	291,300.00	A	0.03%
T-Mobile Usa Inc	3.38%	04/15/2029	358,440.00	BBB	0.03%
Towd Point Mortgage 2 A1 144A	3.25%	03/25/2058	249,277.58	NA	0.02%
Toyota Auto Receivables 2 A A3	1.23%	06/15/2026	312,422.50	NA	0.03%
United Airlines 2016-1 Class A	3.10%	01/07/2030	154,017.25	NA	0.01%
Utah St	4.55%	07/01/2024	49,672.00	AAA	0.00%
Viartis Inc	2.70%	06/22/2030	121,932.00	BBB-	0.01%
Vmware Inc	3.90%	08/21/2027	748,842.30	BBB-	0.07%
Vulcan Materials Co	5.80%	03/01/2026	405,680.40	BBB+	0.04%
Wells Fargo Bank Na	6.40%	08/07/2026	250,862.50	A+	0.02%
Wells Fargo & Co	5.39%	04/24/2034	365,377.50	BBB+	0.03%
Wells Fargo & Co	5.57%	07/25/2029	283,783.05	BBB+	0.03%

University of Houston System Endowment Fund
Notes to Basic Financial Statements
August 31, 2024 and 2023

Issuer	Coupon Rate	Maturity Date	Fair Value	S&P Risk Rating	Concentration of Credit Exposure
Wisconsin Power and Light Co	3.95%	09/01/2032	\$ 382,594.80	A	0.04%

(f) Alternative Investments

Investments reported at fair value of approximately \$407,841,321 and \$393,952,384 as of August 31, 2024 and 2023, respectively, are not publicly traded and have been estimated by management and fund managers in the absence of readily available market values. These funds are invested with external investment managers, generally in commingled funds, limited liability partnerships, or corporations in which the System has an interest, who invest, for example, in hedge funds, real estate, natural resources, private equity, managed futures, and distressed opportunities. These investments are domestic and international in nature and some of the investments may not be realized for a period of several years after the investments are made. Risks associated with these investments include liquidity risk, market risk, event risk, foreign exchange risk, interest rate risk, and investment manager risk.

More specifically, the risks include the following:

Non-regulation risk – Historically, these funds were not required to register with the Securities and Exchange Commission (SEC) and, therefore, were not subject to regulatory control. With the passage of the *Dodd-Frank Act of 2010*, almost all alternative investment managers are required to register with the SEC under the *Investment Advisers Act of 1940*. As of August 31, 2022, the Endowment Fund has no specific policy statement with respect to non-regulation risk. The policy does contain limitations on the percent that can be allocated to alternative investments.

Managerial risk – Fund managers for non-publicly traded investments may fail to produce the intended returns and are not subject to oversight. However, the fund managers are subject to oversight by the Endowment Fund. The Endowment Fund has no specific policy statement with respect to managerial risk for alternative investments. However, the Endowment Fund diversifies across managers to mitigate systematic and organizational risk without creating over-diversification. The Endowment Fund further attempts to mitigate managerial risk by emphasizing the qualitative evolution of managers, discouraging the use of significant leverage, emphasizing managers with a demonstrated skill in generating returns.

Liquidity risk – Many of the Endowment Fund’s investment funds impose restrictions on redemptions or require multi-year lock-up periods that restrict investors from redeeming their shares or may impose penalties to redeem. The Endowment Fund has no specific policy statement with respect to liquidity risk. The policy does contain limitations on the percent that can be allocated to alternative investments and liquidity is measured.

University of Houston System Endowment Fund

Notes to Basic Financial Statements

August 31, 2024 and 2023

Limited transparency – Any unregistered investment vehicles are not required to disclose the holdings in their portfolios to investors. This risk is mitigated somewhat by the *Dodd-Frank Act of 2010* and the increased transparency provided by the requirement to file Form ADV with the SEC. The Endowment Fund has no specific policy statement with respect to transparency risk.

Investment strategy risk – Alternative investments often employ sophisticated and more risky investment strategies, as compared to traditional investments, and one or more may use leverage, which could result in volatile returns. To mitigate this risk, emphasis is placed on those managers who have extensive experience in employing these strategies, a demonstrated ability to consistently employ them effectively, and an established track record of superior performance. The Endowment Fund has no specific policy statement with respect to investment strategy risk. The policy does contain limitations on the percent that can be allocated to alternative investments.

Foreign currency risk – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of the Endowment Fund's non-U.S. dollar investments. Investment managers may hedge some, all, or none of their foreign currency risk. The Endowment Fund has no specific policy statement with respect to foreign currency risk.

6) Fair Value Measurements

The Endowment Fund applies GASB guidance on fair value measurements and disclosures, which requires enhanced disclosure about the investments that are measured and reported at fair value and establishes a hierarchical disclosure framework that prioritizes and ranks the level of market price observability used in measuring investments at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Market price observability is impacted by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available active quoted prices or for which fair value can be measured for actively quoted prices generally will have a high degree of market price observability and a lesser degree of judgment used in measuring fair value.

All investments are measured and reported at fair value on a recurring basis and are classified and disclosed in one of the following categories:

Level 1 – Quoted prices in active markets for identical investments.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting data, and fair value is determined through the use of models or other valuation methodologies.

Level 3 – Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation.

In certain cases, the inputs use to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the determination of which category within the fair value hierarchy is appropriate for any given instrument is based on the lowest level of input that is significant to the fair value measurement.

University of Houston System Endowment Fund
Notes to Basic Financial Statements
August 31, 2024 and 2023

Investments held by the Endowment Fund for which market quotes are readily available are valued based on third-party pricing systems and reported at quoted prices as of the reporting date. Investments held for which market quotes are not readily available are reported based on appraised value. Investments with funds held and invested by external managers where the Endowment Fund holds a share of the external manager's fund are valued and reported at NAV and are not categorized according to fair market value.

Assets at fair value as of August 31, 2024 and 2023 were as follows:

August 31, 2024				
Investment Category	Level 1	Level 2	Level 3	Total
Equities	\$ 29,205,879	\$ -	\$ -	\$ 29,205,879
Externally managed domestic	67,910,007	-	-	67,910,007
Externally managed international	15,417,033	-	-	15,417,033
Fixed income – money market and bond mutual funds	21,920,162	-	-	21,920,162
Corporate obligations	102,838,378	-	-	102,838,378
U.S. government agencies	14,451,598	-	-	14,451,598
U.S. government obligations	7,430,387	-	-	7,430,387
Totals	<u>\$ 259,173,444</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 259,173,444</u>

August 31, 2023				
Investment Category	Level 1	Level 2	Level 3	Total
Equities	\$ 41,700,307	\$ -	\$ -	\$ 41,700,307
Externally managed domestic	72,438,247	-	-	72,438,247
Externally managed international	13,334,412	-	-	13,334,412
Fixed income – money market and bond mutual funds	26,984,269	-	-	26,984,269
Corporate obligations	18,082,269	-	-	18,082,269
U.S. government agencies	13,942,023	-	-	13,942,023
U.S. government obligations	7,305,472	-	-	7,305,472
Totals	<u>\$ 193,786,999</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 193,786,999</u>

University of Houston System Endowment Fund
Notes to Basic Financial Statements
August 31, 2024 and 2023

Investments measured at NAV as of August 31, 2024 and 2023 were as follows:

August 31, 2024				
Investment Category	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Equity funds	\$ 130,023,875	\$ -	As needed	30-60 days
Externally managed domestic	222,956,123	70,944,548	N/A	30-60 days
Externally managed international	256,670,936	50,805,953	N/A	30-60 days
International equities	247,972,936	-	As needed	5 days
Other commingled funds	2,506,347	-	As needed	3 days
Totals	<u>\$ 860,130,217</u>	<u>\$ 121,750,501</u>		

August 31, 2023				
Investment Category	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Equity funds	\$ 153,109,954	\$ -	As needed	30-60 days
Externally managed domestic	250,552,282	76,858,524	N/A	30-60 days
Externally managed international	270,153,903	62,639,151	N/A	30-60 days
International equities	195,136,724	-	As needed	5 days
Other commingled funds	1,942,927	-	As needed	3 days
Totals	<u>\$ 870,895,790</u>	<u>\$ 139,497,675</u>		

(a) Equity Funds

This type includes investments in one fund at August 31, 2024 and 2023 that invests primarily in U.S. equities. Managers have the ability to shift investments from small to large cap stocks and from a net long position to a net short position. The fair values of the investments in this type have been determined using the NAV per share of the investments. All investments in this category can be redeemed with 30 to 60 days' notice.

(b) Externally Managed Domestic

This type includes investments in 52 and 42 funds at August 31, 2024 and 2023, respectively, that invest in inflation hedges, oil and gas, real estate properties, renewable natural resources, public and private equities, healthcare, and venture capital. Managers have the ability to invest in natural resources, venture capital, private equity real estate, multi-strategy funds, and the secondary market. Managers have the ability to shift investments in the portfolio to gain the best advantage in the market. Approximately 12% and 10% of this class is invested in natural resources, 2% and 14% in venture capital, 12% and 12% in real estate, 60% and 57% in private equity, and 13% and 7% in multi strategies at August 31, 2024 and 2023, respectively. The fair values of the investments in this type have been determined using the NAV per share of the investments. All investments in this category can be redeemed with 30 to 60 days' notice, but early redemption requires complete exit from the fund. Funds in this category have expected maturity dates that range from 5 to 10 years.

University of Houston System Endowment Fund

Notes to Basic Financial Statements

August 31, 2024 and 2023

(c) *Externally Managed International*

This type includes investments in 44 and 44 funds at August 31, 2024 and 2023, respectively, that invest in inflation hedges, hedged investments, oil and gas, real estate properties, technology, public and private domestic and international equities, fixed income securities, alternative market equities, long and short equities, global secondary, and global venture capital. Approximately 5% and 5% of the portfolio is invested in real estate, 46% and 59% in private equity, 16% and 17% in venture capital, 8% and 8% in the secondary market, and 25% and 12% in public and private domestic and global equities at August 31, 2024 and 2023, respectively. For those managers who invest in equities and real estate, they have the ability to shift investments from long to short term and international to domestic. The fair values of the investments in this type have been determined using the NAV per share of the investments. All investments in this category can be redeemed with 30 to 60 days' notice, but early redemption requires complete exit from the fund. Funds in the category have expected maturity dates that range from 5 to 10 years.

(d) *Fixed Income – Money Market and Bond Mutual Funds*

This type includes temporary investments in cash equivalents such as money market funds by managers whose NAV is classified in another category. Managers have the ability to shift investments. The fair values of the investments in this type have been determined using the cash value of the temporary investment. These investments are not intended for redemption as they represent a short-term transaction within a separate category.

(e) *International Equities*

This type includes investments in five funds at August 31, 2024 and 2023, respectively, that invest in international equities. The managers have the ability to shift investments to gain a more favorable outcome. The fair value of the investment in this type has been determined using the NAV per share of the investment. The investment in this category can be redeemed with five days' notice.

(f) *Other Commingled Funds*

This type includes investments in three funds at August 31, 2024 and 2023 that invest primarily in equities. One equity fund is managed by University of Houston C.T. Bauer College of Business, and stocks are traded on a daily basis. The second fund is a bond fund that comprises 95% of this category. The fair values of the investments in this type have been determined using the NAV per share of the investments. All investments in this category can be redeemed with three days' notice.

University of Houston System Endowment Fund
Notes to Basic Financial Statements
August 31, 2024 and 2023

7) Due to Other Components

Due to other components at August 31, 2024 and 2023 consists of the following:

	2024	2023
Payable to System components under the income payout policy	\$ 40,816,337	\$ 37,845,601
Payable to System components for institutional advancement	7,645,214	7,774,448
Total due to other components	\$ 48,461,551	\$ 45,620,049

8) Related-Party Transactions

In addition to the transfers-in described in the revenue recognition policy in *Note 2* and distributions to other components described in *Note 7*, the Endowment Fund received in-kind contributions from the System in the form of personnel costs, office facilities, equipment, and supplies during the years ended August 31, 2024 and 2023. The total estimated value of these in-kind contributions received from the System was between \$900,000 and \$1,000,000 for fiscal years 2024 and 2023.

9) Administrative Costs

The Endowment Fund pays custodial fees and expenses to the financial institution, which acts as the custodian of the portion of the Endowment Fund's assets managed under a master trust custodian agreement. The fees are based on the number of accounts, market value of the securities, and transaction activities in accordance with the master trust custodian agreement.

Additionally, the Endowment Fund incurs asset management fees from the independent investment managers of the Endowment Fund. The fees are generally assessed on a quarterly basis on a percentage of the market value of investments held by each investment manager.

The Endowment Fund incurs other expenses related to its operations primarily consisting of professional service fees and expenses. The total fees and expenses incurred by the Endowment Fund for the years ended August 31, 2024 and 2023 were estimated \$9,266,369 and \$9,788,763, respectively, and were included in net appreciation of investments on the accompanying statements of revenues, expenses, and changes in net position.

10) Income Taxes

The System, of which the Endowment Fund is a division, is a university established as an agency of the State of Texas prior to 1969 and is qualified as a governmental entity not generally subject to federal income tax by reason of being a state or political subdivision thereof, or an integral part of a state or political subdivision thereof or an entity whose income is excluded from gross income for federal income tax purposes under Section 115 of the Internal Revenue Code of 1986. However, as a state college or university, the System is subject to unrelated business income pursuant to Internal Revenue Code of 1986 Section 511(a)(2)(B). No material unrelated business income tax was incurred for the years ended August 31, 2024 and 2023. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

University of Houston System Endowment Fund
Notes to Basic Financial Statements
August 31, 2024 and 2023

11) Subsequent Events

In the months subsequent to the fiscal year-end, the U.S. and world's financial markets, as measured by the global stock markets, have continued to be unpredictable. These and other economic events have had an effect on the value of investments held by the Endowment Fund. Interim valuation information is not available for all investments through the date of this report. However, for the Endowment Fund, investment appreciation subsequent to year-end and through December 31, 2024 was \$5,650,426 (unaudited). As of that date, the Endowment Fund's total net position was \$1,167,153,034 (unaudited).

On October 25, 2024, a promissory note was signed between the University of Houston System (Lender) and University of Houston Department of Athletics (Borrower) for a loan in the amount of \$10,000,000. These funds were transferred from the University of Houston System Endowment Fund to the Borrower. The principal amount of this note shall bear interest at 5.1% per annum and mature on August 31, 2035.



University of Houston System

Independent Accountant's Report on Applying Agreed-Upon Procedures

August 31, 2024

Independent Accountant's Report on Applying Agreed-Upon Procedures

Board of Regents
University of Houston System
Houston, Texas

We have performed the procedures enumerated in the attachment to this report on the University of Houston System's (University) compliance with the requirements set forth in Section 12.4.4 of the Cancer Prevention and Research Institute of Texas's (CPRIT) Grant Policies and Procedures Guide as of and for the year ended August 31, 2024. The management of the University is responsible for its aforementioned compliance with the requirements set forth in Section 12.4.4 of CPRIT's Grant Policies and Procedures Guide.

The University has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of assessing the University's compliance with Section 12.4.4 of CPRIT's *Grant Policies and Procedures Guide* as of and for the year ended August 31, 2024. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

The procedures and the associated findings are described in the attachment to this report.

We were engaged by the University to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to, and did not, conduct an examination or review engagement, the objective of which would be the expression of an opinion or conclusion, respectively, on compliance with Section 12.4.4 of CPRIT's *Grant Policies and Procedures Guide*. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We are required to be independent of the University and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

This report is intended solely for the information and use of the specified parties above and is not intended to be, and should not be, used by anyone other than these specified parties.

Forvis Mazars, LLP

**Houston, Texas
January 29, 2025**

Processes and Controls

Procedures

1. Inquire of the University's management about whether they have assessed the adequacy of internal controls addressing grant noncompliance, errors, and fraud. Observe documentation of that assessment. Compare the items listed in the risk assessment to the following controls and assess whether the following were included:
 - a. Contract compliance, including submission;
 - b. Expenditures, including payroll and equipment;
 - c. Project income; and
 - d. Reporting, including performance measurement, matching, indirect cost application, and early termination.
2. Confirm that the University has documented policies and procedures to account for the receipts and disbursement of the CPRIT funds.

Finding

No exceptions noted.

Contract

Procedures

1. Obtain the contract proposal for each grant tested and determine whether the contract included internal Institutional Review Board approval for the use of human subjects, animals, or biohazards. If so, obtain documentation from the grantee showing that the applicable review was done by the appropriate board prior to contract execution as evidenced by signature of board meeting minutes.
2. Determine, through comparison to the University's policies, whether the University is required to have a written standard of conduct and comply with federal law to promote objectivity in research. If so, verify that a conflict of interest statement(s) for all individual principal investigators was signed prior to the effective date of the grant and that the conflict of interest statement(s) was (were) updated as necessary to comply with these provisions.
3. Inquire of management and/or those charged with grant oversight whether the grantee completed all assurances and certifications in Attachment C, Assurances and Certifications, of the grant contract.

Finding

No exceptions noted.

Indirect Costs

Procedures

1. Obtain and read each grant contract and assess whether there is an indirect cost rate specified.

2. To test the indirect cost rate, select a sample of the lesser of 10% or 25 indirect costs charged to the grant and perform the following:
 - a. Obtain a list of eligible indirect costs from the University. Agree the description of the costs in the sample to the list of eligible costs. Obtain supporting documentation for the transactions in the sample and assess whether the description is valid. Document any exceptions.
 - b. Obtain from the University's accounting records the listing of direct costs charged to the grant. Compare the sample of indirect costs to the listing of direct costs to assess whether they were not included as direct costs. Document any exceptions.
3. Select a sample of two (2) financial status report (Form 269a) submissions for each grant and recompute the indirect cost rate used based on the requirements noted in the grant contract obtained in procedure 1 above. Compare the recalculated rate to the rate used and document any variance.

Finding

No exceptions noted. In procedure 2, the sample size was 17 items.

Matching (Academic and Product Development Research Awards Only)

Procedures

1. Obtain each grant contract and assess whether it includes a matching funds requirement. If it does not, no further procedures in this section are necessary. Note: Matching fund requirements applicable to public and private institutions of higher education allow the grantee to receive partial or full matching funds credit. See section "Matching Funds – Certification and Verification."
2. Inquire of management and/or those charged with grant oversight whether a tracking mechanism, such as a separate fund/account, was created to track matching fund expenditures. Document management's response.
3. Obtain the grantee's matching certification to assess whether matching funds (as noted in the grant contract obtained in 1 above) were certified prior to grant start. View the grantee's documentation supporting that the matching funds were set aside to be spent on the funded grant only. Document any variance in the amount of matching funds.
4. As of the end of the CPRIT program year, view the grantee's documentation supporting that the matching funds were set aside to be spent on the funded grant(s) only that is the subject of the award. Obtain the bank statement(s) related to the account(s) that hold(s) the match funds and tie in the total bank balance per the grantee's records to the month-end reconciliation.

Finding

Both selected grants had matching funds requirements: RP210148 and RP220008. No exceptions noted.

Expenditures (Excluding Payroll-Related Transactions)

Procedures

1. Inquire of management and/or those charged with grant oversight as to whether the University has a purchasing policy that establishes a competitive procurement process and safeguards against bias or conflicts of interest.

2. Inquire of management and/or those charged with grant oversight whether the University has a process in place to ensure that entities only purchase from a vendor list (which excludes vendors that are federally debarred or suspended) that has been approved by management and/or those charged with governance as evidenced by signature and date. Document management's response.
3. To test non-payroll direct expenditures for each grant, select a sample of the lesser of 10% or 60 non-payroll-related expenditures. For each item selected, perform the following:
 - a. Agree the sample disbursement to the receipt or invoice supporting the amount and payee.
 - b. Observe physical or electronic evidence of approval to determine whether the purchase was approved and/or reviewed by management or those involved with oversight of the grant (with knowledge of the grant requirements).
 - c. Trace the description of the purchased goods and/or services received to the underlying supporting documentation and agree the description to items allowable per Uniform Grant Management Standards (UGMS), the grant contract, and the CPRIT Policies and Procedures Guide.
 - d. If the item selected is travel related, assess whether the travel was related to the grant based on the inquiry of management or review of supporting documentation. Compare the description of the travel to the narrative and assess whether any discrepancy exists.
 - e. If the item selected is related to international travel, observe physical or electronic evidence of approval to determine whether it was approved by CPRIT prior to the initiation of the travel.
 - f. If the expended item was transacted prior to the related CPRIT grant being awarded, obtain evidence to assess whether the costs were authorized by CPRIT per review of correspondence or other verification documentation.
 - g. Assess whether the vendor was preapproved by the University prior to the purchase by agreeing the vendor to the preapproved vendor list noted in procedure 2 above.
 - h. Compare the purchase to the approved grant budget and assess whether the purchase was included in a category in the approved grant budget provided to CPRIT.
 - i. Obtain supporting documentation that the transaction occurred during the period covered by the grant award.

Finding

No exceptions noted. In Procedure 3, the sample size was 26 items.

Expenditures (Payroll-Related Transactions)

Procedures

1. Inquire of management and/or those charged with grant oversight to assess whether the University has a formal system to track time and effort of employees associated with the grant.
2. To test payroll direct expenditures for each grant, select a sample of the lesser of 10% or 60 payroll-related transactions from the fiscal year.

3. For employees that work solely in a single award/funding stream or cost objective, observe documentation covering the period in which the transaction occurred showing that the employee had a semi-annual certification signed by the employee or a supervisory official.
 - a. Note that the budgeted payroll costs pertaining to the selected employee or the position, related to the selected employee, have been included in the approved grant budget;
 - b. Obtain supporting documentation that the transaction occurred during the period covered by the grant award;
 - c. Agree the time allocated to the grant for the related pay period to the employee's time sheet or similar support;
 - d. Assess whether the employee's time sheet or similar documentation was approved by a supervisor;
 - e. Agree the employee's pay rate per the transaction to the employee's pay rate per their employee file and that the rate was properly approved; and
 - f. Assess whether the grantee has reported each employee whose salary or partial salary is paid by a CPRIT grant in the original Personnel Level of Effort (PLOE) submitted with the grant application.

Finding

In procedure 2, the sample size was 26 items. Exceptions noted. For all 26 selected items, the University was unable to provide semi-annual certifications signed by an employee or supervisory official having first-hand knowledge of the work performed by the employee. According to the Director, Research Administrative Services, effort reports were temporarily suspended as the University reviews prior practices for generating effort reports, assesses the functionality of the current system, and identifies opportunities for improvement. The University will be issuing FY2024 effort reports for campus certification under the updated system in February/March 2025.

Equipment

Procedure

1. For each grant, select a sample of the lesser of 10% or 25 equipment purchases during the fiscal year, and assess whether:
 - a. The purchase was included in a category in the contract approved budget.
 - b. The University's internal procedures for recording the receipt of the equipment were followed.
 - c. The item was included in the grant Inventory Report submitted to CPRIT.
 - d. If the purchase was greater than \$5,000, verify that the purchase was authorized by CPRIT prior to the purchase.
 - e. Observe the purchase documentation and assess whether the University has title to the equipment purchased or fabricated with grant funds.
 - f. If the University still owns the equipment, observe the equipment's physical location, assess whether it is located at the University and agree the equipment's property tag to the property identification number reported in the inventory report to CPRIT.

- g. Obtain supporting documentation that the transaction occurred during the period covered by the grant award.

Finding

None of the selected grants had equipment purchases.

Revenue Sharing and Project Income

Procedures

1. Inquire of management whether any revenue was generated by the grant project during the preceding fiscal year.
2. Assess whether revenue or project income collected by the University for the year has been identified for each grant in accordance with the grant contract or CPRIT approval and reported on the annual Revenue Sharing/Program Income Report form to CPRIT.
3. For revenue sharing, obtain documentation to assess whether revenue generated by the sale or licensing of products or research developed through a CPRIT grant resulted in payment made to CPRIT and that the payment is accurate based on the grant contract and Revenue Sharing/Program Income Report form.

Finding

According to the Director, Research Administrative Services, no grants generated program income.

Reporting

Procedures

1. Inquire of the University's management and those charged with oversight over the CPRIT grant as to whether they are aware of any instances related to CPRIT grants of fraud, illegal acts, or noncompliance, and whether they have been properly reported to the granting agency. Document management's response regarding any such acts that were reported.
2. To test the reporting requirements, select a sample of reporting time periods for the following reports:
 - a. **Quarterly** – Select two Financial Status Reports (due within 90 days of the end of the fiscal quarter). For Prevention Grants, also select two quarters of Data Elements.
 - b. **Annual** – Select the current years, Grant Progress Report and Project Data, and other required annual reports (due within 60 days of the anniversary date of the Contract). The Grant Progress Report is filed along with the Single Audit Determination form, Historically Underutilized Business report, listing of equipment, inventory, and Revenue Sharing/Program Income Report form.
 - c. **End of Contract Term** – Grant Final Report, a final grant progress report shall be filed no more than 90 days after the termination date of the Contract. The final grant progress report shall include a comprehensive description of the grantee's progress toward completing the scope of work specified by the Contract, as well as other information specified by CPRIT.
 - d. **Tranche Grant Progress Report (Product Development grantees only)** – In addition to annual Grant Progress Reports, Product Development grantees may submit a Grant Progress Report at the completion of specific tranches of funding specified in the Award Contract. A Tranche Grant Progress Report is not required when the completion of the tranche coincides with the end of the grant year. In that event, the annual Grant Progress Report is sufficient.

3. Perform the following procedures over the reports:
 - a. Obtain applicable documentation and/or correspondence and assess whether required reports were filed within required timeframes as noted above.
 - b. Obtain documentation and/or correspondence to assess whether the reports were reviewed and approved by management and/or those charged with oversight over the grant prior to submission.
 - c. Agree all financial information included in reimbursement request reports for each request, and cumulatively for the reporting period, to the University's general ledger.
 - d. If applicable, assess whether any reimbursements payments have been withheld by inquiring of management and/or those charged with grant oversight. Document management's response for the reason for a delay in payment related to not complying with a grant contract requirement or any state or federal law. If funds had been withheld, note whether the withheld payments were released per applicable documentation.
 - e. For the Grant Progress Reports, in addition to the procedures above, assess whether the progress report includes a Single Audit Determination form, an inventory form, a Revenue Sharing/Program Income Report and a Historically Underutilized Business/Texas Supplier report. Note any missing reports.
 - f. For the Grant Progress Reports, in addition to the procedures above, confirm that the other key data points related to project data (*i.e.*, publications, patent information, commercialization, etc.) are accurate for the period and supported by documentation from the University. Note any incorrect amounts.

Finding

No exceptions noted. According to the Director, Research Administrative Services, the University did not receive any product development grants.

Grant Closeout

Procedures

1. Obtain correspondence and/or related documentation showing the date that the grantee submitted all required reports (as defined by the contract) to CPRIT to assess whether the submission was completed within the 145-day closeout period following the end of the contract term for each grant.
2. Select the last financial status report for the grant and assess whether it was submitted in a timely manner (as defined by the Contract) and that the related payment was received. If payment was delayed, inquire of management the reason for the delay and document the response.

Finding

According to the Director, Research Administrative Services, grant RP210148 initial contract end date was August 30, 2024. Grant RP210148 contract was extended to May 31, 2025. None of the selected grants closed as of August 31, 2024.

Sampling

When selecting a sample, we will follow CPRIT’s recommendation and use the guidance from the AICPA’s Audit and Accounting Guide: *Government Auditing Standards* and Circular A-133 Audits, Chapter 11 – Audit Sampling Considerations of Circular A-133 Compliance Audits:

Table 7: Audit Sampling Considerations

Frequency or Population Size	Sample Size
Quarterly (4)	2
Monthly (12)	3
Semimonthly (24)	6
Weekly (52)	8
Greater than 52 transactions:	
Expenditures	Lesser of 10% or 60
All other	Lesser of 10% or 25

We chose two grants from the schedule of CPRIT awards for testing as follows:

1. RP210148: Novel Pharmacodynamic Assay to Predict Response to CDK4/6 Inhibitor Therapy
2. RR220008: Recruitment of First-Time, Tenure-Track Faculty Members

**UNIVERSITY OF HOUSTON SYSTEM
BOARD OF REGENTS AGENDA**

COMMITTEE: Audit and Compliance

ITEM: Report on University of Houston System, UHS Financial Statements
Certifications, Fiscal Year 2024

DATE PREVIOUSLY SUBMITTED:

SUMMARY:

The Audit & Compliance Committee Planner, item number 3.13, requires that the UH System Chancellor and UH System Chief Financial Officer certify the annual financial statements for the UH System as a whole, and that each university President and Chief Financial Officer certify the annual financial statements for their respective university.

Included in the report are the following key points:

- Financial Certification Process
- University of Houston/UH System Administration, and UH System Certification Letter
- University of Houston-Clear Lake Certification Letter
- University of Houston-Downtown Certification Letter
- University of Houston-Victoria Certification Letter

SUPPORTING

DOCUMENTATION: Financial Statements Certification Letters – Fiscal Year 2024 (all universities)
and Financial Certification Process

FISCAL NOTE:

**RECOMMENDATION/
ACTION REQUESTED:** Information

COMPONENT: University of Houston System



CHIEF AUDIT EXECUTIVE

Phillip W. Hurd

2-3-25

DATE



CHANCELLOR

Renu Khator

2/14/25

DATE

Inter-Office Memorandum

To: Karin Livingston
Sr. Associate Vice Chancellor/Sr. Associate Vice President, Finance

Raymond S. Bartlett
Senior Vice Chancellor/Senior Vice President, Administration and Finance

Dr. Renu Khator
Chancellor/President

From: Usha Mathew
Assistant VP for Finance/Controller

Date: December 05, 2024

Subject: Financial Certification Letters

Attached are the FY2024 Financial Certification Letters for all UHS components, and an explanation of the process. These letters will be presented at the February 19, 2025 Board of Regents meeting. Also attached is a description of the Financial Certification Letter process.

Please sign where indicated and kindly return to me by January 10th, 2025

Thank you.

Financial Certification Process

- UH-Clear Lake, UH-Downtown, and UH-Victoria Chief Accounting Officers, Chief Financial Officers, and Presidents certified that the financial reports for their university are true and correct to the best of their knowledge.
- University of Houston and UH System Administration administrators and unit heads representing 136 departments completed the FY24 Department Fraud Risk Survey, which included questions about verifying cost center transactions, reporting instances of fraud and non-compliance, and other internal controls. According to the survey results, internal controls are adequate to ensure that the financial transactions created for FY24 by UH/UHSA departments are true and correct.
- Usha Mathew (Assistant VP for Finance/Controller), Lavonda Lockett (Executive Director of Financial Reporting), Gretta McClain Gibbs (Director of Accounting Services), Karin Livingston (Sr. Associate VC/VP for Finance), Raymond Bartlett (Senior VC/VP of Administration and Finance), and Dr. Renu Khator (Chancellor/President) signed the Certification Letter for UH, UHSA, and UH System Consolidated based on:
 - Department surveys, which indicate internal controls are adequate within UH and UHSA departments to ensure correct financial transactions.
 - Certifications signed by UHCL, UHD, and UHV representatives.
 - Their knowledge and review of the FY24 Annual Financial Report for UH, UHSA, and UH System Consolidated.
- The certification letters are presented at the February 19, 2025 Board of Regents meeting.

University of Houston, UH System Administration, and UH System Certification Letter

December 05, 2024

Mr. Gregory C. King
Chair, Audit and Compliance Committee
UH System Board of Regents, 128 E Cullen Bldg.
4302 University Dr.
Houston, TX 77204-6001

Pursuant to the UH System Board of Regents Audit Committee Charter and Checklist, the following representations are presented in connection with the preparation of financial statements and footnote information for the University of Houston, UH System Administration, and UH System as a whole for the period ended August 31, 2024.

Management Representations Related to Financial Statements

I have reviewed the financial statements of the University of Houston, UH System Administration, and UH System as a whole and I confirm, to the best of my knowledge and belief, the following representations made to you relating to the preparation of these financial statements and footnote information.

1. To the best of my knowledge, the financial statements and footnote information are fairly presented in conformity with generally accepted accounting principles except where the State Comptroller's reporting requirements have instructed us to deviate.
2. University management is responsible for compliance with the state and federal laws and regulations, the State Comptroller's reporting requirements, and the University of Houston System reporting guidelines communicated by the Office of the Senior Vice Chancellor for Administration and Finance or designee.
3. University management is responsible for establishing and maintaining internal controls over financial reporting. Internal Control is a process, effected by the Board of Regents, administration and management, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: effectiveness and efficiency of operations; reliability of financial reporting; and compliance with applicable laws and regulations.
4. To the best of my knowledge, all significant deficiencies in the design or operation of internal controls over financial reporting which could adversely affect UH System's ability to record, process, summarize, and report financial data and any material weaknesses in internal controls that have been identified for UH System have been appropriately reported and addressed.
5. To the best of my knowledge, there have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices other than those reported to the Office of the Senior Vice Chancellor for Administration and Finance in writing (if any).

University of Houston, UH System Administration, and UH System Certification Letter

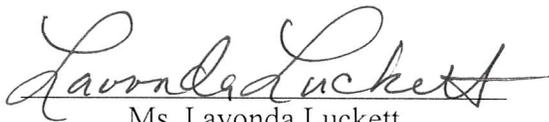
6. To the best of my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.
7. To the best of my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the University of Houston, UH System Administration, and UH System consolidated of, and for, the periods presented in this report. (Materiality is defined as a $\pm 5\%$ or greater error on revenues, expenses, assets, liabilities, or net assets.)
8. To the best of my knowledge, there are no unasserted claims or assessments that the Office of General Counsel has advised us are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board (FASB) Statement No. 5, Accounting for Contingencies other than those reported to the Office of the Senior Vice Chancellor for Administration and Finance in writing (if any).
9. To the best of my knowledge, there has been no –
 - a. Fraud, whether or not material, involving management or employees who have significant roles in internal control, that has not been appropriately reported and addressed; or
 - b. Fraud involving others that could have a material effect on the financial statements other than those reported to the Office of the Senior Vice Chancellor for Administration and Finance in writing (if any).
10. To the best of my knowledge, from August 31, 2024 through the date of this letter, there have been no subsequent events that have had or may have a material effect on the financial position or the revenues, expenses, and other changes in net assets as shown in the aforementioned financial statements.



Ms. Usha Mathew

Assistant Vice President for Finance
and Controller, University of Houston

12/3/2024
Date



Ms. Lavonda Luckett

Executive Director of Financial
Reporting, University of Houston

12/3/24
Date

University of Houston, UH System Administration, and UH System
Certification Letter



Ms. Gretta McClain Gibbs

Director of Accounting Services,
University of Houston

12/5/24
Date



Ms. Karin Livingston

Sr. Associate Vice Chancellor of
Finance, UH System
Sr. Associate Vice President of
Finance, University of Houston

12/10/24
Date

 2024-12-12
T08:51:36-06:00

Mr. Raymond Bartlett

Senior Vice Chancellor of
Administration & Finance, UH System
Senior Vice President of
Administration & Finance, University
of Houston

12/12/24
Date



Dr. Renu Khator

Chancellor, UH System
President, University of Houston

12/16/2024
Date

UH-Clear Lake Certification Letter

November 22, 2024

Mr. Gregory C. King
Chair, Audit and Compliance Committee
UH System Board of Regents, 128 E Cullen Bldg.
4302 University Dr.
Houston, TX 77204-6001

Pursuant to the UH System Board of Regents Audit Committee Charter and Checklist, the following representations are presented in connection with the preparation of UH-Clear Lake financial statements and footnote information for the period ended August 31, 2024.

Management Representations Related to Financial Statements

I have reviewed the financial statements of UH-Clear Lake and I confirm, to the best of my knowledge and belief, the following representations made to you relating to the preparation of UH-Clear Lake financial statements and footnote information.

1. To the best of my knowledge, the financial statements and footnote information are fairly presented in conformity with generally accepted accounting principles except where the State Comptroller's reporting requirements have instructed us to deviate.
2. University management is responsible for compliance with the state and federal laws and regulations, the State Comptroller's reporting requirements, and the University of Houston System reporting guidelines communicated by the Office of the Senior Vice Chancellor for Administration and Finance or designee.
3. University management is responsible for establishing and maintaining internal controls over financial reporting. Internal Control is a process, effected by the Board of Regents, administration and management, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: effectiveness and efficiency of operations; reliability of financial reporting; and compliance with applicable laws and regulations.
4. To the best of my knowledge, all significant deficiencies in the design or operation of internal controls over financial reporting which could adversely affect UH-Clear Lake's ability to record, process, summarize, and report financial data and any material weaknesses in internal controls that have been identified for UH-Clear Lake have been appropriately reported and addressed.
5. To the best of my knowledge, there have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices other than those reported to the Office of the Senior Vice Chancellor for Administration and Finance in writing (if any).

UH-Clear Lake Certification Letter

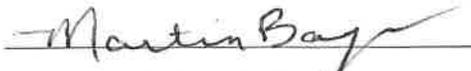
6. To the best of my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.
7. To the best of my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of UH-Clear Lake as of, and for, the periods presented in this report. (Materiality is defined as a $\pm 5\%$ or greater error on revenues, expenses, assets, liabilities, or net assets.)
8. To the best of my knowledge, there are no unasserted claims or assessments that the Office of General Counsel has advised us are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board (FASB) Statement No. 5, Accounting for Contingencies other than those reported to the Office of the Senior Vice Chancellor for Administration and Finance in writing (if any).
9. To the best of my knowledge, there has been no –
 - a. Fraud, whether or not material, involving management or employees who have significant roles in internal control, that has not been appropriately reported and addressed; or
 - b. Fraud involving others that could have a material effect on the financial statements other than those reported to the Office of the Senior Vice Chancellor for Administration and Finance in writing (if any).
10. To the best of my knowledge, from August 31, 2024 through the date of this letter, there have been no subsequent events that have had or may have a material effect on the financial position or the revenues, expenses, and other changes in net assets as shown in the aforementioned financial statements.



Dr. Sherry Hawn

Associate Vice President
Business Operations, UH Clear Lake

11/19/24
Date



Mr. Martin Baylor

Interim Vice President of
Administration and Finance, UH
Clear Lake

11/19/24
Date



Dr. Richard Walker

President, UH Clear Lake

11/19/24
Date

UH Downtown Certification Letter

November 22, 2024

Mr. Gregory C. King
Chair, Audit and Compliance Committee
UH System Board of Regents, 128 E Cullen Bldg.
4302 University Dr.
Houston, TX 77204-6001

Pursuant to the UH System Board of Regents Audit Committee Charter and Checklist, the following representations are presented in connection with the preparation of UH Downtown's financial statements and footnote information for the period ended August 31, 2024.

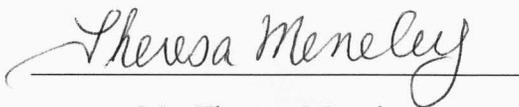
Management Representations Related to Financial Statements

I have reviewed the financial statements of UH Downtown and I confirm, to the best of my knowledge and belief, the following representations made to you relating to the preparation of the UH Downtown's financial statements and footnote information.

1. To the best of my knowledge, the financial statements and footnote information are fairly presented in conformity with generally accepted accounting principles except where the State Comptroller's reporting requirements have instructed us to deviate.
2. University management is responsible for compliance with the state and federal laws and regulations, the State Comptroller's reporting requirements, and the University of Houston System reporting guidelines communicated by the Office of the Senior Vice Chancellor for Administration and Finance or designee.
3. University management is responsible for establishing and maintaining internal controls over financial reporting. Internal Control is a process, effected by the Board of Regents, administration and management, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: effectiveness and efficiency of operations; reliability of financial reporting; and compliance with applicable laws and regulations.
4. To the best of my knowledge, all significant deficiencies in the design or operation of internal controls over financial reporting which could adversely affect UH Downtown's ability to record, process, summarize, and report financial data and any material weaknesses in internal controls that have been identified for UH Downtown have been appropriately reported and addressed.
5. To the best of my knowledge, there have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices other than those reported to the Office of the Senior Vice Chancellor for Administration and Finance in writing (if any).

UH Downtown Certification Letter

6. To the best of my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.
7. To the best of my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of UH Downtown as of, and for, the periods presented in this report. (Materiality is defined as a $\pm 5\%$ or greater error on revenues, expenses, assets, liabilities, or net assets.)
8. To the best of my knowledge, there are no unasserted claims or assessments that the Office of General Counsel has advised us are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board (FASB) Statement No. 5, Accounting for Contingencies other than those reported to the Office of the Senior Vice Chancellor for Administration and Finance in writing (if any).
9. To the best of my knowledge, there has been no –
 - a. Fraud, whether or not material, involving management or employees who have significant roles in internal control, that has not been appropriately reported and addressed; or
 - b. Fraud involving others that could have a material effect on the financial statements other than those reported to the Office of the Senior Vice Chancellor for Administration and Finance in writing (if any).
10. To the best of my knowledge, from August 31, 2024 through the date of this letter, there have been no subsequent events that have had or may have a material effect on the financial position or the revenues, expenses, and other changes in net assets as shown in the aforementioned financial statements.

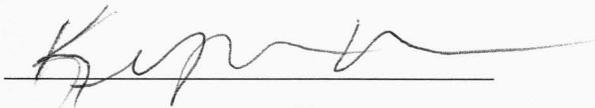


Ms. Theresa Meneley

Associate Vice President
Business Affairs, UH Downtown

11/22/24

Date

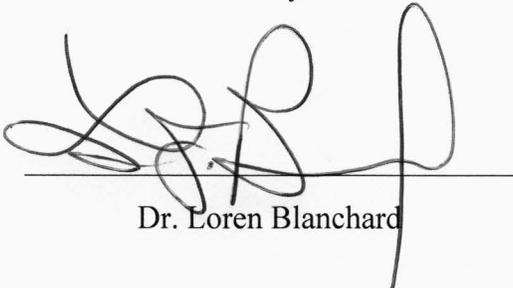


Ms. Kimberly Thomas

Vice President of Administration and
Finance, UH Downtown

11/22/24

Date



Dr. Loren Blanchard

President, UH Downtown

11/24/2024

Date

UH Victoria Certification Letter

November 22, 2024

Mr. Gregory C. King
Chair, Audit and Compliance Committee
UH System Board of Regents, 128 E Cullen Bldg.
4302 University Dr.
Houston, TX 77204-6001

Pursuant to the UH System Board of Regents Audit Committee Charter and Checklist, the following representations are presented in connection with the preparation of the UH Victoria's financial statements and footnote information for the period ended August 31, 2024.

Management Representations Related to Financial Statements

I have reviewed the financial statements of UH Victoria and I confirm, to the best of my knowledge and belief, the following representations made to you relating to the preparation of the UH Victoria's financial statements and footnote information.

1. To the best of my knowledge, the financial statements and footnote information are fairly presented in conformity with generally accepted accounting principles except where the State Comptroller's reporting requirements have instructed us to deviate.
2. University management is responsible for compliance with the state and federal laws and regulations, the State Comptroller's reporting requirements, and the University of Houston System reporting guidelines communicated by the Office of the Senior Vice Chancellor for Administration and Finance or designee.
3. University management is responsible for establishing and maintaining internal controls over financial reporting. Internal Control is a process, effected by the Board of Regents, administration and management, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: effectiveness and efficiency of operations; reliability of financial reporting; and compliance with applicable laws and regulations.
4. To the best of my knowledge, all significant deficiencies in the design or operation of internal controls over financial reporting which could adversely affect UH Victoria's ability to record, process, summarize, and report financial data and any material weaknesses in internal controls that have been identified for UH Victoria have been appropriately reported and addressed.
5. To the best of my knowledge, there have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices other than those reported to the Office of the Senior Vice Chancellor for Administration and Finance in writing (if any).
6. To the best of my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.

UH Victoria Certification Letter

7. To the best of my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of UH Victoria as of, and for, the periods presented in this report. (Materiality is defined as a $\pm 5\%$ or greater error on revenues, expenses, assets, liabilities, or net assets.)
8. To the best of my knowledge, there are no unasserted claims or assessments that the Office of General Counsel has advised us are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board (FASB) Statement No. 5, Accounting for Contingencies other than those reported to the Office of the Senior Vice Chancellor for Administration and Finance in writing (if any).
9. To the best of my knowledge, there has been no –
 - a. Fraud, whether or not material, involving management or employees who have significant roles in internal control, that has not been appropriately reported and addressed; or
 - b. Fraud involving others that could have a material effect on the financial statements other than those reported to the Office of the Senior Vice Chancellor for Administration and Finance in writing (if any).
10. To the best of my knowledge, from August 31, 2024 through the date of this letter, there have been no subsequent events that have had or may have a material effect on the financial position or the revenues, expenses, and other changes in net assets as shown in the aforementioned financial statements.

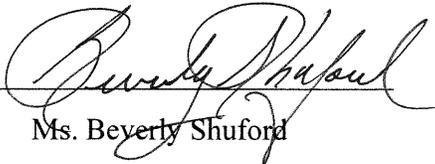


Ms. Erin Goodwin

Senior Finance Director,
UH Victoria

11/22/2024

Date



Ms. Beverly Shuford

Vice President of Administration and
Finance, UH Victoria

11/22/24

Date



Dr. Robert K. Glenn

President, UH Victoria

11/22/24

Date

**UNIVERSITY OF HOUSTON SYSTEM
BOARD OF REGENTS AGENDA**

COMMITTEE: Audit and Compliance

ITEM: Report on University of Houston System, Internal Audit Reports

DATE PREVIOUSLY SUBMITTED:

SUMMARY:

The Fiscal Year 2025 Internal Audit Activity since November 21, 2024, and Internal Audit Reports issued since the November 21, 2024, Audit & Compliance Committee meeting of the Board of Regents of the University of Houston System are provided.

The Internal Audit Reports included will be filed with the Governor's Office of Budget, Planning, and Policy; the State Auditor's Office; and the Legislative Budget Board, within the next 30 days, as required by the Texas Government Code, Section 2102.0091.

SUPPORTING

DOCUMENTATION: Internal Audit Activity and Internal Audit Reports

FISCAL NOTE:

**RECOMMENDATION/
ACTION REQUESTED:** Information

COMPONENT: University of Houston System



2-3-25

CHIEF AUDIT EXECUTIVE

Phillip W. Hurd

DATE



CHANCELLOR

Renu Khator

2/14/25
DATE

Report to the Audit and Compliance Committee
of the University of Houston System
Board of Regents
February 19, 2025

UNIVERSITY OF HOUSTON SYSTEM
INTERNAL AUDITING DEPARTMENT

Fiscal Year 2025 INTERNAL AUDIT ACTIVITY
since November 21, 2024

and

INTERNAL AUDIT REPORTS

- AR2025-07 University of Houston System Contracts Requiring UHS Board of Regents Approval
- AR2025-08 University of Houston-Downtown Laboratory Safety and Compliance
- AR2025-09 University of Houston Joint Admission Medical Program (JAMP) Board Report
- AR2025-10 University of Houston Education Research Center (ERC)
- AR2025-11 University of Houston System Multihazard Emergency Operations Plan; Safety and Security Audit
- AR2025-12 University of Houston-Clear Lake Joint Admission Medical Program (JAMP)
- AR2025-13 University of Houston System Annual Procurement Report, FY 2024

Note: This internal audit report is submitted to the Board of Regents and the Chancellor for their review in order to comply with the Board of Regents policy and the Texas Government Code, Section 2102.008. This internal audit report is also submitted to the Governor's Office of Budget, Planning, and Policy; the State Auditor; and the Legislative Budget Board in order to comply with the Texas Government Code, Section 2102.0091.

FY25 Internal Audit Activity

Since November 21, 2024 Board of Regents Audit and Compliance Committee Meeting

Audits Completed

- Contracts Requiring Board of Regents Approval
AR2025-01 AR2025-07
- Board of Regents Travel & Entertainment, FY24
AR2025-02
- UH/UHS Chancellor/President's Travel & Entertainment, FY24
AR2025-03
- UHCL President's Travel & Entertainment, FY24
AR2025-04
- UHD President's Travel & Entertainment, FY24
AR2025-05
- UHV President's Travel & Entertainment, FY24
AR2025-06
- UHD Laboratory Safety and Compliance
AR2025-08
- UH Joint Admission Medical Program (JAMP)
AR2025-09
- UH Education Research Center
AR2025-10
- UHS Emergency Management
AR2025-11
- UHCL Joint Admission Medical Program (JAMP)
AR2025-12
- UHS Annual Procurement Report
AR2025-13

Internal Audit 02/19/25

Special Projects Completed

- UHS Institutional Compliance Fraud and Non- Compliance Hotline Reports (≈34)

Audits in Progress

- Travel Expense (UH, UHCL, and UHD)
- Board of Regents Travel and Entertainment FY25
- President's Travel and Entertainment, FY25 (UHS, UH, UHCL, UHD and UHV)
- Contracts Requiring Board of Regents Approval (UHS)
- Procurement Card Management (UH, UHD, and UHV)
- Laboratory Safety (UH)
- UH Law Foundation Donor Agreement Expenditures

118

Special Projects in Progress

- UHS Institutional Compliance Fraud and Non-Compliance Hotline (Varies per FY)
- UHCL Apartment Contract
- UHCL Conflict of Interest (multiple investigations)
- UH Biology Department
- UH Student Business Services



University of Houston System Contracts Requiring UHS Board of Regents Approval

Report to the Audit and Compliance Committee of the UHS Board of Regents
AR2025-07

February 2025



Photo courtesy of University of Houston Information Technology Services Webcams

Contents

Executive Summary	2
Background	2
Objective	2
Scope of Work	2
Audit Procedures	3
Conclusion	3
Appendices	3

Executive Summary

The Internal Auditing Department (IAD) reviewed the solicitation/purchasing process surrounding contracts that required UHS Board of Regents approval from October 1, 2024, through December 31, 2024. IAD noted no unusual items or other matters that we considered non-compliant with university policies and procedures or state statutes.

Background

UHS procures construction services under the provisions of the Texas Education Code, Sections 51.778 – 51.785. These statutes address the following construction contract methods: Design-Build, Construction Manager-Agent, Construction Manager-At-Risk, Construction Services through Competitive Sealed Proposals and Job Order Contracts. The UHS Facilities, Planning and Construction Department and the UH Purchasing Department have developed policies and procedures to help ensure compliance with these statutes. For major construction projects, UHS primarily uses the Design-Build and Construction Manager-At-Risk contract methods. The IAD reviews the RFQ / RFP publication, evaluation, and selection process for contracts requiring Board of Regents approval on an ongoing basis. The Internal Audit Department also reviews the procurement for other contracts requiring Board of Regents approval (RFQ/RFP, Invitation to Bid and Sole Source).

Objective

The objectives of this review are to determine whether UHS is complying with its policies and procedures and the Texas Education Code in selecting its contractors for contracts requiring Board of Regents approval.

Scope of Work

The IAD review of procurement of contracts requiring Board of Regents approval covers the time period from October 1, 2024, through December 31, 2024.

Audit Procedures

The IAD performed a review of the solicitation/procurement process surrounding contracts requiring UHS Board of Regents approval (totaling \$1 million or more) for compliance with policies and procedures. For each solicitation we reviewed the following for compliance with:

1. Requirements for publication of solicitation documents on the State Comptroller's Electronic State Business Daily;
2. Document inclusion in the bid/evaluation packet (e.g. bid receipt/review, subcontracting probability form, HUB subcontracting form, etc.), as required on the solicitation checklist;
3. Use of published bid evaluation criteria by the selection team;
4. The Purchasing Department's compilation procedures of the selection team members' rankings for clerical accuracy and agreement of evaluation criteria to solicitation documents;
5. Procedures for submission of recommendation to VC/VP; and
6. Evaluation procedures for VC/VP approval.

Conclusion

IAD noted no unusual items or other matters that we considered non-compliant with university policies and procedures or state statutes.

Appendices

Analysis of internal audit activity related to the review of contracts requiring UHS Board of Regents approval award evaluations can be found in Appendix 1. The project and contract amounts listed in Appendix 1 reflect the figures provided by the UH Purchasing Department at the time of our review.

Contracts Requiring Board of Regents Approval
Internal Audit Activity
October 1, 2024 to December 31, 2024

<u>Project or Contract Description</u>	<u>Solicitation Type/Number</u>	<u>(\$ Millions) Amount</u>	<u>BOR Approval</u>
<u>Construction Projects \$10 Million and Over</u>			
Freshman Student Housing Step 2	RFP730-24091	\$178	8/22/2024
AE New Research Laboratory Building	RFQ730-24075	\$77.5	5/15/2024
<u>Construction Projects Over \$1 Million and Under \$10 Million</u>			
Ezekiel Cullen Door Replacement, New Canopies, Replace Locksets and Conceal All Existing Access Control Equipment	RFP730-24087	\$1.370	11/6/2023
<u>Non-Construction Contracts Over \$1 Million</u>			
UH Stadium and Practice Facility Furniture	ITB730-UH-3009	\$1.5	5/18/2023
Commercial Laundry Services	RFP-UH-3001	\$1.034	2/23/2023

Legend

CMAR - Construction Manager at Risk

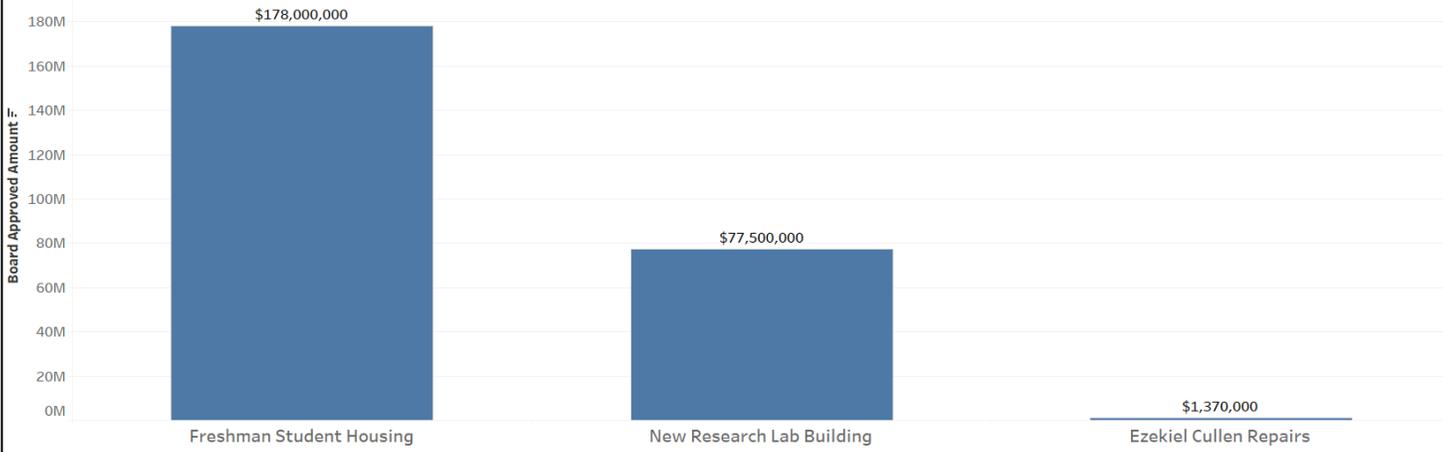
AE - Architectural and Engineering Services (RFQ only)

RFP - Request for Proposal

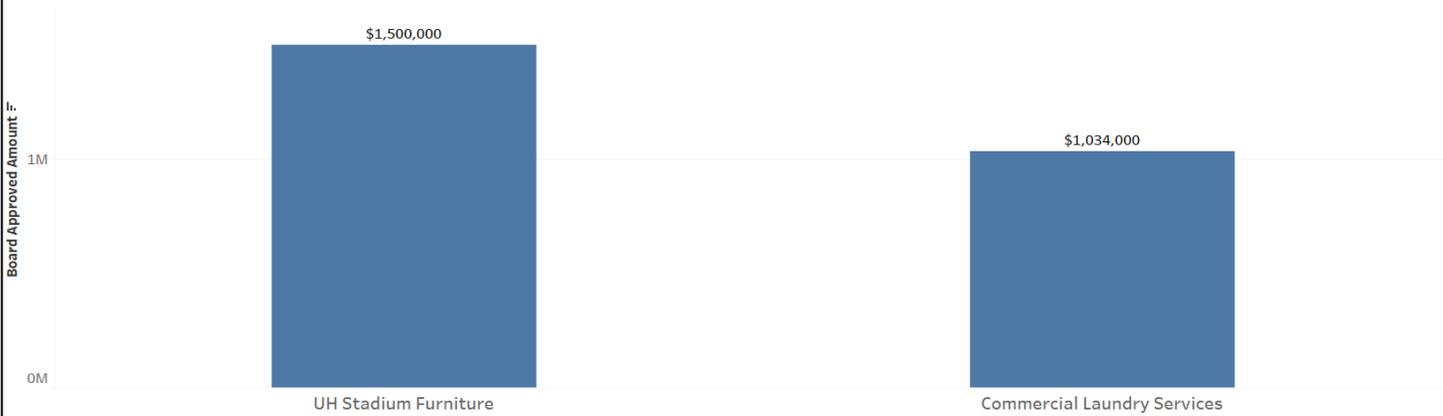
RFQ - Request for Qualifications

ITB - Invitation to Bid

Construction Contracts



Non-Construction Contracts



The Texas Internal Auditing Act, Texas Government Code, Section 2102, requires each state agency that receives appropriation to establish a program of internal auditing. The University of Houston System Internal Auditing Department was created by the Board of Regents as an independent office reporting directly to the Chair of the Audit and Compliance Committee of the Board of Regents with access to the Chancellor. We conduct performance audits to review aspects of the University System operations and procedures to help establish accountability, improve System operations, and provide recommendations for improvement.

The UHS Internal Auditing Department would like to thank the UH Purchasing Department for their cooperation and assistance during this audit process.

Sincerely,



**UHS Internal Auditing Department
Chief Audit Executive**

Phillip Hurd, CIA, CCEP

Phone: (713) 743-8000

Email: audit@uh.edu

Website: <https://uhsystem.edu/internal-audit>

Director, Operational and Financial Audits

Brandee O'Neal, CIA, CFE, CCEP

Audit Team

Tony Moreno, Auditor IV

Kathy Gonzalez, Auditor II



Internal Auditing Department

University of Houston-Downtown Laboratory Safety and Compliance

Report to the Audit and Compliance Committee of the UHS Board of Regents
AR2025-08

February 2025



Photo courtesy of [University of Houston - University of Houston System \(uhsystem.edu\)](https://uhsystem.edu)

Contents

Objective	1
What We Found	1
Background	1
Issue – Governance and Oversight	2
Recommendations and Management Responses	3
Methodology and Scope	5
Audit Standards	5

Objective

To determine whether the university has adequate oversight and effective policies and procedures to ensure compliance with laboratory safety requirements and best practices.

What We Found Summary

The current fragmented and inconsistent approach to laboratory safety and compliance governance poses risks to safety, accountability, and operational efficiency. Addressing these gaps through improved policies, centralized systems, and better communication will significantly enhance laboratory safety standards at UHD. Recommendations center around establishing a clear governance structure; centralizing and standardizing resources; enhancing policies, procedures and training; and improving monitoring and oversight.

Background

The University of Houston-Downtown (UHD) utilizes laboratories for both educational and research purposes. Working in these laboratories can pose various risks. UHD laboratory personnel and students face potential exposure to multiple hazards, such as chemical, biological, and physical elements. UHD manages these hazards by implementing risk mitigation strategies to promote a culture of safety awareness.

The organizational complexity and responsibility in handling laboratory safety activities presents challenges in supervising laboratories' safety and compliance, as it is currently spread across various departments. These departments include Environmental Health and Safety (EHS), the Office of Research Sponsored Programs (ORSP), and the college/departments that house the laboratory.

The EHS is a service organization dedicated to providing the UHD community with a safe and healthy learning and working environment. EHS interprets regulations from federal, state and local agencies, conducts inspections and investigations to proactively prevent accidents, and provides safety training to protect occupant health and environmental safety. The ORSP acts as the primary contact for inquiries concerning research compliance and is tasked with ensuring adherence to research standards. Although ORSP has indicated that they do not have overall responsibility for laboratory safety, laboratory safety remains a fundamental component of conducting safe, secure, and efficient research. Each department that houses laboratories is also responsible for ensuring compliance and safety.

Issue – Governance and Oversight

The absence of clearly defined roles and responsibilities has resulted in an ineffective governance structure. Key governance issues identified are discussed below.

Communication Gaps

Limited inter-departmental communication and the absence of formal communication channels between key stakeholders hinder the sharing of laboratory safety policies, procedures, activities and inspection results.

There is no formal communication between EHS and ORSP. Laboratory safety activities and inspection results are not shared between these parties, resulting in a lack of shared awareness and collaboration. Furthermore, accessing compliance and safety information remains challenging due to inconsistent and siloed dissemination practices:

- The EHS webpage provides general health and safety information but lacks laboratory-specific content.
- The ORSP compliance webpage includes information related to human subjects, conflict of interest, and biological safety but does not address laboratory safety.
- The Department of Natural Sciences webpage, which houses most laboratories, does not provide laboratory safety information.
- The Department of Computer Science and Engineering Technology webpage, with a smaller number of laboratories, offers laboratory safety guidelines, including a laboratory safety manual, but does not link to other compliance resources.

Overall, the information is fragmented, difficult to locate, and lacks cross-referencing among the various web resources.

Oversight and Management Deficiencies

Laboratory safety and compliance efforts are compromised by ineffective monitoring systems; limited/outdated policies and procedures; outdated training materials; and inadequate laboratory access reviews. Key deficiencies identified include:

- Critical laboratory safety information is not managed through an effective system (e.g., EHS Assistant) to centralize and monitor key safety aspects, such as policies, training records, inspection reports, accident investigations, and chemical inventory.
- Ambiguities in roles and responsibilities, outdated and inaccurate laboratory safety manuals, limited policies for laboratory registration and access (e.g., for minors, visitors), inadequate training verification processes, and insufficient policies and procedures hinder effective oversight
- Laboratory rooms containing hazardous materials, equipment, and intellectual property rely on key fob access controls. However, the lack of annual access reviews exposes safety and security vulnerabilities.

Recommendations and Management Responses

1 Establish Clear Governance and Accountability

- Develop and formalize a comprehensive Environmental Health and Safety (EHS) policy to provide guidance on the department's roles, responsibilities, programs and policies for faculty, staff, students, contractors, and visitors.
- Define and formalize roles, responsibilities, communication protocols, and expectations between EHS, ORSP, and colleges/departments housing laboratories regarding laboratory safety and compliance.

Management's Response: UHD agrees to the recommendations to develop and implement a comprehensive Environmental Health and Safety (EHS) policy that provides a framework for maintaining a safe, healthy, and sustainable environment for all members of the institution, including faculty, staff, students, contractors, and visitors.

The EHS policy will outline the department's roles, responsibilities, programs, and procedures to ensure compliance with regulatory requirements and promote a culture of safety, health, and environmental stewardship. The EHS policy scope applies to all activities, operations, and individuals associated with the institution. It encompasses academic, administrative, and operational functions, including laboratory research, construction, maintenance, and events conducted on or off institutional property.

The EHS policy will define and formalize the roles, responsibilities, communication protocols, and expectations between EHS, the Office of Research and Sponsored Programs (ORSP), and departments housing laboratories. In addition, a new university Laboratory Safety Manual will include roles and responsibilities. UHD's laboratory safety communication protocol will be improved with the establishment of new quarterly meetings between EHS, ORSP, and representatives from departments housing laboratories to discuss safety updates, compliance issues, and upcoming initiatives along with implementing a standardized reporting system for laboratory incidents, accessible to all stakeholders, with clear guidelines for escalation and resolution.

Responsible Party: EHS.

Expected Implementation Date: September 1, 2025.

2 Improve Monitoring and Oversight

- Conduct annual reviews of key fob access to ensure secure and authorized entry to laboratory spaces.
- Use a risk assessment framework to prioritize laboratory inspections and focus on high-risk areas.

Management's Response: UHD agrees with the recommendation to improve the security of laboratory rooms with an annual access review process. UHD will implement an access review of laboratory rooms on a semester basis. This new access review procedure will be documented in the Laboratory Safety Manual. The semester access review procedure will be coordinated by EHS with assistance from Facilities Management and the Police.

UHD will align its laboratory inspection risk assessment framework to be a systematic approach that identifies, evaluates, and prioritizes potential risks in the laboratory rooms. This approach considers the likelihood of an incident occurring and the severity of its potential consequences

Responsible Party: EHS, Police Department and Facilities Management.

Expected Implementation Date: March 31, 2025.

3 Centralize and Standardize Resources

- Implement an environmental health and safety management system to consolidate (i.e. EHS Assistant)
 - Training records, policies, and manual
 - Inspection reports, action items, and responses
 - Chemical inventory
 - Incident reports
- Combine and standardize laboratory safety and compliance manuals into a single, accurate, and regularly updated document.
- Centralize laboratory safety and compliance information on a single, easily navigable/accessible platform, ensuring all departments link to this resource.

Management's Response: UHD agrees with the recommendation to implement a comprehensive EHS management system. UHD will develop a comprehensive EHS management system to include training records, policies and procedures, inspection records, inventory, and incident reports. A new university Laboratory Safety Manual will be created and reviewed on an annual basis. EHS's website and SharePoint will house all laboratory safety and compliance resources.

Responsible Party: EHS.

Expected Implementation Date: September 1, 2025.

4 Enhance Policies, Procedures, and Training

- Review and update laboratory management, safety and compliance policies and procedures, including guidelines for:
 - Laboratory room registration
 - Access for minors and visitors
 - Verification of safety training completion
- Update training materials to reflect best practices and ensure they are regularly reviewed/updated.
- Ensure training materials, procedures, and safety guidelines are consistently referenced on departmental websites.

Management's Response: UHD agrees with the recommendation and will update the guidelines for Laboratory Room Registration, Access for Minors and Visitors, and Verification of Safety Training Completion within the university Laboratory Safety Manual. Additionally, we will include a clear process for regularly reviewing and updating training materials to ensure they reflect best practices

Responsible Party: EHS.

Expected Implementation Date: September 1, 2025.

Methodology and Scope

The methodology used to conduct this audit included:

- Reviewing applicable regulatory requirements and best practices.
- Reviewing applicable policies and procedures.
- Interviewing personnel related to laboratory safety and compliance.
- Performing on-site walkthroughs of key processes.
- Performing on-site visits to laboratories.

The scope of this audit included research laboratory safety and compliance policies, procedures, and oversight functions, focusing on fiscal years 2023 and 2024.

Audit Standards

The Internal Auditing Department conducted this audit in accordance with Generally Accepted Government Auditing Standards and the International Professional Practices Framework. These standards require that the audit be planned and performed to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.

The Texas Internal Auditing Act, Texas Government Code, Section 2102, requires each state agency that receives appropriation to establish a program of internal auditing. The Board of Regents created the University of Houston System Internal Auditing Department as an independent office reporting directly to the Chair of the Audit and Compliance Committee of the Board of Regents with access to the Chancellor. The Internal Auditing Department conducts compliance and performance audits to review aspects of the University System operations and procedures to help ensure compliance and establish accountability, improve System operations, and provide recommendations for improvement.

The UHS Internal Auditing Department would like to thank the UHD EHS, ORSP, Natural Sciences and Computer Science and Engineering Technology Departments for their cooperation and assistance during this audit process.

Sincerely,



**UHS Internal Auditing Department
Chief Audit Executive**

Phillip Hurd, CIA, CEEP

Phone: (713) 743-8000

Email: audit@uh.edu

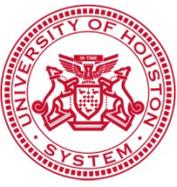
Website: <https://uhsystem.edu/internal-audit>

Director, Operational and Financial Audits

Brandee O'Neal, CIA, CFE, CCEP

Audit Team

Tony Moreno, CFE, CGAP



Internal Auditing Department

University of Houston Joint Admission Medical Program

Report to the Audit and Compliance Committee of the UHS Board of Regents
AR2025-09

February 2025



Photo courtesy of <https://uh.edu/medicine/research/student-research-opportunities/>

Contents

Objective	1
What We Found	1
Background	1
Issue 1- Incomplete Audit due to Incomplete Expenditure and Effort Report	2
Issue 2- Cost Center Verifications	2
Recommendations and Management Responses	3
Methodology and Scope	4
Audit Standards	4

Objective

To fulfill the requirements of the JAMP Council Agreement, ensure the University of Houston complies with policies, procedures, laws, and regulations that significantly impact its operations and reporting.

What We Found

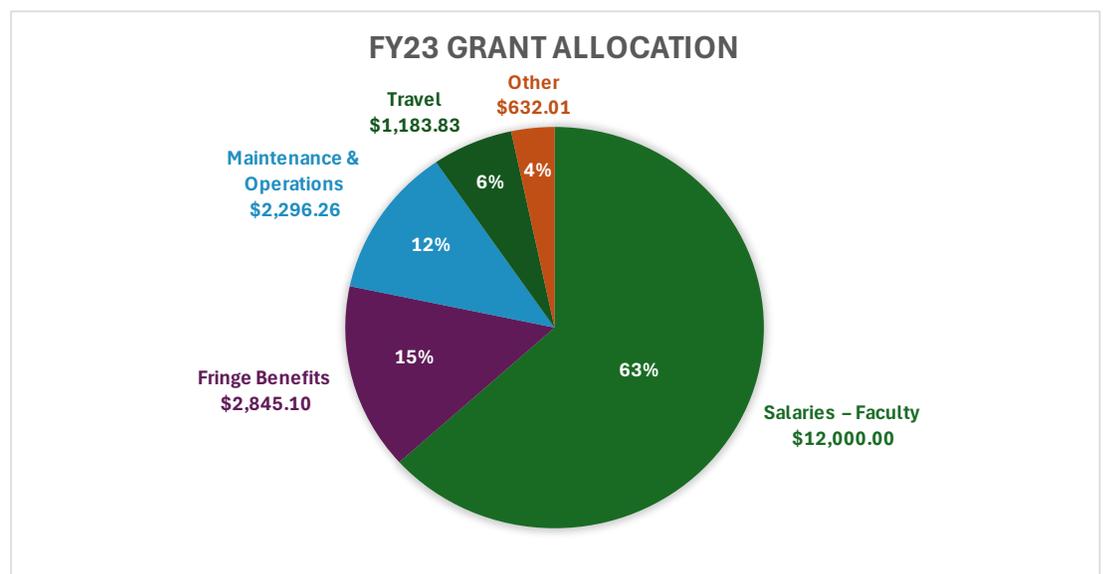
Summary

The Internal Auditing department was unable to complete the audit due to the incomplete expenditure report and effort reports. In addition, cost center verifications were not appropriately reviewed and approved.

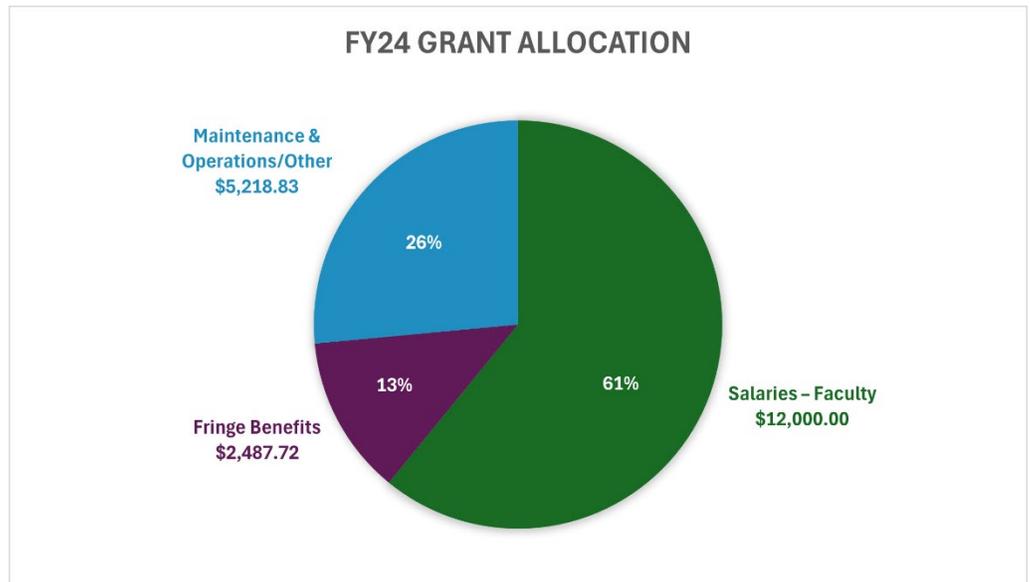
Background

The JAMP was created by the Texas Legislature in 2001. It is a unique partnership between fourteen (14) Texas medical schools and sixty-eight (68) public and private four-year undergraduate institutions to assist highly qualified but economically disadvantaged Texas resident students by providing them the financial support and mentoring needed to be successful. JAMP funds grants through the Texas Higher Education Coordinating Board (THECB).

In FY23, the university expended \$18,957 (91%) of the \$20,760 received from JAMP, as indicated in the chart below. The remaining \$1,803 (9%) of the total funds received was not used and was returned to JAMP.



In FY24, the university expended \$19,707 (99%) of the \$20,007 received from JAMP, as indicated in the chart below. The remaining \$300 (1%) had not been returned to JAMP as required, at the time of our testing.



Issue 1- Incomplete Audit due to Incomplete Expenditure and Effort Reports

The audit testing could not be completed because the FY 2024 expenditure report was not timely provided to Internal Auditing. In addition, salary expenditures for FY 2023 and FY 2024 could not be verified because effort reports for FY 2023 were not provided and effort reports for FY 2024 were not completed.

Issue 2- Cost Center Verifications

JAMP grant cost center verifications did not have the appropriate review and approval of the cost center manager (or delegee).

Recommendations and Management Responses

1 The DOR should promptly prepare and submit the FY24 JAMP Expenditure Report.

The DOR should develop procedures to ensure the timely preparation and submission of JAMP Expenditure Reports by the required deadline. Implementing a tracking system or setting internal deadline reminders could help prevent future delays.

The DOR should coordinate with JAMP to obtain the necessary invoice to facilitate the prompt return of unused FY24 JAMP funds.

Management's Response: The Division of Research acknowledges the recommendations and is committed to complying with grant requirements by enhancing our processes. We are proactively addressing these issues and have already begun implementing necessary steps, including:

- Expediting the hiring and training of key personnel. (ongoing process)
- Strengthening internal communication channels. (ongoing process)
- Implementing an automated process for tracking grant deliverables. (April 2025)
- Revamping the effort reporting process to ensure compliance. (April 2025)

Responsible Party: David Schultz, Asst VP, Sponsored Programs, Office of Contracts and Grants

Estimated Implementation Date: April 2025

2 The DOR should promptly prepare and submit the FY23 and FY24 effort reports.

Management's Response: Please see management's response above (Recommendation 1).

3 The UH JAMP Cost Center Manager should coordinate with the Office of the Provost to review and approve the cost center verifications and/or prepare a delegation memorandum granting the Office of the Provost cost center verification review and approval authority.

Management's Response: A delegation memorandum granting the Office of the Provost authority to review and approve cost center verifications for FY 2025 has been prepared. The Office of the Provost will coordinate with the UH JAMP Faculty Director to prepare the delegation memorandum at the start of each fiscal year.

Methodology and Scope

The methodology used to conduct this audit included, but was not limited to:

- Reviewing the JAMP Agreements, JAMP Expenditure Guidelines, Statutes, and applicable Policies and Procedures.
- Reviewing the JAMP approved budgets.
- Reviewing the JAMP Expenditure Reports.
- Reviewing expenditure transaction supporting documentation.
- Reconciling expenditures to the university accounting system.
- Interviewing applicable personnel.

The scope of the audit was for fiscal years 2023 and 2024.

Audit Standards

The Internal Auditing Department conducted this audit in accordance with Generally Accepted Government Auditing Standards and the International Professional Practices Framework. These standards require that the audit be planned and performed to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.

The Texas Internal Auditing Act, Texas Government Code, Section 2102, requires each state agency that receives appropriation to establish a program of internal auditing. The Board of Regents created the University of Houston System Internal Auditing Department as an independent office reporting directly to the Chair of the Audit and Compliance Committee of the Board of Regents with access to the Chancellor. The Internal Auditing Department conducts compliance and performance audits to review aspects of the University System operations and procedures to help ensure compliance and establish accountability, improve System operations, and provide recommendations for improvement.

The UHS Internal Auditing Department would like to thank the UH Division of Research and the Natural Sciences and Mathematics Biology Department for their cooperation and assistance during this audit process.

Sincerely,



**UHS Internal Auditing Department
Chief Audit Executive**

Phillip Hurd, CIA, CEEP

Phone: (713) 743-8000

Email: audit@uh.edu

Website: <https://uhsystem.edu/internal-audit>

Director, Operations and Financial Audits

Brandee O'Neal, CIA, CFE, CCEP

Audit Team

Tony Moreno, CFE, CGAP, Auditor IV

Aiden Ho, Auditor I



Internal Auditing Department

University of Houston Education Research Center

Report to the Audit and Compliance Committee of the UHS Board of Regents AR2025-10

February 2025



Photo courtesy of <https://uh.edu/education/research/institutes-centers/erc/>

Contents

Objective	1
Background	1
What We Found	1
Issue 1 – Annual Confidentiality Agreements	1
Issue 2 - Reviewer Role and Responsibilities	2
Issue 3 - Annual External Penetration Test	2
Recommendations and Management Responses	3
Methodology and Scope	4
Audit Standards	4

Objective

Ensure compliance with the standards and provisions set forth in The State of Texas Interagency Cooperation Contract (Agreement) and the specifications outlined in Request for Applications RFA No. 781-7-17395 (Application), as agreed upon between the Texas Higher Education Coordinating Board (THECB) and the University of Houston Education Research Center (UH ERC).

Background

The UH ERC was officially designated by the State of Texas and opened in 2017, with remote access added in January 2021. The UH ERC is both a research center and P-20/Workforce Data Repository that provides researchers access to longitudinal, student-level data for scientific inquiry into critical issues relating to education and overall policymaking purposes. The ERC high quality data resources span from the Pre-K level through higher education (P-16) and into the Texas workforce from: the Texas Education Agency (TEA), the THECB, and the Texas Workforce Commission (TWC), and other sources of educational information for the State of Texas.

What We Found

Summary

Overall, the UH ERC complies with the terms outlined in the Agreement and the Application, apart from the reportable issues as follows:

- Issue 1: Annual Confidentiality Agreements
- Issue 2: Reviewer Role and Responsibilities
- Issue 3: Annual External Network Penetration Test

Issue 1 – Annual Confidentiality Agreements

The Memorandum of Understanding (MOU) between THECB and UH ERC requires that staff and researchers with access to student-level data complete annual confidentiality agreements, which must be kept current and available for submission, if requested by THECB.

IAD requested the annual confidentiality agreements for twelve staff and/or researchers. Eight of the twelve (67%) confidentiality agreements were not completed as required.

- One confidentiality agreement was incomplete.
- Three confidentiality agreements were not dated.
- Four confidentiality agreements were not completed.

Issue 2 - Reviewer Role and Responsibilities

The MOU between THECB and the ERC requires that a staff person not involved with the research project be responsible for reviewing data requested for release for each research project to ensure that research files released to researchers comply with FERPA and other THECB requirements. The ERC's Director of Research serves as the designated staff member responsible for this review. However, this position is not identified on ERC organizational chart or included in the ERC handbook, with other job descriptions.

Issue 3 - Annual External Penetration Test

The MOU between THECB and the ERC requires that an annual security audit be performed on ERC computers or on computers housing ERC data. The audit shall include a penetration test of computer equipment and access.

At the time of the audit, this test had not been scheduled or completed, and there was no procedure in place to initiate the test or monitor its status.

Recommendations and Management Responses

- 1** Implement an annual process to complete and track confidentiality agreements.

Management's Response: ERC staff will update internal electronic documentation systems to clearly identify dates by which confidentiality agreements are required to be renewed. Staff will also create and implement standard operating procedures that identify when ERC users need to be notified, follow-ups, etc.

Responsible Party: ERC

Expected Implementation Date: March 1, 2025.

- 2** Update the ERC organizational chart and handbook to reflect the Director of Research role and responsibilities.

Management's Response: ERC staff will update the organizational chart and handbook to clearly reflect the role and responsibilities of the Director of Research.

Responsible Party: ERC.

Expected Implementation Date: March 1, 2025.

- 3** Develop and implement a procedure to initiate and monitor the progress of the annual external network penetration tests. This may be done through coordination with the UHS Chief Information Security Officer.

Management's Response: In its history at UH, the Texas Higher Education Coordinating Board has always been responsible for executing the annual penetration test. This process was again confirmed in communication with THECB in fall 2024, but the agency did not execute the action. To ensure a penetration test occurs annually, even if circumstances such as this year occur again, ERC staff will develop a plan in coordination with the UHS Information Security Officer to be able to conduct the assessment.

Responsible Party: ERC.

Expected Implementation Date: May 1, 2025.

Methodology and Scope

The methodology used to conduct this audit included:

- Reviewed the Application, Agreement, Statutes, policies and procedures applicable to the UH ERC.
- Reviewed physical security and access controls.
- Obtained copies of electronic data required to be maintained including but not limited to access logs, FERPA Training, IRB approval, and Confidentiality Agreements.
- Interviewed UH ERC and University Information Security staff.

This audit was conducted to ensure compliance with the requirements established in the Agreement and Application between THECB and the UH ERC for Fiscal Year 2024.

Audit Standards

The Internal Auditing Department conducted this audit in accordance with Generally Accepted Government Auditing Standards and the International Professional Practices Framework. These standards require that the audit be planned and performed to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.

The Texas Internal Auditing Act, Texas Government Code, Section 2102, requires each state agency that receives appropriation to establish a program of internal auditing. The Board of Regents created the University of Houston System Internal Auditing Department as an independent office reporting directly to the Chair of the Audit and Compliance Committee of the Board of Regents with access to the Chancellor. The Internal Auditing Department conducts compliance and performance audits to review aspects of the University System operations and procedures to help ensure compliance and establish accountability, improve System operations, and provide recommendations for improvement.

The UHS Internal Auditing Department would like to thank the UH ERC and Information Security Office teams for their cooperation and assistance during this audit process.

Sincerely,



**UHS Internal Auditing Department
Chief Audit Executive**

Phillip Hurd, CIA, CEEP

Phone: (713) 743-8000

Email: audit@uh.edu

Website: <https://uhsystem.edu/internal-audit>

Director, Operational and Financial Audits

Brandee O'Neal, CIA, CFE, CCEP

Audit Team

Tony Moreno, CFE, CGAP, Auditor IV

Aiden Ho, Auditor I

Jackie Martinez, Auditor I

Leonard Chance, Information Technology Auditor



Internal Auditing Department

University of Houston System Multihazard Emergency Operations Plan; Safety and Security Audit Report to the Audit and Compliance Committee of the UHS Board of Regents AR2025-11

February 2025



Photo courtesy of [University of Houston](#), [University of Houston-Clear Lake | University of Houston System](#), [Welcome to the University of Houston-Downtown | University of Houston-Downtown](#), and [University of Houston-Victoria](#)

Contents

Contents..... 1

Objective..... 1

Background..... 1

Issue 1 – Unaddressed Prior Audit Recommendations (Staffing/Roles and Responsibilities) 2

Recommendation and Management’s Response..... 3

Methodology and Scope..... 4

Audit Standards..... 4

Objective

The objective of the University of Houston System Multihazard Emergency Operations Plan; Safety and Security Audit was to verify compliance across all universities within the System with Texas Education Code §51.217 and §51.218, as well as the Texas State Agency Continuity Planning Policy Guidance. Under the direction of the University of Houston System Internal Auditing Department, the Department of Campus Security of the University of Houston coordinated the peer reviews of the universities.

Background

The University of Houston System Emergency Management departments at each university support the respective university campus through mitigation, preparedness, response and recovery from emergencies and disasters.

Texas Education Code §51.217 (Multihazard Emergency Operations Plans; Safety and Security Audit) requires institutions of higher education to adopt and implement a multihazard emergency operation plan. The plan must address mitigation, preparedness, response, and recovery and be reviewed/updated annually.

The plan must include provisions for employee training on emergency response; mandatory drills to prepare students, faculty, and staff for emergencies; and measures to coordinate effectively with the Department of State Health Services, local emergency management agencies, law enforcement, health departments, and fire departments. Additionally, the code mandates a safety and security audit every 3 years with the findings reported to the Institution’s Board of Regents and the Texas Division of Emergency Management (TDEM).

Texas Education Code §51.218 (Emergency Alert System) requires an institution of higher education to establish an emergency alert system for the institution’s students, staff, and faculty.

The Texas State Agency Continuity Planning Policy Guidance details the statutory, comprehensive Continuity Planning program for Texas State Agencies as implemented by the State Office of Risk Management.

What We Found

Summary

The University of Houston System has established policies and procedures to comply with Texas Education Codes. However, we noted opportunities for improvement related to UHCL and UHV fire safety and staffing/roles and responsibilities.

Issue 1 – Unaddressed Prior Audit Recommendations (Staffing/Roles and Responsibilities)

A recommendation from the 2021 Emergency Management/Safety and Security was to modify roles and responsibilities for those charged with emergency management and fire safety at UHCL and UHV. Due to budgetary restraints, the recommendation has not been addressed. However, the risk remains high and relevant.

The role of an emergency management professional and a fire safety professional differ in strategy, operations, and focus. The emergency management professional must focus on preparation, response, recovery, and mitigation of all emergencies affecting an entire organization. The fire safety professional is responsible for fire safety, prevention and enforcement of fire codes. Specifically, the fire safety professional should have the knowledge, skills, and expertise to ensure fire code enforcements, conduct fire safety inspections, perform investigations, etc. These roles complement one another but are distinct in nature and focus.

The recommendation was for UHCL and UHV to separate the duties related to fire safety from emergency management staff. In addition, it was recommended to hire a fire safety professional to ensure appropriate management of fire safety and risks, reporting to the UH Fire Marshal's Office.

UHCL Director of Emergency Management & Fire Safety is responsible for all aspects of emergency management and fire safety. In addition, the Director of Emergency Management & Fire Safety has been responsible for the maintenance of all fire safety equipment and systems. Typically, maintenance tasks are handled by the facilities department.

The roles and responsibilities of the UHV Director of Environmental Health and Safety/Emergency Management have expanded to unsustainable levels. For example, this role is responsible for all aspects of emergency management; risk management; fire safety (serving as the UHV Fire Marshal), environmental health and safety; food safety; and alternate police officer.

Recommendation and Management's Response

1

Implement the recommendations from the 2021 Emergency Management/Safety and Security audit to ensure fire safety risk is appropriately mitigated.

- UHCL – Separate fire safety responsibilities from the emergency management staff. Hire a dedicated fire safety professional to manage fire safety and associated risks, directly reporting to the UH Fire Marshal's Office. Additionally, transfer fire safety equipment maintenance to the facilities department.
- UHV – Evaluate the roles and responsibilities assigned to the Director of Environmental Health and Safety/Emergency Management and make appropriate changes to ensure the duties can be effectively performed. This may require reassignment of roles to a new/different position. Hire a dedicated fire safety professional to manage fire safety and associated risks, directly reporting to the UH Fire Marshal's Office.

UHCL Management's Response:

UHCL agrees with the recommendation that we ensure fire safety risk is appropriately mitigated. UHCL will implement the following corrective action(s) to address roles and responsibilities for those charged with emergency management and fire safety:

- Hire a dedicated Fire Safety Manager to manage fire safety and associated risks. The Fire Safety Manager will report directly to the UHCL Director of Emergency Management and have a dotted line to the UH Fire Marshal's Office.
- Transfer the responsibility of fire safety equipment maintenance to the Facilities Maintenance and Construction (FMC) division.

Responsible Party: Russell Miller, Executive Director of Public Safety/Chief of Police

Expected Implementation Date:

- Hire Fire Safety Manager – on or before August 31, 2025.
- Transfer of fire safety maintenance responsibilities to FMC – on or before March 31, 2025

UHV Management's Response:

To further assess the identified risk, no later than the August 21, 2025 UHS Board of Regents meeting, UHV will:

- Benchmark emergency management/fire safety resources at UHS and similar universities;
- Create a plan to address the identified risk using the information obtained; and
- Obtain plan approval from the UHS Assistant Vice Chancellor/Vice President for Campus Safety

Responsible Party: Beverly Shuford, Vice President for Administration and Finance

Methodology and Scope

The methodology used to conduct this audit includes a review of Texas Education Code §51.217 (Multihazard Emergency Operations Plan; Safety and Security), Texas Education Code §51.218 (Emergency Alert System), and the Texas State Agency Continuity Planning Policy Guidance. The scope of the audit covered FY 2022, 2023 and 2024.

Audit Standards

The Internal Auditing Department conducted this audit in accordance with Generally Accepted Government Auditing Standards and the International Professional Practices Framework. These standards require that the audit be planned and performed to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.

The Texas Internal Auditing Act, Texas Government Code, Section 2102, requires each state agency that receives appropriation to establish a program of internal auditing. The Board of Regents created the University of Houston System Internal Auditing Department as an independent office reporting directly to the Chair of the Audit and Compliance Committee of the Board of Regents with access to the Chancellor. The Internal Auditing Department conducts performance audits to review aspects of the University System operations and procedures to help establish accountability, improve System operations, and provide recommendations for improvement.

The UHS Internal Auditing Department would like to thank the UHS/UH, UHCL, UHD, and UHV Emergency Management teams for their cooperation and assistance during this audit process.

Sincerely,



**UHS Internal Auditing Department
Chief Audit Executive**

Phillip Hurd, CIA, CEEP

Phone: (713) 743-8000

Email: audit@uh.edu

Website: <https://uhsystem.edu/internal-audit>

Director, Operational and Financial Audits

Brandee O'Neal, CIA, CFE, CCEP

Audit Team

Connie Applebach, CISA Auditor III



Internal Auditing Department

University of Houston-Clear Lake Joint Admission Medical Program

Report to the Audit and Compliance Committee of the UHS Board of Regents
AR2025-12

February 2025

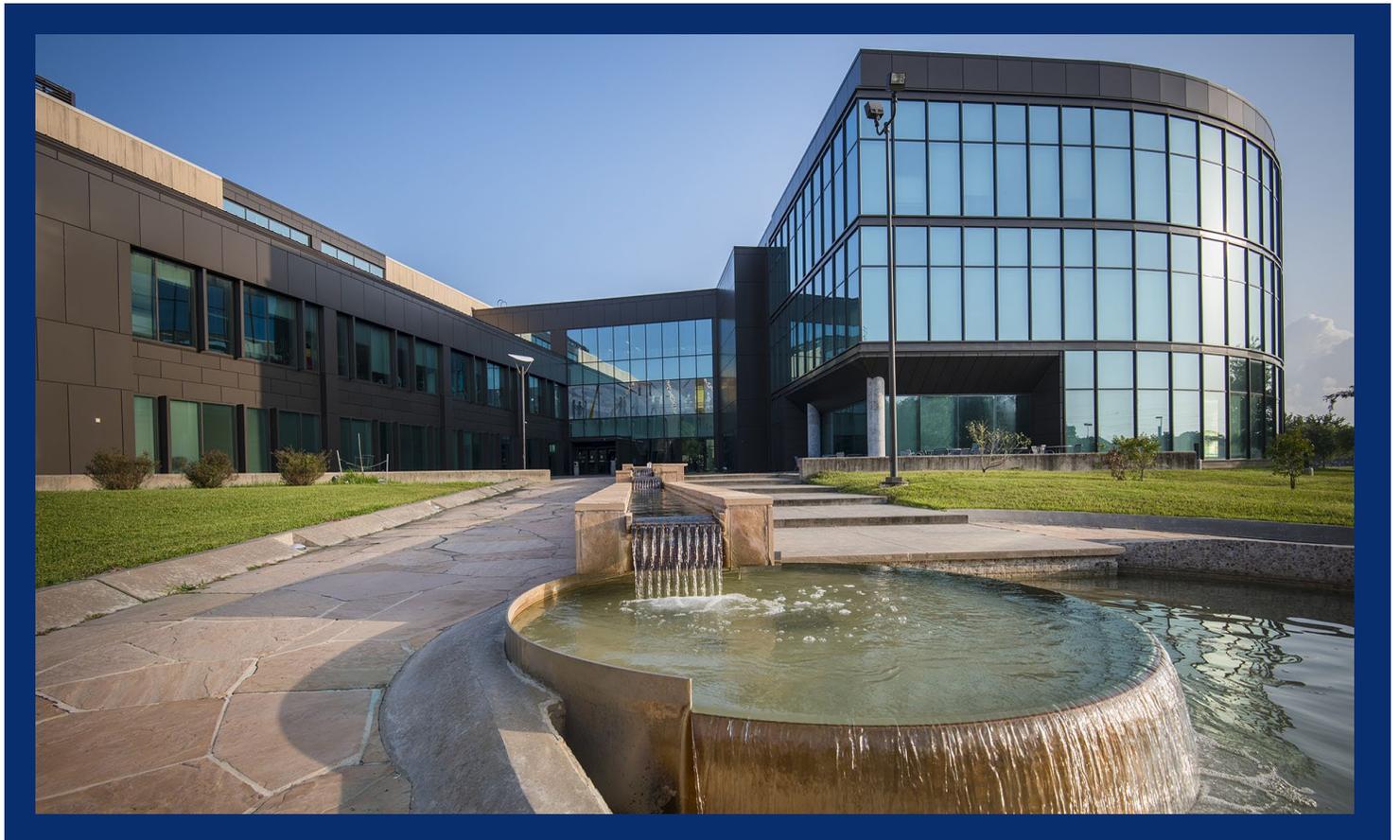


Photo courtesy of <https://www.uhcl.edu/special-events/venues/outdoor-events>

Contents

Objective	1
What We Found	1
Background	1
Issue 1- Incomplete Audit due to Incomplete Effort Report	2
Issue 2 – Expenditure Report Preparation	2
Issue 3- Cost Center Verifications	2
Recommendations and Management Responses	3
Methodology and Scope	4
Audit Standards	4

Objective

To fulfill the requirements of the JAMP Council Agreement, ensure the University of Houston-Clear Lake complies with policies, procedures, laws, and regulations that significantly impact its operations and reporting.

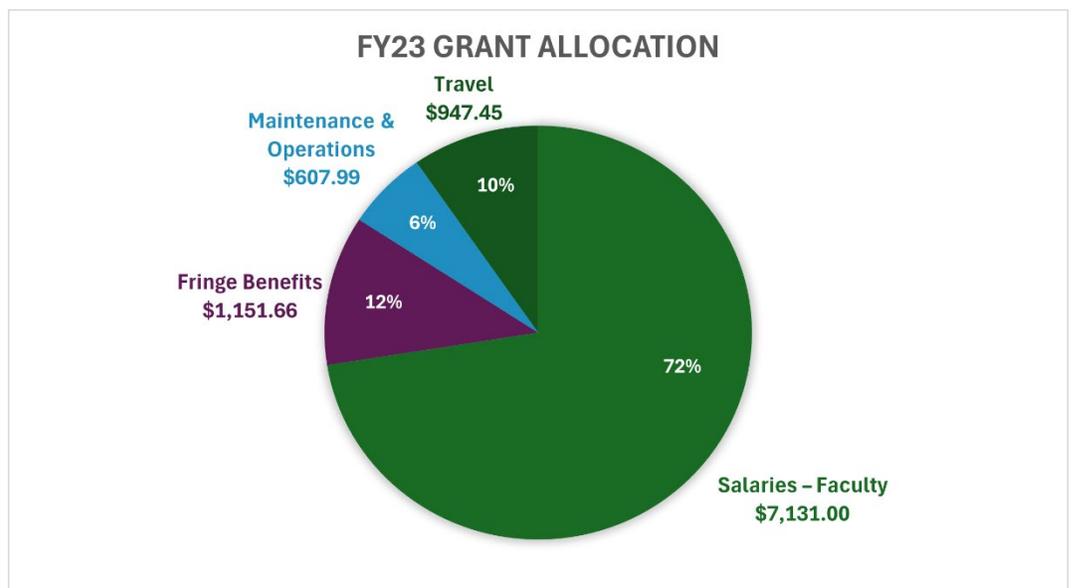
What We Found Summary

The Internal Auditing department was unable to complete effort report testing due to incomplete FY 2024 effort reports. Testing for other expenditure types (travel, etc.) found no issues. In addition, cost center verifications were not appropriately reviewed and approved.

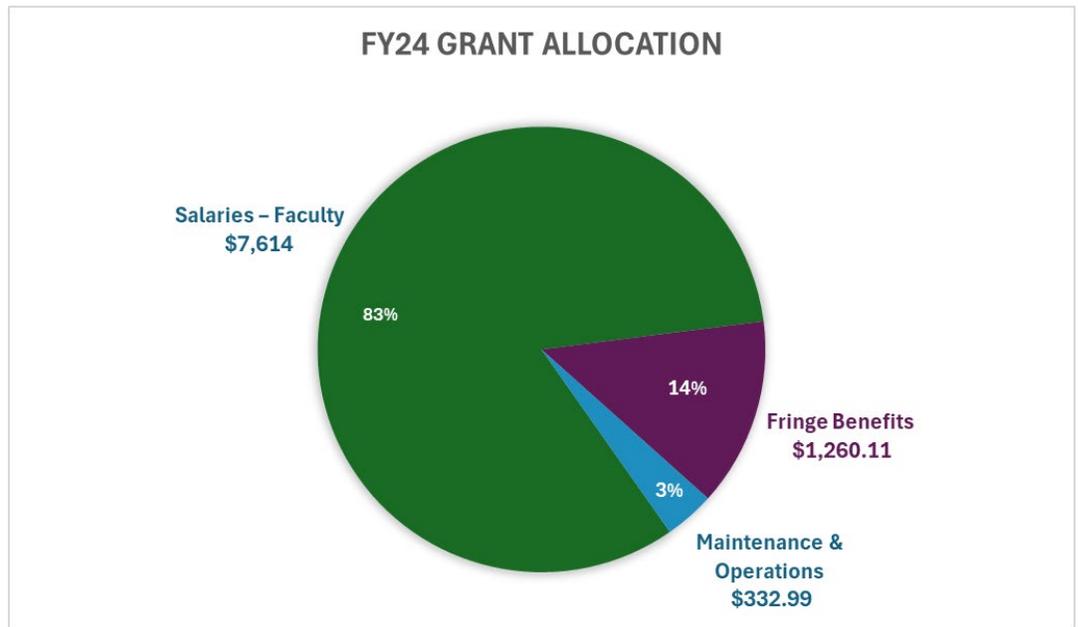
Background

The JAMP was created by the Texas Legislature in 2001. It is a unique partnership between fourteen Texas medical schools and sixty-eight (68) public and private four-year undergraduate institutions to assist highly qualified but economically disadvantaged Texas resident students by providing them the financial support and mentoring needed to be successful. JAMP funds grants through the Texas Higher Education Coordinating Board (THECB).

In FY23, the university expended \$9,838 (77%) of the \$12,801 received from JAMP, as indicated in the chart below. The remaining \$2,963 (23%) of the total funds received was not used and returned to JAMP, as required.



In FY24, the university expended \$9,207 (71%) of the \$12,924 received from JAMP, as indicated in the chart below. The remaining \$3,717 (29%) had not been returned to JAMP, as the university is awaiting the invoice from JAMP to return the funds.



Issue 1- Incomplete Audit due to Incomplete Effort Report

The effort portion of audit testing could not be completed because the FY 2024 effort report were not completed.

Issue 2 – Expenditure Report Preparation

Total expenditures reported on the Expenditure Report do not reconcile to total expenditures in the Finance System. The FY 2023 Expenditure Report reflects \$9,838 total expenditures while the Finance System reflects \$10,838 total expenditures. The difference is due to a payment made directly from JAMP to a JAMP program participant originally expensed through the UHCL Finance System. The payment was not reversed in the UHCL Finance System for FY 2023.

Issue 3- Cost Center Verifications

JAMP grant cost center verifications did not have the appropriate review and approval of the cost center manager (or delegee).

Recommendations and Management Responses

1 The ORSP should promptly prepare and submit the FY24 effort reports.

Management's Response: The Office of Research and Sponsored Program (ORSP) agrees with this finding and is diligently working to complete the FY2024 Effort Report. Effort Reports are completed and certified on a quarterly basis. However, due to staffing issues, the FY24 Effort Report will be completed by January 31, 2025.

Currently, ORSP has developed detailed guidelines on how to complete Time and Effort Reports and hired an Associate Provost of Research and Sponsored Programs. This position will be charged with implementing time and effort policies and procedures, education and training for the staff, as well as monitoring and oversight.

Responsible Party: ORSP

Expected Implementation Date: January 31, 2025

2 The ORSP should correct the accounting error in the Finance System to reverse the FY23 \$1,000 scholarship charge to the grant cost center.

Management's Response: Previously, ORSP was advised to deposit \$1,000 for the student into the JAMP cost center. However, after investigating, we determined that this amount should not have been deposited in the JAMP cost center. Both UHCL's finance and financial aid team have been contacted with a request for the reversal of this payment in the FY23 JAMP cost center to be made in accordance with ORSP's procedures.

Responsible Party: ORSP

Expected Implementation Date: March 2025

3 The UHCL JAMP Cost Center Manager should coordinate with the ORSP to review and approve the cost center verifications and/or prepare a delegation memorandum granting the ORSP cost center verification review and approval authority.

Management's Response: ORSP currently requires that each expenditure be reviewed and certified by the UHCL JAMP Cost Center Manager as the Principal Investigator of an award is ultimately responsible for the financial management of project funds. ORSP will develop a delegation memo for the Cost Center Manager that will grant authority to the college/department's CBA/DBA to review the monthly cost center verifications. The purpose of this review is to validate whether the monthly verifications are complete and determine if any truncations are out of place or need further investigation.

Responsible Party: ORSP

Expected Implementation Date: March 2025

Methodology and Scope

The methodology used to conduct this audit included, but was not limited to:

- Reviewing the JAMP Agreements, JAMP Expenditure Guidelines, Statutes, and applicable Policies and Procedures.
- Reviewing the JAMP approved budgets.
- Reviewing the JAMP Expenditure Reports.
- Reviewing expenditure transaction supporting documentation.
- Reconciling expenditures to the university accounting system.
- Interviewing applicable personnel.

The scope of the audit was for fiscal years 2023 and 2024.

Audit Standards

The Internal Auditing Department conducted this audit in accordance with Generally Accepted Government Auditing Standards and the International Professional Practices Framework. These standards require that the audit be planned and performed to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.

The Texas Internal Auditing Act, Texas Government Code, Section 2102, requires each state agency that receives appropriation to establish a program of internal auditing. The Board of Regents created the University of Houston System Internal Auditing Department as an independent office reporting directly to the Chair of the Audit and Compliance Committee of the Board of Regents with access to the Chancellor. The Internal Auditing Department conducts compliance and performance audits to review aspects of the University System operations and procedures to help ensure compliance and establish accountability, improve System operations, and provide recommendations for improvement.

The UHS Internal Auditing Department would like to thank the UHCL ORSP and JAMP faculty director for their cooperation and assistance during this audit process.

Sincerely,



**UHS Internal Auditing Department
Chief Audit Executive**

Phillip Hurd, CIA, CEEP

Phone: (713) 743-8000

Email: audit@uh.edu

Website: <https://uhsystem.edu/internal-audit>

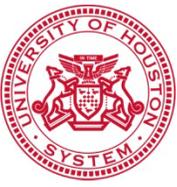
Director, Operational and Financial Audits

Brandee O'Neal, CIA, CFE, CCEP

Audit Team

Tony Moreno, CFE, CGAP, Auditor IV

Jackie Martinez, Auditor I



Internal Auditing Department

University of Houston System Annual Procurement Report, FY 2024

Report to the Audit and Compliance Committee of the UHS Board of Regents
AR2025-13

February 2025

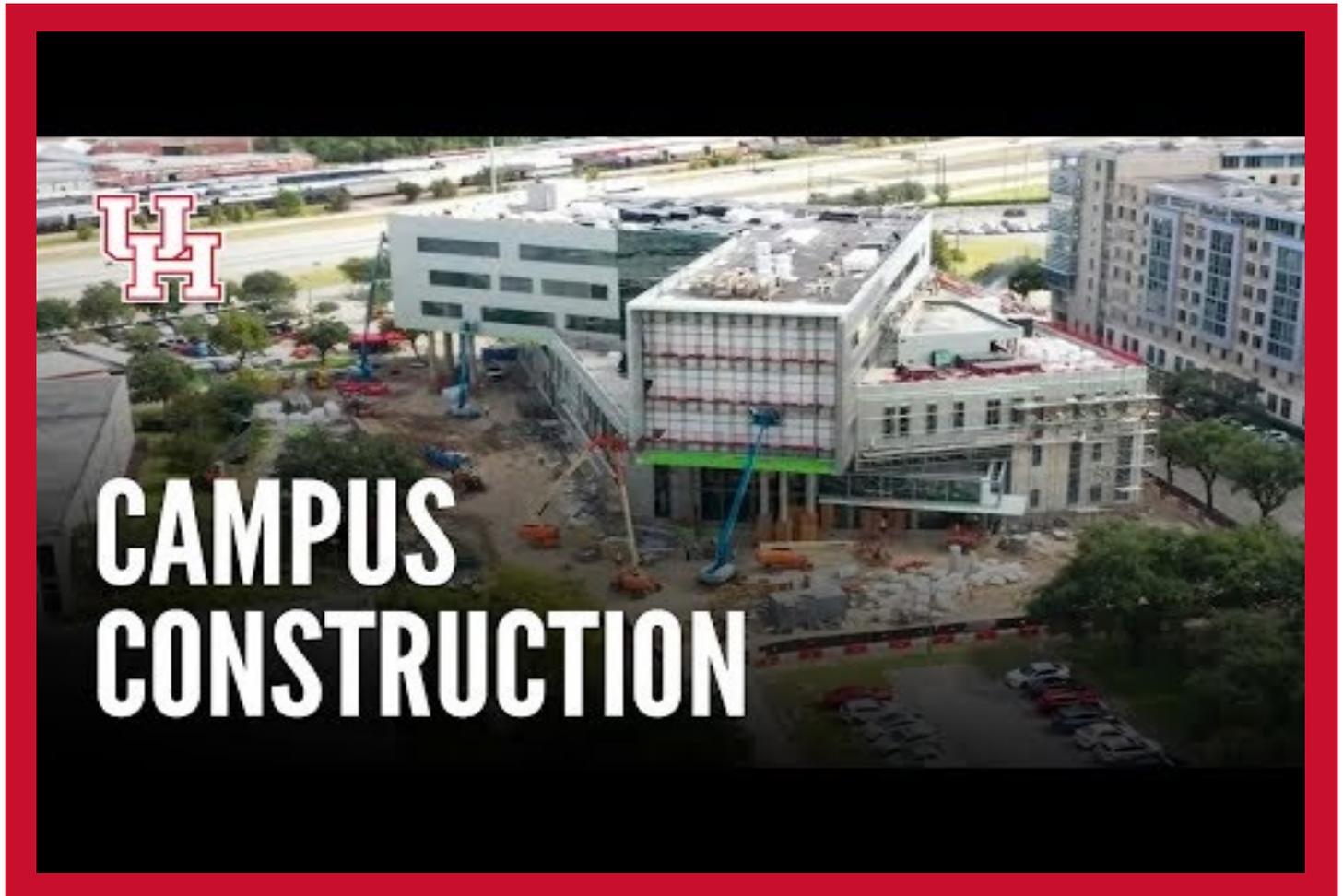


Photo courtesy of University of Houston - [youtube.com/@UniversityOfHouston](https://www.youtube.com/@UniversityOfHouston)
The John M. O'Quinn Law Building during construction

Contents

Objectives	1
What We Found	1
Background	3
Methodology and Scope	4
Audit Standards	4
Attachment A	6
Attachment B	7
Attachment C-1	9
Attachment C-2	13

Objectives

The objectives for this audit were to:

1. Determine whether UHS has adequate policies and procedures in place to ensure compliance with the following:
 - UHS Board of Regents Policy 55, Finance.
 - Texas Government Code, Chapter 2261, State Contracting Standards and Oversight.
2. Verify the accuracy of the Annual Procurement Report completed by the Financial Compliance and Contract Reporting Department.

What We Found

The report preparation methodology appears to be reasonable, the report appears to be accurate, and the report satisfies the annual reporting requirement for procurement activity, as outlined in BOR policy 55.01.04.

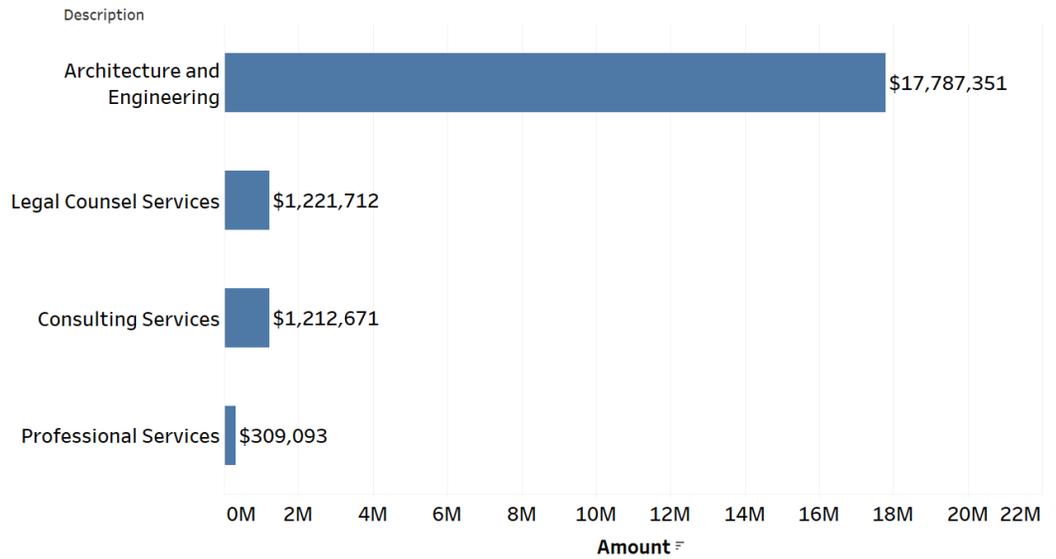
For fiscal year 2024, the amount for consulting and professional services expended to a single entity exceeding \$250,000 (per entity) from a systemwide source totaled approximately \$20.5 million, up from \$11.7 million in FY 2023. This represents a 75% increase over the prior year.

For fiscal year 2024, the total amount for construction, equipment, goods and service contracts to a single entity exceeding \$1,000,000 (per entity) was approximately \$308.2 million, up from \$254.9 million in FY 2023. This represents a 21% increase over the prior year.

The chart below shows payments by category for professional/consulting services for fiscal year 2024. Attachment A in the appendix lists the payments by vendor.

Attachment A

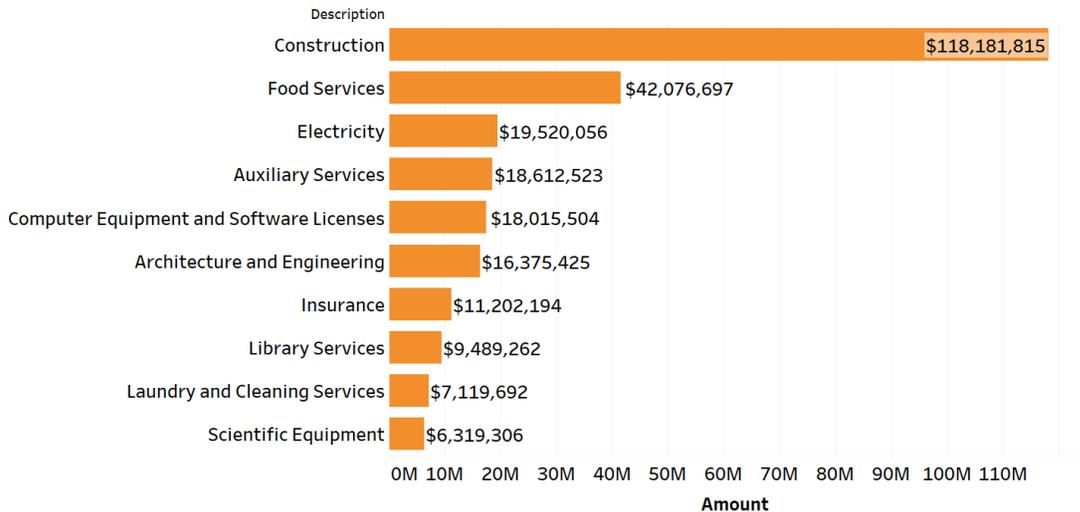
All Payments for Professional or Consulting Services from System-Wide Sources to a Single Entity that Exceeded \$250,000



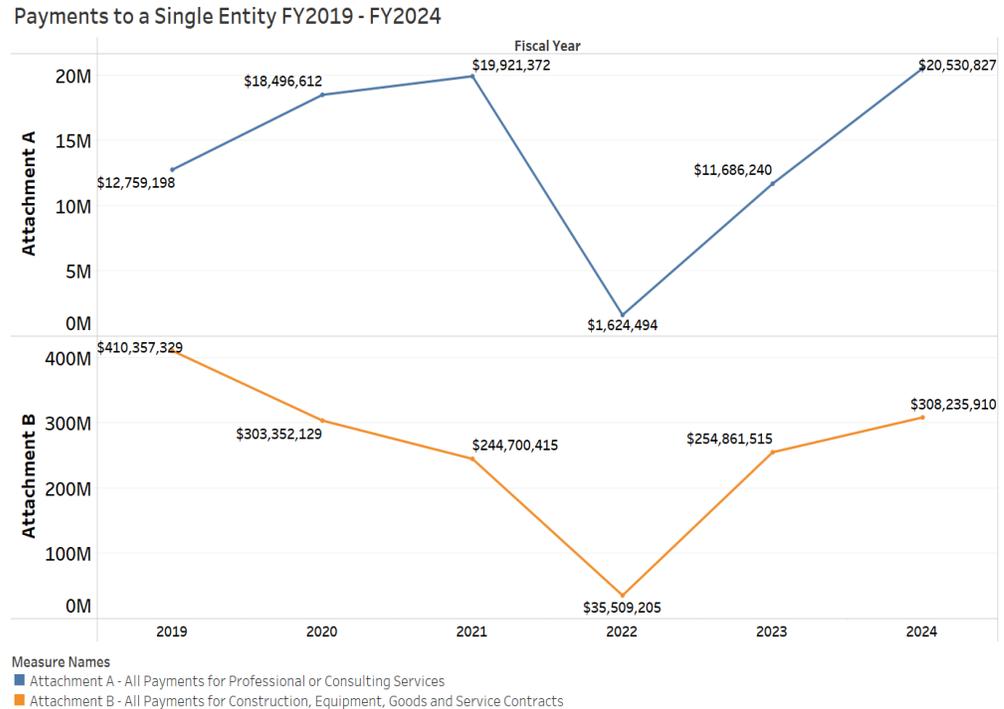
The chart below shows the top 10 categories of vendor payments for construction, equipment, goods and service contracts for fiscal year 2024. The remaining 14 categories, not shown on the chart, totaled \$41.3 million. Attachment B in the appendix lists payments by vendor.

Attachment B

Top 10 Categories of Payments for Construction, Equipment, Goods and Service Contracts from System-Wide Sources to a Single Entity that Exceeded \$1,000,000



The graph titled 'Attachment A' (below) shows total payments to vendors for consulting and professional services exceeding \$250,000, while the graph titled 'Attachment B' (below) shows total payments to vendors for construction, equipment, goods, and service contracts exceeding \$1,000,000. Both graphs display annual totals for the last six fiscal years, FY2019–FY2024.



Background

The number of contracts requiring enhanced monitoring (\$1 million or more) totaled 90 contracts and represented \$811.5 million (see attachment C-1).

The Board of Regents’ contracting policy 55.01.4, Reporting to the Board, requires that a report be submitted to the Board each fiscal year. The report must include the following:

- A. All payments for professional and consulting services made during the previous fiscal year from System-wide sources to a single entity that exceeded \$250,000.
- B. All payments for construction, equipment, goods and service contracts during the previous fiscal year from System-wide sources to a single entity that exceeded \$1,000,000.
- C. All contracts that require enhanced contract or performance monitoring under Sections 2261.253, 2261.254 and 2261.255 of the Texas Government Code.

The report shall be subject to the Department of Internal Auditing’s review for compliance with the applicable laws and UHS policies. Investment agreements are not included in this reporting requirement.

Methodology and Scope

The methodology used to conduct this audit included:

- Reviewing UHS policies and procedures related to completing the Annual Procurement Report.
- Reviewing statutes related to completing the Annual Procurement Report.
- Interviewing employees of the UH Financial Reporting Department to identify processes related to completing the Annual Procurement Report.
- Interviewing project managers for contracts included in the report.
- Running queries independently to verify the amounts listed in the Annual Procurement Report.
- Reviewing past reports to identify spending trends.

The Internal Auditing Department reviewed the report procedures methodology and the report to determine the methodology used would ensure the report was accurate for the fiscal year 2024. Internal Auditing did not review contracts to ensure individual contracts were monitored.

Audit Standards

The Internal Auditing Department conducted this audit in accordance with Generally Accepted Government Auditing Standards and the International Professional Practices Framework. These standards require that the audit be planned and performed to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.

The Texas Internal Auditing Act, Texas Government Code, Section 2102, requires each state agency that receives appropriation to establish a program of internal auditing. The Board of Regents created the University of Houston System Internal Auditing Department as an independent office reporting directly to the Chair of the Audit and Compliance Committee of the Board of Regents with access to the Chancellor. The Internal Auditing Department conducts compliance and performance audits to review aspects of the University System operations and procedures to help ensure compliance and establish accountability, improve System operations, and provide recommendations for improvement.

The UHS Internal Auditing Department would like to thank the Financial Compliance and Contract Reporting Department for their cooperation and assistance during this audit process.

Sincerely,



**UHS Internal Auditing Department
Chief Audit Executive**

Phillip Hurd, CIA, CEEP

Phone: (713) 743-8000

Email: audit@uh.edu

Website: <https://uhsystem.edu/internal-audit>

Director, Operational and Financial Audits

Brandee O'Neal, CIA, CFE, CCEP

Audit Team

Eric Porter, Auditor III, CFE

Kathy Gonzales, Auditor II

Aiden Ho, Auditor I

Jackie Martinez, Auditor I

Attachment A

All Payments for Professional or Consulting Services during FY2024 from System-Wide Sources to a Single Entity that Exceeded \$250,000

Vendor Name	Category	Total for FY2024
DLR GROUP INC OF TEXAS	Architecture and Engineering	6,500,900
PAGE SOUTHERLAND PAGE INC	Architecture and Engineering	3,837,141
SMITHGROUP INC	Architecture and Engineering	2,690,469
AECOM TECHNICAL SERVICES INC	Architecture and Engineering	1,030,501
P B K ARCHITECTS INC	Architecture and Engineering	938,962
OFFICE OF JAMES BURNETT INC	Architecture and Engineering	877,299
A-G ADMINISTRATORS LLC	Consulting Services	625,000
HUITT ZOLLARS INC	Architecture and Engineering	513,612
WALTER P MOORE & ASSOCIATES INC	Architecture and Engineering	434,050
PERKINS & WILL, INC	Architecture and Engineering	359,814
SHACKELFORD, BOWEN, MCKINLEY AND NORTON,	Legal Counsel Services	352,727
BRAILSFORD & DUNLAVEY INC	Consulting Services	336,781
LAKE FLATO ARCHITECTS INC	Architecture and Engineering	315,498
FORVIS LLP	Professional Services	309,093
NIXON PEABODY LLP	Legal Counsel Services	296,503
CANNON DESIGN INC	Architecture and Engineering	289,105
BLANK ROME LLP	Legal Counsel Services	287,443
MCALLISTER AND QUINN LLC	Legal Counsel Services	285,039
PRECISION TASK GROUP, INC	Consulting Services	250,890
Grand Total		<u>20,530,827</u>

Attachment B

All Payments for Construction, Equipment, Goods and Service Contracts during FY2024
from System-Wide Sources to a Single Entity that Exceeded \$1,000,000

Vendor Name	Category	Total for FY2024
AUSTIN COMMERCIAL, LP	Construction	35,296,872
COMPASS GROUP USA INC	Food Services	34,276,665
J T VAUGHN CONSTRUCTION LLC	Construction	19,295,630
FOLLETT HIGHER EDUCATION GROUP LLC	Auxiliary Services	18,612,297
TURNER CONSTRUCTION COMPANY	Construction	17,290,102
BARTLETT COCKE GENERAL CONTRACTORS LLC	Construction	15,558,302
ARTHUR J GALLAGHER & CO.	Insurance	11,202,194
CAVALLO ENERGY TEXAS LLC	Electricity	9,982,900
VISTRA PREFERRED LLC	Electricity	9,537,156
WHITING-TURNER CONTRACTING COMPANY	Construction	9,415,083
EBSCO INDUSTRIES INC	Library Services	8,478,184
SOJI SERVICES INC	Laundry & Cleaning Services	7,119,692
DLR GROUP INC OF TEXAS	Architecture and Engineering	6,611,823
HIED INC	Computer Equipment & Software Licenses	5,567,864
OVG FACILITIES LLC	Food Services	5,189,975
TELLEPSEN BUILDERS LP	Construction	4,270,527
LAYER 3 COMMUNICATIONS LLC	Computer Equipment & Software Licenses	4,143,275
E CONTRACTORS USA LLC	Construction	3,990,608
PAGE SOUTHERLAND PAGE INC	Architecture and Engineering	3,837,141
P D MORRISON ENTERPRISES INC	Construction	3,616,727
TEJAS OFFICE PRODUCTS INC	Office Supplies	3,586,828
AMAZON.COM, INC.	Various Online Orders with P-Card & Vouchers	2,956,915
SMITHGROUP INC	Architecture and Engineering	2,690,469
ORACLE AMERICA, INC	Computer Equipment & Software Licenses	2,641,158
ARAMARK SERVICES INC	Food Services	2,608,488
LANIER PARKING METER SERVICES LLC	Parking Management Services	2,597,553
GROOME TRANSPORTATION OF TEXAS LLC	Shuttle Bus Services	2,578,802
FISHER SCIENTIFIC CO LLC	Scientific Equipment	2,512,766

AMERICAN ATHLETIC CONFERENCE	Athletics	2,500,000
NASH INDUSTRIES INC	Construction	2,431,545
PUBLIC BROADCASTING SERVICE	Programming Fees	2,337,380
ADVANTAGE SURGICAL PARTNERS LLC	Optometry Surgery Management	2,277,750
SUMMUS INDUSTRIES INC	Scientific Equipment	2,263,650
NOBLE TEXAS BUILDERS LLC	Construction	2,238,056
ANDY FRAIN SERVICES INC	Security Services	2,217,339
JOHNSON CONTROLS INC	Repairs and Maintenance	2,019,922
ALCON VISION LLC	Clinic and Lab Supplies	1,836,159
BRIGHTVIEW HOLDINGS INC	Repairs and Maintenance	1,793,158
DPR CONSTRUCTION A GENERAL PARTNERSHIP	Construction	1,750,499
NETSYNC NETWORK SOLUTIONS INC	Telecommunications Equipment	1,737,335
SHI GOVERNMENT SOLUTIONS INC	Computer Equipment & Software Licenses	1,705,871
NATIONAL PUBLIC RADIO	Programming Fees	1,679,509
ISTUDIO PROJECTS INC	Construction	1,563,458
INSTRUCTURE INC	Software licenses	1,547,188
VWR FUNDING INC	Scientific Equipment	1,543,200
BASELINE PAVING & CONSTR INC	Construction	1,464,407
ENDEAVOR OLE PARENT LLC	Athletics Team Travel	1,422,501
EAB GLOBAL INC	Membership Fees	1,342,087
MOBIUS PARTNERS LTD	Security Systems	1,322,206
NIKE USA INC	Athletic Equipment	1,285,274
COKINOS ENERGY LLC	Natural Gas	1,264,043
MCA COMMUNICATIONS INC	Computer equipment & Software Licenses	1,251,807
WAY ENGINEERING LTD	Repairs and Maintenance	1,228,292
J TYLER SERVICES INC	Furnishings and Equipment	1,193,042
AECOM TECHNICAL SERVICES INC	Architecture and Engineering	1,164,663
APPLE INC	Computer Equipment	1,157,091
CTI FIELD SERVICES INC	Repairs and Maintenance	1,122,523
OFFICE OF JAMES BURNETT INC	Architecture and Engineering	1,064,559
DOWLEY SECURITY SYSTEMS INC	Security Systems	1,032,151
PROQUEST LLC	Library Services	1,011,481
P B K ARCHITECTS INC	Architecture and Engineering	1,001,770
Grand Total		<u>308,235,912</u>

Attachment C-1

Existing UH System Contracts that Require Enhanced Contract or Performance Monitoring under Sections 2261.253, 2261.254, and 2261.255 of the Texas Government Code As of August 31, 2024

#	Vendor Name	Contract Description	Contract Start Date	Contract End Date	Contract Amount/Max	Procurement Method	Board Approved	Performance
1	3L USA LLC	University Vehicle Fueling	2/1/2023	2/28/2026	2,585,000	Request for Proposal	8/1/2022	Satisfactory
2	A Status Construction LLC	Disaster Restoration and Emergency Recovery Service Agreement	6/1/2018	5/31/2023	10,000,000	Request for Proposal	5/18/2017	Satisfactory
3	A Status Construction LLC	Job Order Contracts	5/1/2021	4/30/2023	10,000,000	Request for Proposal	5/16/2019	Satisfactory
4	ABM Texas General Services, Inc.	Campus Wide Irrigation, Landscaping and Mowing Services	2/5/2020	12/31/2022	3,000,000	Request for Proposal	5/16/2019	Satisfactory
5	ABM Texas General Services, Inc.	Katy and Sugar Land Campus Facility Management	6/10/2020	7/31/2023	3,200,000	Request for Proposal	5/16/2019	Satisfactory
6	Academic Partnerships	On-line Marketing for Degree Programs	1/1/2018	5/31/2024	9,562,840	Request for Proposal	3/8/2018	Satisfactory
7	Advantage Surgical Partners LLC	Ambulatory Surgery Center Services	11/1/2022	10/31/2025	17,000,000	Request for Proposal	5/19/2022	Not Satisfactory
8	AECOM Technical Services Inc	Architectural Services CSA	6/1/2022	6/1/2025	1,500,000	Request for Qualifications	12/3/2020	Satisfactory
9	Affinity Licensing LLC	Trademark Licensing Agency Representation	1/1/2021	12/31/2023	4,100,000	Request for Proposal	12/3/2020	Satisfactory
10	AMB Architects PLLC	Architectural Services CSA	6/1/2022	6/1/2025	1,500,000	Request for Qualifications	12/3/2020	Satisfactory
11	Atkins North America Inc.	Architectural and Engineering Continuing Service Agreements (CSAs)	1/1/2018	12/31/2023	1,500,000	Request for Qualifications	12/1/2016	Satisfactory
12	Austin Commercial LP	John M. O'Quinn Law Building	1/29/2020	8/31/2022	69,925,000	Request for Qualifications	2/27/2020	Satisfactory
13	Bank of America	Treasury Management and Merchant Services	6/1/2019	6/1/2024	25,200,000	Request for Proposal	8/23/2018	Satisfactory
14	Bank of New York Mellon	Custody Services	7/10/2018	7/10/2023	1,200,000	Request for Proposal	11/16/2017	Satisfactory
15	BKD LLP	External Audit Services	11/7/2018	8/31/2023	1,037,185	Request for Qualifications	3/8/2018	Satisfactory
16	Blackbaud	Fundraising Constituent Relationship Management System (Software)	3/12/2020	12/31/2023	1,300,489	Request for Proposal	5/16/2019	Satisfactory
17	Brown & Root Industrial Services LLC	Job Order Contracts	5/1/2021	4/30/2023	10,000,000	Request for Proposal	5/16/2019	Satisfactory
18	Campos Engineering Inc.	Continuing Services Agreement (CSA) for Testing, Adjusting, and Balancing	9/1/2018	8/31/2021	1,500,000	Request for Qualifications	3/8/2018	Satisfactory
19	Campus Management Corporation	Customer Relationship Management System	3/3/2016	8/31/2022	1,411,668	Request for Proposal	5/21/2020	Satisfactory
20	CannonDesign f/k/a FKP Architects Inc.	Architectural and Engineering Continuing Service Agreements (CSAs)	1/1/2018	12/31/2023	1,500,000	Request for Qualifications	12/1/2016	Satisfactory

21	Canteen Compass USA	UHS Snack Vending Revenue Contract	2/1/2023	1/31/2028	1,146,500	Request for Proposal	12/1/2022	Satisfactory
22	Chartwells Education Services (Compass Group)	UHS Dining Services Operations	7/1/2017	6/30/2032	134,716,000	Request for Proposal	5/18/2017	Satisfactory
23	CMC Development & Construction Corporation LLC	Lighting & Security Upgrades	9/1/2022	1/15/2023	2,955,500	Competitive Sealed Proposal	8/20/2020	Satisfactory
24	Collegiate Enterprise Solutions, LLC dba The Registry for College and University Presidents	Executive Staffing Services	1/29/2018	8/31/2021	1,400,000	Request for Proposal	8/20/2020	Satisfactory
25	Con-Real Support Group LP	Project Management Augmentation	12/1/2021	11/30/2026	5,000,000	Request for Proposals	2/28/2019	Satisfactory
26	Cotton Commercial USA	Disaster Restoration and Emergency Recovery Service Agreement	6/1/2018	5/31/2023	10,000,000	Request for Proposal	5/18/2017	Satisfactory
27	Courtney Harper + Partners LC.	Architectural and Engineering Continuing Service Agreements (CSAs)	1/1/2018	12/31/2023	1,500,000	Request for Qualifications	12/1/2016	Satisfactory
28	Courtney Harper + Partners LC.	Architectural Services CSA	6/1/2022	6/1/2025	1,500,000	Request for Qualifications	12/3/2020	Satisfactory
29	DLR Group Inc of Texas	Architectural and Engineering Continuing Service Agreements (CSAs)	1/1/2018	12/31/2023	1,500,000	Request for Qualifications	12/1/2016	Satisfactory
30	DLR Group Inc of Texas	Football Operations Bldg	6/1/2022	12/31/2024	4,999,075	Request for Qualifications	2/24/2022	Satisfactory
31	DNA Studios, LLC	Athletics Production Services	9/1/2020	8/31/2023	1,912,500	Request for Proposal	5/21/2020	Satisfactory
32	Dowley Security Systems Inc	Campus Cabling, AV, and Security Systems Infrastructure	11/7/2022	11/6/2027	2,000,000	Request for Proposal	8/1/2022	Satisfactory
33	DPR Construction	Hilton Expansion & Renovation	9/23/2019	12/31/2022	22,210,000	Request for Qualifications	2/28/2019	Satisfactory
34	E Contractors	Houston Public Media Infrastructure Upgrades	4/24/2023	9/27/2024	2,843,735	Competitive Sealed Proposal	2/23/2023	Satisfactory
35	EBSCO Information Services	Library Subscription Services	9/1/2020	8/31/2025	4,940,325	Request for Proposal	2/28/2019	Satisfactory
36	EBSCO Information Services	Library Subscription Services	11/1/2020	8/31/2023	18,465,000	Request for Proposal	5/21/2020	Satisfactory
37	EMR Elevator, Inc	Campus Elevator Maintenance and Modernization	12/1/2021	11/30/2026	2,026,704	Request for Proposals	2/27/2020	Satisfactory
38	Ex Libris (USA) Inc	Library Services Platform	5/31/2019	5/30/2024	1,608,719	Request for Proposal	3/8/2018	Satisfactory
39	EYP, Inc.	TMC Building Renovation	11/17/2020	12/31/2022	2,000,000	Request for Proposal	8/22/2019	Satisfactory
40	Follett	Management of the UHS Bookstores	9/16/2019	9/15/2024	6,725,000	Request for Proposal	5/16/2019	Satisfactory
41	Groome Transportation of Texas	Shuttle Bus Services	1/1/2019	12/31/2026	26,232,400	Request for Proposal	11/16/2017	Satisfactory
42	Hellmuth, Obata and Kassabaum LP.	Architectural and Engineering Continuing Service Agreements (CSAs)	1/1/2018	12/31/2023	1,500,000	Request for Qualifications	12/1/2016	Satisfactory
43	Hellmuth, Obata and Kassabaum LP.	Architectural Services CSA	6/1/2022	6/1/2025	1,500,000	Request for Qualifications	12/3/2020	Satisfactory
44	Hewlett Packard Enterprise	High Performance Computing System	3/12/2020	6/30/2025	2,491,351	Sole Source	2/27/2020	Satisfactory
45	Huitt-Zollars, Inc.	Architectural Services CSA	6/1/2022	6/1/2025	1,500,000	Request for Qualifications	12/3/2020	Satisfactory

46	Infrastructure Canvas LMS	Learning Management System	1/1/2023	12/31/2025	2,863,523	Sole Source	5/19/2022	Satisfactory
47	JBCR, Inc. DBA Skelton Business Equipment	Copier Lease and Maintenance	8/1/2021	7/31/2024	4,500,000	Request for Proposal	5/20/2021	Satisfactory
48	JT Vaughn Construction LLC	Cougar Woods Generator	9/1/2022	11/6/2023	2,251,000	Competitive Sealed Proposal	5/19/2022	Satisfactory
49	JT Vaughn Construction LLC	South Campus Fueling Station	11/16/2022	3/11/2024	1,448,500	Competitive Sealed Proposal	5/19/2022	Satisfactory
50	Kirksey Architects Inc	Architectural Services CSA	6/1/2022	6/1/2025	1,500,000	Request for Qualifications	12/3/2020	Satisfactory
51	Layer 3 Communications, LLC	Campus Network Infrastructure	8/12/2021	8/11/2026	12,000,000	Request for Proposal	5/20/2021	Satisfactory
52	Market Engenuity, Inc	Public Radio and TV Underwriting Services for Houston Public Media	9/1/2015	8/31/2025	13,200,000	Request for Proposal	2/27/2020	Satisfactory
53	Nash Industries Inc	Job Order Contracts	5/1/2021	4/30/2023	10,000,000	Request for Proposal	5/16/2019	Satisfactory
54	NEPC, LLC	Investment consultant for UHS Endowment and Non-Endowed Investments	3/1/2021	2/29/2024	1,960,000	Request for Proposal	12/3/2020	Satisfactory
55	Noble Texas Builders, LLC	Job Order Contracts	5/1/2021	4/30/2023	10,000,000	Request for Proposal	5/16/2019	Satisfactory
56	Noble Texas Builders, LLC	Fine Arts Building Water Infiltration & Foundation Repairs	2/20/2023	9/30/2023	1,565,405	Competitive Sealed Proposal	11/30/2022	Satisfactory
57	O'Connell Roberston & Associates Inc	Architectural Services CSA	6/1/2022	6/1/2025	1,500,000	Request for Qualifications	12/3/2020	Satisfactory
58	Oracle America, LLC	Oracle Enterprise System Software Maintenance and Support	9/1/2021	8/31/2031	28,675,000	Sole Source	8/26/2021	Satisfactory
59	OVG Facilities*	Athletics Facility Custodial Services, Facility Maintenance Services, and Food Services	8/1/2019	7/31/2024	108,540,910	Request for Proposal	7/19/2019	Satisfactory
60	Paciolan (Spectra)	UH Ticket Software	2/1/2017	6/30/2027	1,500,000	Request for Proposal	12/1/2016	Satisfactory
61	Page Southerland Page, Inc.	Core Renovations	1/24/2019	12/15/2024	1,365,940	Request for Qualifications	8/23/2018	Satisfactory
62	Parchment, LLC	Academic Transcript Delivery and Diploma Replacement Order Processing Service	9/1/2021	8/31/2024	2,500,000	Request for Proposal	5/20/2021	Satisfactory
63	PBK Architects Inc.	Architectural Services CSA	6/1/2022	6/1/2025	1,500,000	Request for Qualifications	12/3/2020	Satisfactory
64	PBK Architects Inc.	Northwest Campus Phase 2 and University North Building	3/1/2023	10/17/2025	1,820,850	Request for Qualifications	5/19/2022	Satisfactory
65	Pierce Goodwin Alexander & Linville Inc.	Architectural and Engineering Continuing Service Agreements (CSAs)	1/1/2018	12/31/2023	1,500,000	Request for Qualifications	12/1/2016	Satisfactory
66	Quadient Inc. (formerly known Neopost USA)	Package Lockers	4/1/2020	8/31/2028	1,502,392	Texas Smart Buy	5/20/2021	Satisfactory
67	Rain King Inc	Center Building Roof Replacement	4/6/2023	10/30/2023	1,331,000	Competitive Sealed Proposal	5/19/2022	Satisfactory
68	Republic Parking System	Parking Management Services	4/1/2018	3/31/2023	5,975,000	Request for Proposal	8/24/2017	Satisfactory
69	RR Williams & Associates Inc	Hilton Expansion & Renovation	11/30/2021	6/31/2024	2,000,000	Request for Proposals	5/20/2021	Satisfactory

70	Siemens Industry Inc	UH Lab HVAC Maintenance and Repairs	12/1/2022	11/31/25	2,500,000	Request for Proposal	2/24/2022	Satisfactory
71	Smith Group, Inc.	Health and Wellness Center	6/7/2021	8/31/2023	1,541,639	Request for Qualifications	8/20/2020	Satisfactory
72	SmithGroup Inc	Academic Building 2	7/1/2022	7/31/2024	3,695,000	Request for Qualifications	12/2/2021	Satisfactory
73	SOJI Services Inc. DBA Metroclean	Custodial Services	5/1/2022	4/30/2029	24,000,000	Request for Proposals	5/20/2021	Satisfactory
74	State Office of Risk Management	Workers Compensation/Risk Management Services	9/1/2021	8/31/2023	2,360,540	Sole Source	12/2/2021	Satisfactory
75	Stern and Bucek Architects PLLC	Architectural Services CSA	6/1/2022	6/1/2025	1,500,000	Request for Qualifications	12/3/2020	Satisfactory
76	Technolutions	Customer Relationship Management (CRM) for Enrollment Services	3/1/2022	6/30/2027	2,000,342	Request for Proposals	8/26/2021	Satisfactory
77	Tellepsen Builders, LP	Core Renovations	6/25/2019	11/30/2024	65,817,787	Construction Manager at Risk	8/23/2018	Satisfactory
78	Thermo Fisher Scientific	Scanning Electron Microscope	12/22/2021	12/31/2026	2,049,350	Sole Source	12/2/2021	Satisfactory
79	Thermo Fisher Scientific	Mass Spectrometry Equipment	3/28/2023	3/28/2023	2,020,200	Cooperative Purchasing Program	2/24/2023	Satisfactory
80	TouchNet	Campus Card System	3/23/2018	3/22/2023	1,500,000	Request for Proposal	8/24/2017	Satisfactory
81	Vaughn Construction LLC	Science, Engineering, & Research HVAC Upgrades & Roof Replacement	7/1/2019	4/30/2024	12,957,000	Request for Proposals	12/2/2021	Satisfactory
82	Aramark Educational Services LLP	Conrad N. Hilton College of Global Hospitality Leadership Food and Beverage Management Services	1/1/2023	12/31/2025	7,250,000	Request for Proposal	12/1/2022	Satisfactory
83	Whiting-Turner Construction Company	Campus Recreation and Wellness Center Interior Improvements	9/20/2022	3/6/2024	6,466,951	CMAR	12/2/2021	Satisfactory
84	Whiting-Turner Construction Company	TDECU Premium Seating	10/1/2022	8/31/2023	3,235,000	CMAR	11/30/2022	Satisfactory
85	Whiting-Turner Construction Company	Guy V. Lewis Development Center Men's and Women's Locker Room Renovations	6/15/2023	1/1/2024	4,075,308	CMAR	2/23/2023	Satisfactory
86	Winstead PC	Legal Services	9/1/2021	8/31/2023	1,500,000	Request for Qualifications	8/26/2021	Satisfactory
87	Winvale (PMWeb)	Project Management Information System (Facilities & Construction Management)	9/1/2019	8/31/2024	1,114,249	Sole Source	8/22/2019	Satisfactory
88	Zayo Group Fiber Optics	Fiber Optic Cable Services	12/30/2004	10/12/2025	1,500,000	Request for Proposal	5/16/2019	Satisfactory
89	Ziegler Cooper Inc DBA Ziegler Cooper Architects	Architectural Services CSA	6/1/2022	6/1/2025	1,500,000	Request for Qualifications	12/3/2020	Satisfactory
90	Zuri Group	Fundraising Constituent Relationship Management System (Conversion & Implementation Services)	9/1/2020	8/31/2023	2,194,050	Request for Proposal	5/16/2019	Satisfactory

Grand Total

168

811,478,928

Attachment C-2

New UH System Contracts that Require Enhanced Contract or Performance Monitoring under Sections 2261.253, 2261.254, and 2261.255 of the Texas Government Code as of August 31, 2024

Vendor Name	Contract Description	Contract Start Date	Contract End Date	Contract Amount/Max	Procurement Method	Board Approved
Austin Commercial Services LP	Football Development Center	9/26/2023	12/31/2024	\$ 103,894,006.00	Request for Qualifications	5/18/2023
Andy Frain Services Inc	Emergency services to secure Agnes Arnold	8/18/2023	3/31/2024	\$ 1,235,194.00	Emergency	8/17/2023
Public Broadcasting Service	PBS annual membership fee for programming	9/25/2023	9/30/2024	\$ 2,193,300.00	Sole Source	8/23/2023
National Public Radio	NPR annual membership fee for programming	9/25/2023	9/30/2023	\$ 1,675,296.00	Sole Source	8/23/2023
Mueller Water Conditioning Inc	Campus reverse osmosis de-ionized water service program	10/1/2023	9/30/2026	\$ 1,500,000.00	Request for Proposal	8/23/2023
PGAL Inc	UH Downtown Welcome Center addition/renovation & One Main renovations	10/10/2023	11/1/2026	\$ 3,646,160.00	Request for Qualifications	11/30/2022
Jaggaer LLC	E-procurement and e-Sourcing software modules	10/30/2023	9/31/2028	\$ 1,442,750.00	Request for Proposal	8/25/2022
iStudio Projects Inc	Cynthia Woods Theatre Rigging	10/15/2023	6/2/2024	\$ 2,024,675.00	Cooperative Contract (BuyBoard)	8/24/2023
Jonmar Electric Inc	Electrical Systems Maintenance and repair services	11/1/2023	10/30/2026	\$ 2,500,000.00	Request for Proposal	8/23/2023
OJB Landscape Architecture	Centennial Project	11/15/2023	9/1/2026	\$ 2,974,961.00	Request for Qualifications	5/23/2022
Johnson Controls Inc	Central Plant Upgrades	11/08/2023	2/1/2025	\$ 2,408,979.00	Sole Source	8/23/2023
All things Commercial LLC	Facilities Make Ready Services	12/1/2023	11/30/2026	\$ 5,000,000.00	Request for Proposal	5/18/2023
J.T. Vaughn Construction LLC	Renovation FY23 CRP Social Work 101	12/18/2023	8/1/2024	\$ 1,099,000.00	Request for Proposal	11/30/2022
Atlas Technical EFI Global Inc	Professional services for asbestos and other environmental remediation	12/8/2023	12/8/2028	\$ 1,500,000.00	Request for Qualifications	12/2/2021
Campos Engineering Inc	CSA Testing, adjusting and balancing services as needed	12/1/2023	12/1/2026	\$ 3,000,000.00	Request for Qualifications	5/18/2023
Engineered Air Balance Co Inc	CSA Testing, adjusting and balancing services as needed	12/1/2023	12/1/2026	\$ 3,000,000.00	Request for Qualifications	5/18/2023
Technical Aire Balance Texas LLC	CSA Testing, adjusting and balancing services as needed	12/1/2023	12/1/2026	\$ 3,000,000.00	Request for Qualifications	5/18/2023
Professional Service Industries Inc	CSA Materials testing on an as needed basis	1/18/2024	1/18/2027	\$ 3,000,000.00	Request for Qualifications	5/18/2023
Terracon Consultants Inc	CSA Materials testing on an as needed basis	1/5/2024	1/5/2025	\$ 3,000,000.00	Request for Qualifications	5/18/2023
Aviles Engineering Corporation	CSA Materials testing on an as needed basis	1/5/2024	1/5/2027	\$ 3,000,000.00	Request for Qualifications	5/18/2023
Nalco Company LLC	Campus water chemistry, distribution and maintenance	9/15/2023	9/14/2026	\$ 3,500,000.00	Request for Proposal	5/18/2023
Bell Tex Construction	Exterior building cleaning	12/1/2023	11/30/2026	\$ 1,500,000.00	Request for Proposal	8/26/2021
Engineered Air Balance Co Inc	CSA for Commissioning on an as needed basis	2/8/2024	2/8/2027	\$ 3,000,000.00	Request for Qualifications	5/22/2023
Tejas Office Products Inc	MRO Supply Chain and services	3/1/2024	2/29/27	\$ 38,000,000.00	Request for Proposal	5/22/2023
Fort Hill Associates LLC	CSA for construction audit services as needed	2/22/2024	2/22/2027	\$ 3,000,000.00	Request for Qualifications	2/24/2022
NV5 Consultants Inc	CSA for Commissioning on an as needed basis	3/6/2024	3/6/2027	\$ 3,000,000.00	Request for Qualifications	5/22/2023
Page Southerland Page Inc	CSA for Commissioning on an as needed basis	3/6/2024	3/6/2027	\$ 3,000,000.00	Request for Qualifications	5/22/2023

The Trevino Group Inc	UH Victoria Totah building and Smith Hall Parking	3/11/2024	10/10/2024	\$ 1,230,919.00	Request for Proposal	8/17/2023
Baker Tilly US LLP	CSA for construction audit services as needed	6/7/2024	6/7/2029	\$ 3,000,000.00	Request for Qualifications	2/24/2022
JEOL USA Inc	University level core facility acquisition	3/25/2024	3/31/2029	\$ 5,000,000.00	Sole Source	5/18/2002
David E Harvey Builders Inc	Agnes Arnold Core Renovation infrastructure upgrades	7/1/2024	12/30/2027	\$ 9,193,383.00	CMAR	8/23/2023
Weaver and Tidwell LLP	CSA for construction audit services as needed	4/9/2024	4/9/2029	\$ 3,000,000.00	Request for Qualifications	2/24/2022
PageUp People Limited	Applicant tracking system	5/13/2024	3/28/2029	\$ 1,479,946.00	Sole Source	8/23/2023
Lake Flato Architects	Hobby School of Public Affairs	9/1/2023	1/31/2026	\$ 2,833,315.00	Request for Qualifications	2/24/2022
Mobile Communications America	Upgrade campus camera infrastructure	3/1/2024	2/28/1930	\$ 1,440,000.00	Cooperative Contract	2/23/2024
AECOM Thechnical Services Inc	Tech Bridge 14 Roofing	5/15/2023	12/31/2026	\$ 1,515,022.00	Request for Qualifications	5/23/2022
Arthur J Gallagher & Co	Risk management services	9/1/2023	8/31/2025	\$ 1,986,366.00	Sole Source	2/23/2023
Brightview Holdings Inc	Campus wide irrigation, landscaping and mowing services	8/1/2023	7/31/2026	\$ 9,800,000.00	Request for Proposal	12/1/2022
Bartlett Cocke General Contractors LLC	UHV Health and Wellness Phase 1	8/16/2023	1/31/2025	\$ 22,982,063.00	Request for Proposal	2/24/2022
E Contractors USA LLC	Cullen Blvd landscape improvements segment B	10/1/2023	11/1/2025	\$ 3,085,271.00	Request for Proposal	5/23/2022
Cannon Design Inc	Bayou Building renovation	6/4/2024	8/31/2025	\$ 3,100,000.00	Request for Proposal	12/7/2022

**UNIVERSITY OF HOUSTON SYSTEM
BOARD OF REGENTS AGENDA**

COMMITTEE: Audit and Compliance

ITEM: Report on University of Houston System, Board of Regents' Policies on Internal Audit, Institutional Compliance, and Identity Theft Prevention

DATE PREVIOUSLY SUBMITTED:

SUMMARY: This area will briefly cover the new standards and how it will affect IA policy, Compliance and other programs.

SUPPORTING DOCUMENTATION: Slide deck briefing and a copy of the new standards

FISCAL NOTE:

**RECOMMENDATION/
ACTION REQUESTED:** Information

COMPONENT: University of Houston System



2-3-25

CHIEF AUDIT EXECUTIVE

Phillip W. Hurd

DATE



CHANCELLOR

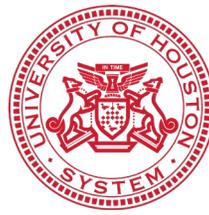
Renu Khator

2/14/25
DATE



University of Houston System

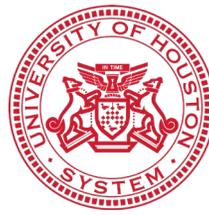
Board of Regents' Policies on Internal Audit, Institutional Compliance, and
Identity Theft Prevention



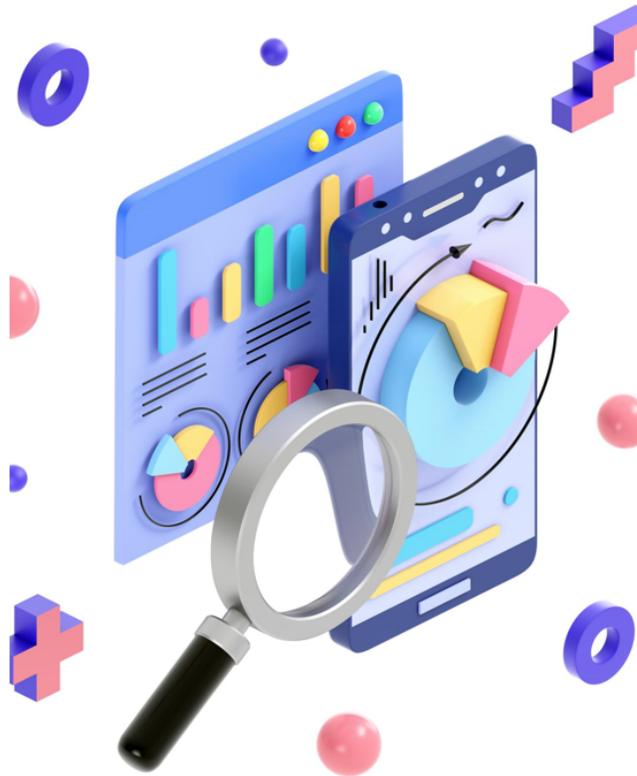
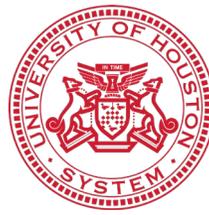
What the Board Needs to Know About the New Internal Audit Standards

Understanding changes in internal audit compliance

173



Overview of the New Internal Audit Standards



Introduction to the Updated Standards

Evolving Risk Management

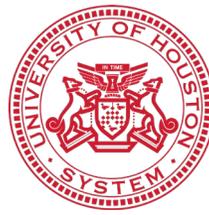
The updated standards address the changing dynamics of risk management, ensuring auditors are equipped for new challenges.

Governance Enhancements

These standards also enhance governance practices, promoting accountability and transparency within organizations.

Best Practices Framework

The standards provide a structured framework to implement best practices in the internal audit function effectively.



Key Changes From Previous Standards

Focus on Risk Management

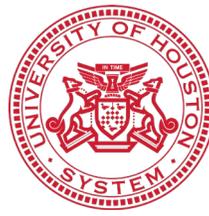
The new standards prioritize risk management, ensuring organizations can identify and mitigate potential issues effectively.

Independence and Objectivity

Enhanced requirements for independence and objectivity are crucial for maintaining trust and credibility in audit practices.

Technology in Audit Practices

There's a greater emphasis on incorporating technology into audit practices, improving efficiency and accuracy in assessments.



Importance and Goals of the New Standards

Quality of Internal Audits

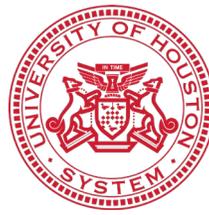
The new standards focus on enhancing the quality of internal audits, ensuring thorough and effective evaluations of organizational processes.

Enhancing Stakeholder Confidence

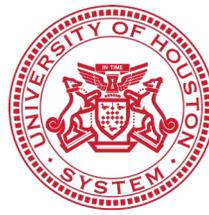
By improving audit standards, organizations can enhance stakeholder confidence, fostering trust and transparency in financial reporting.

Alignment with Strategic Objectives

The standards ensure that audit activities are aligned with the organization's strategic objectives, promoting efficiency and better decision-making.



Impact on Internal Audit Processes



Changes in Audit Procedures and Methodologies

Risk-Based Auditing

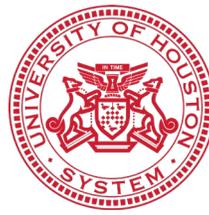
The shift to risk-based auditing allows auditors to focus on high-risk areas, enhancing overall effectiveness.

Efficient Resource Use

Focusing on higher risk areas facilitates more efficient allocation of resources and time during audits.

Improved Risk Management

By concentrating on significant risks, overall risk management processes become more robust and effective.



Implications for Audit Planning and Execution

Reevaluation of Audit Processes

The new standards require organizations to reevaluate their audit planning processes to ensure compliance and effectiveness.

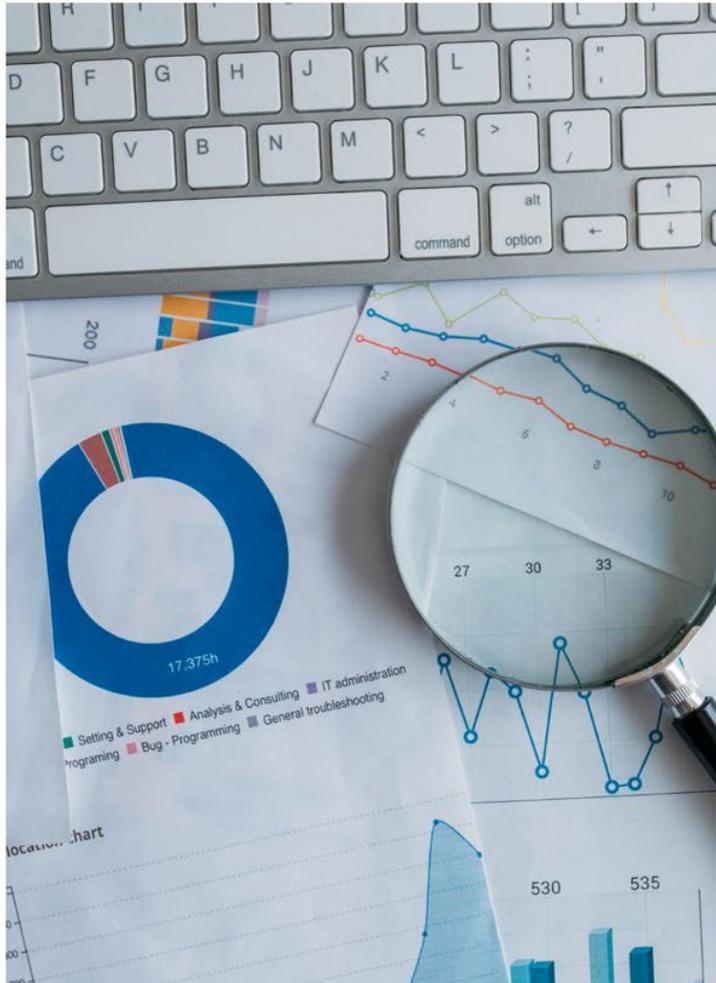
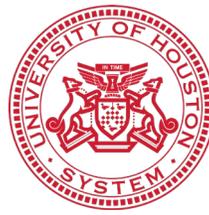
Alignment with Risk Profile

Audit plans must be aligned with the organization's risk profile to better manage potential risks and ensure accountability.

Effective Resource Allocation

Boards need to ensure that resources are allocated effectively in audit planning to optimize outcomes and enhance performance.





Enhancements in Reporting and Documentation

Improved Reporting Practices

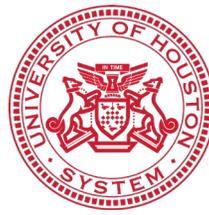
Enhanced reporting practices are essential for effective communication of audit findings and promoting transparency.

Documentation Standards

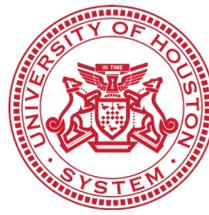
Adopting high standards in documentation ensures audit findings are meticulously recorded for future reference.

Stakeholder Communication

Clear communication to stakeholders drives accountability and fosters trust in reporting processes.



Board's Role and Responsibilities



Oversight and Governance Requirements

Board Responsibilities

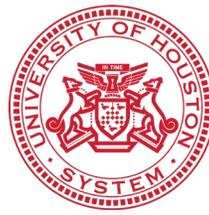
The board must ensure that the internal audit function is robust and adequately supported by the organization.

Internal Audit Standards

Adherence to new standards is crucial for maintaining the integrity of the internal audit function.

Regular Performance Reviews

Conducting regular reviews of audit performance ensures ongoing effectiveness and alignment with organizational goals.



Ensuring Compliance with the New Standards

Updated Internal Audit Standards

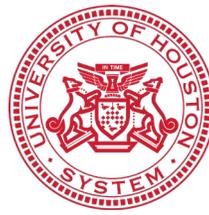
Organizations must stay updated with the latest internal audit standards to ensure compliance and effective governance.

Ongoing Training and Awareness

Ongoing training programs are essential for staff to understand the new standards and ensure adherence to compliance requirements.

Adaptation to Changes

Organizations need to adapt their internal audit practices to align with the updated standards and frameworks for better efficiency.



Supporting the Internal Audit Function

Resource Allocation

The board must ensure that the internal audit function is adequately resourced to effectively carry out its responsibilities.

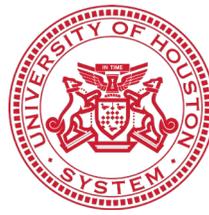
Open Dialogue Encouragement

Encouraging open dialogue between the board and internal audit fosters collaboration and enhances communication within the organization.

Culture of Accountability

Fostering a culture of accountability and transparency is crucial for the effectiveness of the internal audit function.





Conclusion

Importance of Audit Standards

Implementing new internal audit standards is essential for maintaining effective governance within the organization.

Board Involvement

Active participation from the board is critical to ensure that the internal audit function is effective and adds value.

Risk Management

The internal audit function must address and mitigate the organization's risks effectively to safeguard its assets.

Global Internal Audit Standards™



Published January 9, 2024

The Global Internal Audit Standards and related materials are protected by copyright law and are operated by The Institute of Internal Auditors, Inc. (“The IIA”). ©2024 The IIA. All rights reserved.

No part of the materials including branding, graphics, or logos, available in this publication may be copied, photocopied, reproduced, translated or reduced to any physical, electronic medium, or machine-readable form, in whole or in part, without specific permission from the Office of the General Counsel of The IIA, copyright@theiia.org. Distribution for commercial purposes is strictly prohibited.

For more information, please read our statement concerning copying, downloading and distribution of materials available on The IIA’s website at www.theiia.org/Copyright.

Contents

Acknowledgements	5
About the International Professional Practices Framework	5
Fundamentals of the Global Internal Audit Standards	7
Glossary	10
Domain I: Purpose of Internal Auditing	15
Domain II: Ethics and Professionalism	16
Principle 1 Demonstrate Integrity	16
Standard 1.1 Honesty and Professional Courage.....	17
Standard 1.2 Organization’s Ethical Expectations.....	18
Standard 1.3 Legal and Ethical Behavior.....	19
Principle 2 Maintain Objectivity	20
Standard 2.1 Individual Objectivity.....	20
Standard 2.2 Safeguarding Objectivity.....	22
Standard 2.3 Disclosing Impairments to Objectivity.....	24
Principle 3 Demonstrate Competency	25
Standard 3.1 Competency.....	26
Standard 3.2 Continuing Professional Development.....	28
Principle 4 Exercise Due Professional Care	29
Standard 4.1 Conformance with the Global Internal Audit Standards.....	29
Standard 4.2 Due Professional Care.....	31
Standard 4.3 Professional Skepticism.....	33
Principle 5 Maintain Confidentiality	34
Standard 5.1 Use of Information.....	34
Standard 5.2 Protection of Information.....	35
Domain III: Governing the Internal Audit Function	37
Principle 6 Authorized by the Board	39
Standard 6.1 Internal Audit Mandate.....	39
Standard 6.2 Internal Audit Charter.....	42
Standard 6.3 Board and Senior Management Support.....	44
Principle 7 Positioned Independently	45
Standard 7.1 Organizational Independence.....	46
Standard 7.2 Chief Audit Executive Qualifications.....	50
Principle 8 Overseen by the Board	51
Standard 8.1 Board Interaction.....	52
Standard 8.2 Resources.....	54
Standard 8.3 Quality.....	55

Standard 8.4 External Quality Assessment.....	57
Domain IV: Managing the Internal Audit Function.....	60
Principle 9 Plan Strategically.....	60
Standard 9.1 Understanding Governance, Risk Management, and Control Processes.....	61
Standard 9.2 Internal Audit Strategy.....	63
Standard 9.3 Methodologies.....	65
Standard 9.4 Internal Audit Plan.....	66
Standard 9.5 Coordination and Reliance.....	69
Principle 10 Manage Resources.....	71
Standard 10.1 Financial Resource Management.....	72
Standard 10.2 Human Resources Management.....	73
Standard 10.3 Technological Resources.....	76
Principle 11 Communicate Effectively.....	77
Standard 11.1 Building Relationships and Communicating with Stakeholders.....	77
Standard 11.2 Effective Communication.....	79
Standard 11.3 Communicating Results.....	80
Standard 11.4 Errors and Omissions.....	83
Standard 11.5 Communicating the Acceptance of Risks.....	84
Principle 12 Enhance Quality.....	85
Standard 12.1 Internal Quality Assessment.....	86
Standard 12.2 Performance Measurement.....	88
Standard 12.3 Oversee and Improve Engagement Performance.....	90
Domain V: Performing Internal Audit Services.....	92
Principle 13 Plan Engagements Effectively.....	93
Standard 13.1 Engagement Communication.....	93
Standard 13.2 Engagement Risk Assessment.....	95
Standard 13.3 Engagement Objectives and Scope.....	98
Standard 13.4 Evaluation Criteria.....	100
Standard 13.5 Engagement Resources.....	101
Standard 13.6 Work Program.....	103
Principle 14 Conduct Engagement Work.....	104
Standard 14.1 Gathering Information for Analyses and Evaluation.....	104
Standard 14.2 Analyses and Potential Engagement Findings.....	106
Standard 14.3 Evaluation of Findings.....	107
Standard 14.4 Recommendations and Action Plans.....	109
Standard 14.5 Engagement Conclusions.....	110
Standard 14.6 Engagement Documentation.....	111
Principle 15 Communicate Engagement Results and Monitor Action Plans.....	112
Standard 15.1 Final Engagement Communication.....	113
Standard 15.2 Confirming the Implementation of Recommendations or Action Plans.....	114
Applying the Global Internal Audit Standards in the Public Sector.....	116

Acknowledgements

The Institute of Internal Auditors is grateful to the stakeholders that provided guidance and assistance in the development of the Global Internal Audit Standards™. The IIA particularly recognizes members of the International Internal Audit Standards Board – a global group of internal auditors who have generously volunteered their time and expertise to ensure the Standards elevate the professional practice of internal auditing. The IIA thanks the International Professional Practices Framework Oversight Council for its essential role in ensuring the standard-setting process serves the public interest, the Professional Certifications Board for its advice, and IIA staff and technical advisors for ensuring the successful implementation and management of all aspects of the project.

About the International Professional Practices Framework

A framework provides a structural blueprint and coherent system that facilitates the consistent development, interpretation, and application of a body of knowledge useful to a discipline or profession. The International Professional Practices Framework (IPPF)® organizes the authoritative body of knowledge, promulgated by The Institute of Internal Auditors, for the professional practice of internal auditing. The IPPF includes Global Internal Audit Standards, Topical Requirements, and Global Guidance.

The IPPF addresses current internal audit practices while enabling practitioners and stakeholders globally to be flexible and responsive to the ongoing needs for high-quality internal auditing in diverse environments and organizations of different purposes, sizes, and structures.

Mandatory	<p>Global Internal Audit Standards guide the worldwide professional practice of internal auditing and serve as a basis for evaluating and elevating the quality of the internal audit function. At the heart of the Standards are 15 guiding principles that enable effective internal auditing. Each principle is supported by standards that contain requirements, considerations for implementation, and examples of evidence of conformance. Together, these elements help internal auditors achieve the principles and fulfill the Purpose of Internal Auditing.</p>
	<p>Topical Requirements are designed to enhance the consistency and quality of internal audit services related to specific audit subjects and to support internal auditors performing engagements in those risk areas. Internal auditors must conform with the relevant requirements when the scope of an engagement includes one of the identified topics.</p> <p>Topical Requirements strengthen the ongoing relevance of internal auditing in addressing the evolving risk landscape across industries and sectors.</p>

Global Guidance supports the Standards by providing nonmandatory information, advice, and best practices for performing internal audit services. It is endorsed by The IIA through formal review and approval processes.

Global Practice Guides provide detailed approaches, step-by-step processes, and examples on subjects including:

- Assurance and advisory services.
- Engagement planning, performance, and communication.
- Financial services.
- Fraud and other pervasive risks.
- Strategy and management of the internal audit function.
- Public sector.
- Sustainability.

Global Technology Audit Guides (GTAG®) provide auditors with the knowledge to perform assurance or consulting services related to an organization's information technology and information security risks and controls.

Fundamentals of the Global Internal Audit Standards



The Institute of Internal Auditors’ Global Internal Audit Standards guide the worldwide professional practice of internal auditing and serve as a basis for evaluating and elevating the quality of the internal audit function. At the heart of the Standards are 15 guiding principles that enable effective internal auditing. Each principle is supported by standards that contain requirements, considerations for implementation, and examples of evidence of conformance. Together, these elements help internal auditors achieve the principles and fulfill the Purpose of Internal Auditing.

Internal Auditing and the Public Interest

Public interest encompasses the social and economic interests and overall well-being of a society and the organizations operating within that society (including those of employers, employees, investors, the business and financial community, clients, customers, regulators, and government). Questions of public interest are context specific and should weigh ethics, fairness, cultural norms and values, and potential disparate impacts on certain individuals and subgroups of society.

Internal auditing plays a critical role in enhancing an organization’s ability to serve the public interest. While the primary function of internal auditing is to strengthen governance, risk management, and control processes, its effects extend beyond the organization. Internal auditing contributes to an organization’s overall stability and sustainability by providing assurance on its operational efficiency, reliability of reporting, compliance with laws and/or regulations, safeguarding of assets, and ethical culture. This, in turn, fosters public trust and confidence in the organization and the broader systems of which it is a part.

The IIA is committed to setting standards with input from the public and to benefit the public. The International Internal Audit Standards Board is responsible for establishing and maintaining the Standards in the interest of the public. This is achieved through an extensive, ongoing due process overseen by an independent body, the IPPF Oversight Council. The process includes soliciting input from and considering the interests of various stakeholders—including internal audit practitioners, industry experts, government bodies, regulatory agencies, public representatives, and others—so that the Standards reflect the diverse needs and priorities of society.

Applicability and Elements of the Standards

The Global Internal Audit Standards set forth principles, requirements, considerations, and examples for the professional practice of internal auditing globally. The Standards apply to any individual or function that provides internal audit services, whether an organization employs internal auditors directly, contracts them through an external service provider, or both. Organizations receiving internal audit services vary in sector and industry affiliation, purpose, size, complexity, and structure.

The Standards apply to the internal audit function and individual internal auditors including the chief audit executive. While the chief audit executive is accountable for the internal audit function's implementation of and conformance with all principles and standards, all internal auditors are responsible for conforming with the principles and standards relevant to performing their job responsibilities, which are presented primarily in Domain II: Ethics and Professionalism and Domain V: Performing Internal Audit Services.

The Standards are organized into five domains:

- Domain I: Purpose of Internal Auditing.
- Domain II: Ethics and Professionalism.
- Domain III: Governing the Internal Audit Function.
- Domain IV: Managing the Internal Audit Function.
- Domain V: Performing Internal Audit Services.

Domains II through V contain the following elements:

- Principles: broad descriptions of a related group of requirements and considerations.
- Standards, which include:
 - Requirements: mandatory practices for internal auditing.
 - Considerations for Implementation: common and preferred practices to consider when implementing the requirements.
 - Examples of Evidence of Conformance: ways to demonstrate that the requirements of the Standards have been implemented.

The Standards use the word “must” in the Requirements sections and the words “should” and “may” to specify common and preferred practices in the Considerations for Implementation sections. Each standard ends with a list of examples of evidence. The examples are neither requirements nor the only ways to demonstrate conformance; rather, they are provided to help internal audit functions prepare for quality assessments, which rely on demonstrative evidence. The Standards use certain terms as defined in the accompanying glossary. To understand and implement the Standards correctly, it is necessary to understand and adopt the specific meanings and usage of the terms as described in the glossary.

Demonstrating Conformance with the Standards

The requirements, considerations for implementation, and examples of evidence of conformance are designed to help internal auditors conform with the Standards. While conformance with the requirements is expected, internal auditors occasionally may be unable to conform with a requirement yet still achieve the intent of the standard. Circumstances that may necessitate adjustments are often related to resource limitations or specific aspects of a sector, industry, and/or jurisdiction. In these exceptional circumstances, alternative actions should be implemented to meet the intent of the related standard. The chief audit executive is responsible for documenting and conveying the rationale for the deviation and the adopted alternative actions to the appropriate parties. Related requirements and information appear in Standard 4.1 Conformance with Global Internal Audit Standards and Domain III: Governing the Internal Audit Function together with its principles and standards. While the circumstances necessitating adjustments are too varied to list, the following section acknowledges two areas that consistently draw questions: small internal audit functions and those in the public sector.

Application in Small Internal Audit Functions

The internal audit function's ability to fully conform with the Standards may be affected by its size or the size of the organization. With limited resources, completing certain tasks may be challenging. Additionally, if the internal audit function comprises only one member, an adequate quality assurance and improvement program will require assistance from outside the internal audit function. (See also Standards 10.1 Financial Resource Management, 12.1 Internal Quality Assessment, and 12.3 Oversee and Improve Engagement Performance.)

Application in the Public Sector

While the Global Internal Audit Standards apply to all internal audit functions, internal auditors in the public sector work in a political environment under governance, organizational, and funding structures that may differ from those of the private sector. The nature of these structures and related conditions may be affected by the jurisdiction and level of government in which the internal audit function operates. Additionally, some terminology used in the public sector differs from that of the private sector. These differences may affect how internal audit functions in the public sector apply the Standards. The section "Applying the Global Internal Audit Standards in the Public Sector," which follows Domain V: Performing Internal Audit Services, describes strategies for conformance amid the circumstances and conditions unique to internal auditing in the public sector.

Glossary

activity under review – The subject of an internal audit engagement. Examples include an area, entity, operation, function, process, or system.

advisory services – Services through which internal auditors provide advice to an organization’s stakeholders without providing assurance or taking on management responsibilities. The nature and scope of advisory services are subject to agreement with relevant stakeholders. Examples include advising on the design and implementation of new policies, processes, systems, and products; providing forensic services; providing training; and facilitating discussions about risks and controls. “Advisory services” are also known as “consulting services.”

assurance – Statement intended to increase the level of stakeholders’ confidence about an organization’s governance, risk management, and control processes over an issue, condition, subject matter, or activity under review when compared to established criteria.

assurance services – Services through which internal auditors perform objective assessments to provide assurance. Examples of assurance services include compliance, financial, operational/performance, and technology engagements. Internal auditors may provide limited or reasonable assurance, depending on the nature, timing, and extent of procedures performed.

board – Highest-level body charged with governance, such as:

- A board of directors.
- An audit committee.
- A board of governors or trustees.
- A group of elected officials or political appointees.
- Another body that has authority over the relevant governance functions.

In an organization that has more than one governing body, “board” refers to the body/bodies authorized to provide the internal audit function with the appropriate authority, role, and responsibilities.

If none of the above exist, “board” should be read as referring to the group or person that acts as the organization’s highest-level governing body. Examples include the head of the organization and senior management.

chief audit executive – The leadership role responsible for effectively managing all aspects of the internal audit function and ensuring the quality performance of internal audit services in accordance with Global Internal Audit Standards. The specific job title and/or responsibilities may vary across organizations.

competency – Knowledge, skills, and abilities.

compliance – Adherence to laws, regulations, contracts, policies, procedures, and other requirements.

conflict of interest – A situation, activity, or relationship that may influence, or appear to influence, an internal auditor’s ability to make objective professional judgments or perform responsibilities objectively.

control – Any action taken by management, the board, and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved.

control processes – The policies, procedures, and activities designed and operated to manage risks to be within the level of an organization’s risk tolerance.

criteria – In an engagement, specifications of the desired state of the activity under review (also called “evaluation criteria”).

engagement – A specific internal audit assignment or project that includes multiple tasks or activities designed to accomplish a specific set of related objectives. See also “assurance services” and “advisory services.”

engagement conclusion – Internal auditors’ professional judgment about engagement findings when viewed collectively. The engagement conclusion should indicate satisfactory or unsatisfactory performance.

engagement objectives – Statements that articulate the purpose of an engagement and describe the specific goals to be achieved.

engagement planning – Process during which internal auditors gather information, assess and prioritize risks relevant to the activity under review, establish engagement objectives and scope, identify evaluation criteria, and create a work program for an engagement.

engagement results – The findings and conclusion of an engagement. Engagement results may also include recommendations and/or agreed upon action plans.

engagement supervisor – An internal auditor responsible for supervising an internal audit engagement, which may include training and assisting internal auditors as well as reviewing and approving the engagement work program, workpapers, final communication, and performance. The chief audit executive may be the engagement supervisor or may delegate such responsibilities.

engagement work program – A document that identifies the tasks to be performed to achieve the engagement objectives, the methodology and tools necessary, and the internal auditors assigned to perform the tasks. The work program is based on information obtained during engagement planning.

external service provider – Resource from outside the organization that provides relevant knowledge, skills, experience, and/or tools to support internal audit services.

finding – In an engagement, the determination that a gap exists between the evaluation criteria and the condition of the activity under review. Other terms, such as “observations,” may be used.

fraud – Any intentional act characterized by deceit, concealment, dishonesty, misappropriation of assets or information, forgery, or violation of trust perpetrated by individuals or organizations to secure unjust or illegal personal or business advantage.

governance – The combination of processes and structures implemented by the board to inform, direct, manage, and monitor the activities of the organization toward the achievement of its objectives.

impact – The result or effect of an event. The event may have a positive or negative effect on the entity’s strategy or business objectives.

independence – The freedom from conditions that may impair the ability of the internal audit function to carry out internal audit responsibilities in an unbiased manner.

inherent risk – The combination of internal and external risk factors that exists in the absence of any management actions.

integrity – Behavior characterized by adherence to moral and ethical principles, including demonstrating honesty and the professional courage to act based on relevant facts.

internal audit charter – A formal document that includes the internal audit function’s mandate, organizational position, reporting relationships, scope of work, types of services, and other specifications.

internal audit function – A professional individual or group responsible for providing an organization with assurance and advisory services.

internal audit mandate – The internal audit function’s authority, role, and responsibilities, which may be granted by the board and/or laws and regulations.

internal audit manual – The chief audit executive’s documentation of the methodologies (policies, processes, and procedures) to guide and direct internal auditors within the internal audit function.

internal audit plan – A document, developed by the chief audit executive, that identifies the engagements and other internal audit services anticipated to be provided during a given period. The plan should be risk-based and dynamic, reflecting timely adjustments in response to changes affecting the organization.

internal auditing – An independent, objective assurance and advisory service designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

likelihood – The possibility that a given event will occur.

may – As used in the Considerations for Implementation of the Global Internal Audit Standards, the word “may” describes optional practices to implement the Requirements.

methodologies – Policies, processes, and procedures established by the chief audit executive to guide the internal audit function and enhance its effectiveness.

must – The Global Internal Audit Standards use the word “must” to specify an unconditional requirement.

objectivity – An unbiased mental attitude that allows internal auditors to make professional judgments, fulfill their responsibilities, and achieve the Purpose of Internal Auditing without compromise.

outsourcing – Contracting with an independent external provider of internal audit services. Fully outsourcing a function refers to contracting the entire internal audit function, and partially outsourcing (also called “cosourcing”) indicates that only a portion of the services are outsourced.

periodically – At regularly occurring intervals, depending on the needs of the organization, including the internal audit function.

professional skepticism – Questioning and critically assessing the reliability of information.

public sector – Governments and all publicly controlled or publicly funded agencies, enterprises, and other entities that deliver programs, goods, or services to the public.

quality assurance and improvement program – A program established by the chief audit executive to evaluate and ensure the internal audit function conforms with the Global Internal Audit Standards, achieves performance objectives, and pursues continuous improvement. The program includes internal and external assessments.

residual risk – The portion of inherent risk that remains after management actions are implemented.

results of internal audit services – Outcomes, such as engagement conclusions, themes (such as effective practices or root causes), and conclusions at the level of the business unit or organization.

risk – The positive or negative effect of uncertainty on objectives.

risk and control matrix – A tool that facilitates the performance of internal auditing. It typically links business objectives, risks, control processes, and key information to support the internal audit process.

risk appetite – The types and amount of risk that an organization is willing to accept in the pursuit of its strategies and objectives.

risk assessment – The identification and analysis of risks relevant to the achievement of an organization's objectives. The significance of risks is typically assessed in terms of impact and likelihood.

risk management – A process to identify, assess, manage, and control potential events or situations to provide reasonable assurance regarding the achievement of the organization's objectives.

risk tolerance – Acceptable variations in performance related to achieving objectives.

root cause – Core issue or underlying reason for the difference between the criteria and the condition of an activity under review.

senior management – The highest level of executive management of an organization that is ultimately accountable to the board for executing the organization's strategic decisions, typically a group of persons that includes the chief executive officer or head of the organization.

should – As used in the Considerations for Implementation of the Global Internal Audit Standards, the word "should" describes practices that are preferred but not required.

significance – The relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors, such as magnitude, nature, relevance, and impact. Professional judgment assists internal auditors when evaluating the significance of matters within the context of the relevant objectives.

stakeholder – A party with a direct or indirect interest in an organization’s activities and outcomes. Stakeholders may include the board, management, employees, customers, vendors, shareholders, regulatory agencies, financial institutions, external auditors, the public, and others.

workpapers – Documentation of the internal audit work done when planning and performing engagements. The documentation provides the supporting information for engagement findings and conclusions.

Domain I: Purpose of Internal Auditing



The purpose statement is intended to assist internal auditors and internal audit stakeholders in understanding and articulating the value of internal auditing.

Purpose Statement

Internal auditing strengthens the organization’s ability to create, protect, and sustain value by providing the board and management with independent, risk-based, and objective assurance, advice, insight, and foresight.

Internal auditing enhances the organization’s:

- Successful achievement of its objectives.
- Governance, risk management, and control processes.
- Decision-making and oversight.
- Reputation and credibility with its stakeholders.
- Ability to serve the public interest.

Internal auditing is most effective when:

- It is performed by competent professionals in conformance with the Global Internal Audit Standards, which are set in the public interest.
- The internal audit function is independently positioned with direct accountability to the board.
- Internal auditors are free from undue influence and committed to making objective assessments.

Domain II: Ethics and Professionalism



The principles and standards in the Ethics and Professionalism domain of the Global Internal Audit Standards replace The IIA’s former Code of Ethics and outline the behavioral expectations for professional internal auditors; including chief audit executives, other individuals, and any entities that provide internal audit services. Conformance with these principles and standards instills trust in the profession of internal auditing, creates an ethical culture within the internal audit function, and provides the basis for reliance on internal auditors’ work and judgment.

All internal auditors are required to conform with the standards of ethics and professionalism. If internal auditors are expected to abide by other codes of ethics, behavior, or conduct, such as those of an organization, conformance with the principles and standards of ethics and professionalism contained herein is still expected. The fact that a particular behavior is not mentioned in these principles and standards does not preclude it from being considered unacceptable or discreditable.

While internal auditors are responsible for their own conformance, the chief audit executive is expected to support and promote conformance with the principles and standards in the Ethics and Professionalism domain by providing opportunities for training and guidance. The chief audit executive may choose to delegate certain responsibilities for managing conformance but retains accountability for the ethics and professionalism of the internal audit function.

Principle 1 Demonstrate Integrity

Internal auditors demonstrate integrity in their work and behavior.

Integrity is behavior characterized by adherence to moral and ethical principles, including demonstrating honesty and the courage to act based on relevant facts, even when facing pressure to do otherwise, or when doing so might create potential adverse personal or organizational consequences. In simple terms, internal auditors are expected to tell the truth and do the right thing, even when it is uncomfortable or difficult.

Integrity is the foundation of the other principles of ethics and professionalism, including objectivity, competency, due professional care, and confidentiality. The integrity of internal auditors is essential to establishing trust and earning respect.

Standard 1.1 Honesty and Professional Courage

Requirements

Internal auditors must perform their work with honesty and professional courage.

Internal auditors must be truthful, accurate, clear, open, and respectful in all professional relationships and communications, even when expressing skepticism or offering an opposing viewpoint. Internal auditors must not make false, misleading, or deceptive statements, nor conceal or omit findings or other pertinent information from communications. Internal auditors must disclose all material facts known to them that, if not disclosed, could affect the organization's ability to make well-informed decisions.

Internal auditors must exhibit professional courage by communicating truthfully and taking appropriate action, even when confronted by dilemmas and difficult situations.

The chief audit executive must maintain a work environment where internal auditors feel supported when expressing legitimate, evidence-based engagement results, whether favorable or unfavorable.

Considerations for Implementation

Internal auditors should enhance their awareness and understanding of honesty and professional courage by seeking opportunities to obtain ethics-related continuing professional education. While education helps create awareness in hypothetical situations, workplace training, mentorship, and supervision allow internal auditors to learn and practice skills such as tact and respectful communication, which are needed to apply professional courage effectively in real situations. When internal auditors encounter situations that challenge their honesty or professional courage, they should discuss the circumstances with a supervisor to determine the best course of action.

To support internal auditors, the chief audit executive should arrange opportunities for education and training as well as discussions of hypothetical and real situations that require making ethical choices. Effective management of the internal audit function includes proper engagement supervision and periodic reviews of internal auditors' performance. For example, when approving work programs or reviewing engagement workpapers, an engagement supervisor may provide appropriate guidance to help internal auditors address potential or encountered situations that could pose a threat to their honesty and integrity. As part of evaluating internal auditors' performance, the chief audit executive may solicit feedback about their honesty and professional courage from the stakeholders with whom internal auditors interact.

Examples of Evidence of Conformance

- A training plan that includes ethics education and training.
- Documents that evidence internal auditors' attendance or participation in ethics education and training.
- Performance evaluations showing honesty and professional courage as objectives.
- Feedback from key stakeholders regarding the honesty and courage of internal auditors.

Standard 1.2 Organization's Ethical Expectations

Requirements

Internal auditors must understand, respect, meet, and contribute to the legitimate and ethical expectations of the organization and must be able to recognize conduct that is contrary to those expectations.

Internal auditors must encourage and promote an ethics-based culture in the organization. If internal auditors identify behavior within the organization that is inconsistent with the organization's ethical expectations, they must report the concern according to applicable policies and procedures.

Considerations for Implementation

An organization's ethical expectations usually are documented in a code of ethics, code of conduct, and/or policies related to professional behavior and ethical conduct. Such policies, along with the organization's objectives and processes for promoting its ethics and values, provide the basis for an ethical culture.

The internal audit plan may include assessments of the organization's ethics-related risks to determine whether existing policies and control processes adequately and effectively address those risks. For example, the organization's policies may specify the criteria and process for handling and communicating about ethics-related issues, the parties that should receive the communication, and the protocol for escalating unresolved issues. The chief audit executive also should determine a methodology for addressing ethical issues and discuss the methodology with the board and senior management to ensure alignment of the approaches.

Internal auditors should consider ethics-related risks and controls during individual engagements. If internal auditors identify behavior within the organization that is inconsistent with the organization's ethical expectations, they should communicate the concerns according to the methodology established by the chief audit executive, which takes into account the organization's policies and processes as well as laws and/or regulations.

If internal auditors determine that a member of senior management has behaved in a manner that is inconsistent with the organization's ethical expectations – whether documented in a code of conduct, code of ethics, or otherwise – the chief audit executive should report the violation to the board. If an ethics-related concern involves the chairman of the board, the chief audit executive should report the concern to the entire board. Internal auditors should follow up on ethics-related issues involving the board or senior management and validate that appropriate actions were taken to address the concern.

Examples of Evidence of Conformance

- Records of internal auditors' participation in workshops, training events, or meetings where ethical expectations and issues were discussed.
- Forms signed by individual internal auditors acknowledging their understanding of and commitment to follow ethics policies and procedures of the organization.

- The internal audit plan, work program, or workpapers showing consideration of the organization's ethics-related objectives, risks, and control processes.
- Documentation demonstrating that ethical issues were communicated to the board, senior management, and regulators in accordance with the organization's policies and relevant laws and/or regulations.

Standard 1.3 Legal and Ethical Behavior

Requirements

Internal auditors must not engage in or be a party to any activity that is illegal or discreditable to the organization or the profession of internal auditing or that may harm the organization or its employees.

Internal auditors must understand and abide by the laws and/or regulations relevant to the industry and jurisdictions in which the organization operates, including making disclosures as required.

If internal auditors identify legal or regulatory violations, they must report such incidents to individuals or entities that have the authority to take appropriate action, as specified in laws, regulations, and applicable policies and procedures.

Considerations for Implementation

If organizational policies are not sufficiently specific to address the situations that the internal audit function encounters, then the chief audit executive may develop and implement a methodology that specifies the actions internal auditors are expected to take in response to legal or regulatory violations of which they become aware. The methodology may include a procedure for validating that adequate actions are taken to address the violation.

The chief audit executive should establish a methodology to ensure that internal auditors are properly supervised, conform with the Global Internal Audit Standards, and behave in alignment with ethical and professional values.

Examples of discreditable behaviors include but are not limited to:

- Bullying, harassment, or discrimination.
- Lying, deceiving, or intentionally misleading others, including misrepresenting one's competency or qualifications (such as claiming to hold a certification or displaying credentials when the designation is expired or inactive, has been revoked, or was never earned).
- Intentionally issuing false reports or communications or allowing or encouraging others to do so, including minimizing, concealing, or omitting internal audit findings, conclusions, or ratings from engagement reports or overall assessments.
- Overlooking illegal activities that the organization may tolerate or condone.
- Soliciting or disclosing confidential information without proper authorization.
- Performing internal audit services with undeclared impairments to objectivity or independence.

- Stating that the internal audit function is operating in conformance with the Global Internal Audit Standards when the assertion is not supported.
- Failing to accept responsibility for mistakes.

Examples of Evidence of Conformance

- Records of internal auditors' participation in training on laws, regulations, and ethical and professional behavior.
- Internal auditors' acknowledgments of their understanding of and commitment to act in accordance with relevant legal and professional expectations.
- Documented methodologies for handling illegal or discreditable behavior by internal auditors and legal or regulatory violations by individuals within the organization.
- Documented communication between internal auditors and their supervisors and/or legal counsel that address concerns about illegal or unprofessional actions.
- Sign-off that workpapers were reviewed.
- Final engagement communication, if applicable.

Principle 2 Maintain Objectivity

Internal auditors maintain an impartial and unbiased attitude when performing internal audit services and making decisions.

Objectivity is an unbiased mental attitude that allows internal auditors to make professional judgments, fulfill their responsibilities, and achieve the Purpose of Internal Auditing without compromise. An independently positioned internal audit function supports internal auditors' ability to maintain objectivity.

Standard 2.1 Individual Objectivity

Requirements

Internal auditors must maintain professional objectivity when performing all aspects of internal audit services. Professional objectivity requires internal auditors to apply an impartial and unbiased mindset and make judgments based on balanced assessments of all relevant circumstances.

Internal auditors must be aware of and manage potential biases.

Considerations for Implementation

Objectivity means internal auditors perform their work without compromise or subordination of judgment to others. The Global Internal Audit Standards, along with the policies established and training arranged by the chief audit executive, support objectivity by providing requirements, procedures, and guidance that set forth a systematic and disciplined approach for gathering and evaluating information to provide a balanced assessment of the activity under review. Training may help internal auditors to better understand objectivity-impairing scenarios and how best to address them.

Making objective assessments requires an impartial mindset, free from bias and undue influence, which is essential to providing objective assurance and advice to the board and senior management. Internal auditors should develop awareness of the ways in which situations, activities, and relationships may affect their ability to be objective.

Internal auditors should consider the human tendency to misinterpret information or make assumptions or mistakes, which impairs the ability to evaluate information and evidence objectively.

Examples of biases include but are not limited to:

- Self-review bias – lack of critical perspective when reviewing one’s own work, which may lead to overlooking mistakes or shortcomings.
- Familiarity bias – making assumptions based on past experiences, which may compromise professional skepticism.
- Prejudice or unconscious bias – misinterpretation of information, based on predisposed ideas about culture, ethnicity, gender, ideology, race, or other characteristics, which may cause inaccurate judgments.

Examples of Evidence of Conformance

- References in the internal audit charter to internal auditors’ responsibility for maintaining objectivity.
- Policies and procedures related to objectivity.
- Records of planned and completed objectivity training, including list of participants.
- Attestation forms that confirm internal auditors’ awareness of objectivity’s importance and the obligation to disclose any potential impairments.
- Documented disclosures of potential conflicts of interest or other impairments to objectivity.
- Notes from supervisory reviews and mentoring of internal auditors.

Standard 2.2 Safeguarding Objectivity

Requirements

Internal auditors must recognize and avoid or mitigate actual, potential, and perceived impairments to objectivity.

Internal auditors must not accept any tangible or intangible item, such as a gift, reward, or favor, that may impair or be presumed to impair objectivity.

Internal auditors must avoid conflicts of interest and must not be unduly influenced by their own interests or the interests of others, including senior management or others in a position of authority, or by the political environment or other aspects of their surroundings.

When performing internal audit services:

- Internal auditors must refrain from assessing specific activities for which they were previously responsible. Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous 12 months.
- If the internal audit function is to provide assurance services where it had previously performed advisory services, the chief audit executive must confirm that the nature of the advisory services does not impair objectivity and must assign resources such that individual objectivity is managed. Assurance engagements for functions over which the chief audit executive has responsibility must be overseen by an independent party outside the internal audit function.
- If internal auditors are to provide advisory services relating to activities for which they had previous responsibilities, they must disclose potential impairments to the party requesting the services before accepting the engagement.

The chief audit executive must establish methodologies to address impairments to objectivity. Internal auditors must discuss impairments and take appropriate actions according to relevant methodologies.

Considerations for Implementation

Objectivity is impaired when situations, activities, or relationships may influence internal auditors' judgments and decisions in a way that may change internal audit findings and conclusions. Impairments to objectivity may exist, in fact or appearance, even when they are unintended. Objectivity may be perceived by others to be impaired, even when no impairment has occurred in fact. Internal auditors should apply judgment regarding additional circumstances that may impair or be presumed to impair objectivity.

Conflicts of interest are situations in which an internal auditor has a competing professional or personal interest that may make it difficult to fulfill internal audit duties impartially. Conflicts of interest may create the appearance of impropriety that could undermine the confidence in an internal auditor, the internal

audit function, and the internal audit profession, even if no unethical or improper acts result.

Examples of conflicts of interest include situations, activities, and relationships that may, in fact or appearance:

- Oppose or compete with the interests of the organization.
- Create the potential for undue financial or other personal gain.
- Be established solely to protect oneself from potential or actual loss or harm.
- Be nepotistic or provide favoritism to certain individuals.

The internal audit function's methodologies should specify the expectations and requirements for internal auditors related to:

- Receiving gifts, favors, and rewards.
- Identifying situations that may impair objectivity.
- Responding appropriately upon becoming aware of an impairment.

Many organizations have a policy related to the acceptance of gifts, rewards, and favors, such as a policy limiting the value of gifts that can be accepted. Because of the importance of objectivity in the practice of internal auditing, the chief audit executive may have a policy that is more restrictive than that of the organization. Internal auditors should follow the more restrictive policy and carefully consider whether accepting a gift, reward, or favor may be perceived to affect their judgment or be given in exchange for producing favorable internal audit findings, conclusions, or results.

The policies of the organization and/or the internal audit function may prohibit specific activities or relationships that could create conflicts of interest. Internal auditors should be aware that close personal relationships outside work and relationships involving financial ties, such as investments, may be or appear to be conflicts of interest.

The chief audit executive should take precautions to reduce the potential impairments to objectivity that may result from the design of performance evaluations and remuneration arrangements, bonuses, and incentives. Examples of remuneration arrangements that may impair objectivity include:

- Basing performance evaluations and remuneration primarily on surveys of or input from the management of the activity under review.
- Measuring performance against the number of findings identified during engagements, the revenue growth of the activity under review, or the cost savings or job eliminations imposed upon the activity under review.
- Allowing management to provide indirect compensation in the form of gifts and gratuities.

Internal auditors should apply their understanding of objectivity and relevant policies and procedures to evaluate whether any situations, activities, or relationships may impair, or may be presumed to impair, their objectivity. The perceptions of other people should be considered.

The requirements for staffing and supervising engagements are intended to ensure that the internal auditors assigned to an engagement were not recently responsible for any aspect of the activity under review, which may bias their view, give them a vested interest in a particular outcome, or create the perception or appearance that their objectivity is impaired. For each engagement, the internal auditors performing and supervising the engagement should be independent from the activity under review.

When planning resources for an engagement, the chief audit executive or a designated supervisor should discuss the engagement with internal auditors to identify any current or potential impairments to objectivity.

The discussion should include consideration of any impairments previously disclosed.

As part of the process for supervising engagements, workpapers are reviewed to ensure findings and conclusions are adequately supported. Engagement supervision also provides opportunities for more experienced internal auditors to provide feedback and mentoring regarding potential objectivity concerns. (See also Standards 12.3 Oversee and Improve Engagement Performance and 13.5 Engagement Resources.) If an impairment is unavoidable, it should be disclosed and mitigated as described in Standard 2.3 Disclosing Impairments to Objectivity.

Examples of Evidence of Conformance

- Policies and procedures for identifying potential impairments and necessary safeguards.
- Records of objectivity training.
- Documentation through which internal auditors attest that they either have no known impairments or have disclosed potential impairments.
- Sources of feedback on the perception of internal auditors' objectivity, such as surveys of the internal audit function's stakeholders.
- Notes from supervisory reviews.
- Remuneration plan.
- Minutes of board meetings where impairments to objectivity were discussed.
- Plans showing alternative provisions to fulfill the internal audit plan activities where impairments to objectivity were unavoidable.
- Results of external quality assessments performed by an independent assessor.

Standard 2.3 Disclosing Impairments to Objectivity

Requirements

If objectivity is impaired in fact or appearance, the details of the impairment must be disclosed promptly to the appropriate parties.

If internal auditors become aware of an impairment that may affect their objectivity, they must disclose the impairment to the chief audit executive or a designated supervisor. If the chief audit executive determines that an impairment is affecting an internal auditor's ability to perform duties objectively, the chief audit executive must discuss the impairment with the management of the activity under review, the board, and/or senior management and determine the appropriate actions to resolve the situation.

If an impairment that affects the reliability or perceived reliability of the engagement findings, recommendations, and/or conclusions is discovered after an engagement has been completed, the chief audit executive must discuss the concern with the management of the activity under review, the board, senior management, and/or other affected stakeholders and determine the appropriate actions to resolve the situation. (See also Standard 11.4 Errors and Omissions.)

If the objectivity of the chief audit executive is impaired in fact or appearance, the chief audit executive must disclose the impairment to the board. (See also Standard 7.1 Organizational Independence.)

Considerations for Implementation

The requirements for disclosing impairments to objectivity are typically defined in the internal audit function's methodologies and describe the actions to be taken to address each impairment to objectivity. The general approach to disclosing and mitigating impairments to objectivity is typically determined by the chief audit executive in agreement with the board and senior management.

If an impairment to objectivity cannot be avoided, the chief audit executive may consider options to manage the impairment, including:

- Reassigning internal auditors to remove the impaired internal auditor from the engagement.
- Rescheduling an engagement to ensure it is properly staffed.
- Adjusting the scope of an engagement.
- Outsourcing the performance or supervision of the engagement.

When a concern arises during engagement planning that relates solely to the perception of an impairment, the chief audit executive may choose to discuss the concern with the management of the activity under review and/or senior management, explain why the risk exposure is minimal and how it will be managed, and document the discussion and the final decision about how to proceed.

Standard 7.1 Organizational Independence provides additional requirements and information related to the chief audit executive assuming roles or responsibilities beyond internal auditing.

Examples of Evidence of Conformance

- Internal audit methodologies for disclosing objectivity impairments.
- Documentation disclosing the presence or affirming the absence of objectivity impairments.
- Records of the disclosure of objectivity impairments and the response from and/or approval of the mitigation by appropriate parties.

Principle 3 Demonstrate Competency

Internal auditors apply the knowledge, skills, and abilities to fulfill their roles and responsibilities successfully.

Demonstrating competency requires developing and applying the knowledge, skills, and abilities to provide internal audit services. Because internal auditors provide a diverse array of services, the competencies needed by each internal auditor vary. In addition to possessing or obtaining the competencies needed to perform services, internal auditors improve the effectiveness and quality of services by pursuing professional development.

Standard 3.1 Competency

Requirements

Internal auditors must possess or obtain the competencies to perform their responsibilities successfully. The required competencies include the knowledge, skills, and abilities suitable for one's job position and responsibilities commensurate with their level of experience. Internal auditors must possess or develop knowledge of The IIA's Global Internal Audit Standards.

Internal auditors must engage only in those services for which they have or can attain the necessary competencies.

Each internal auditor is responsible for continually developing and applying the competencies necessary to fulfill their professional responsibilities. Additionally, the chief audit executive must ensure that the internal audit function collectively possesses the competencies to perform the internal audit services described in the internal audit charter or must obtain the necessary competencies. (See also Standards 7.2 Chief Audit Executive Qualifications and 10.2 Human Resources Management.)

Considerations for Implementation

Internal auditors should develop competencies related to:

- Communication and collaboration.
- Governance, risk management, and control processes.
- Business functions, such as financial management and information technology.
- Pervasive risks, such as fraud.
- Tools and techniques for gathering, analyzing, and evaluating data.
- The risks and potential impacts of various economic, environmental, legal, political, and social conditions.
- Laws, regulations, and practices relevant to the organization, sector, and industry.
- Trends and emerging issues relevant to the organization and internal auditing.
- Supervision and leadership.

To develop and demonstrate competencies, internal auditors may:

- Obtain appropriate professional credentials, such as the Certified Internal Auditor® designation and other certifications and credentials.
- Identify opportunities for improvement and competencies that need development, based on feedback provided by stakeholders, peers, and supervisors.
- Seek relevant training not only in internal audit methodologies but also on business activities relevant to the organization. Training opportunities may include enrolling in courses, working with a mentor, or being assigned new tasks under supervision during an engagement.

While internal auditors are responsible for ensuring their individual professional development and may assess their own skills and opportunities for development, the chief audit executive should support the professional development of internal auditors. The chief audit executive may establish minimum

expectations for professional development and should encourage the pursuit of professional qualifications. The chief audit executive should include funding for training and professional development in the internal audit budget and provide opportunities internally as well as externally, through continuing professional education, training, and conferences. (See also Standards 10.1 Financial Resource Management and 10.2 Human Resources Management.)

To ensure the internal audit function collectively possesses the competencies to perform the internal audit services, the chief audit executive should:

- Maintain knowledge of internal auditors' competencies to be used when assigning work, identifying training needs, and recruiting internal auditors to fill open positions.
- Participate in the performance reviews of individual internal auditors.
- Identify areas in which the competencies of the internal audit function should be improved.
- Encourage internal auditors' intellectual curiosity and invest in training and other opportunities to improve internal audit performance.
- Understand the competencies of other providers of assurance and advisory services and consider relying upon those providers as a source of additional or specialty competencies not available within the internal audit function.
- Consider contracting with an independent, external service provider when the internal audit function collectively does not possess the competencies to perform requested services.
- Effectively implement a quality assurance and improvement program.

Examples of Evidence of Conformance

- Documentation listing the certifications, education, experience, work history, and other qualifications of internal auditors.
- Internal auditors' self-assessments of their competencies and plans for professional development.
- Documentation of internal auditors' completion of continuing professional education, such as courses, conference sessions, workshops, and seminars.
- Documented performance reviews of internal auditors.
- Documented supervisory reviews of engagements, post-engagement surveys completed by internal audit stakeholders, and other forms of feedback indicating competencies exhibited by individual internal auditors and the internal audit function.
- The results of internal and external quality assessments.
- Documentation of relevant competencies necessary to fulfill the internal audit plan, an analysis of resource gaps, and the identification of the training and budget necessary to fill the gaps.
- Documentation such as an assurance map that indicates the competencies of other providers of assurance and advisory services upon which the internal audit function may rely.

Standard 3.2 Continuing Professional Development

Requirements

Internal auditors must maintain and continually develop their competencies to improve the effectiveness and quality of internal audit services. Internal auditors must pursue continuing professional development including education and training. Practicing internal auditors who have attained professional internal audit certifications must follow the continuing professional education policies and fulfill the requirements applicable to their certifications.

Considerations for Implementation

Continuing professional development may include self-study, on-the-job training, opportunities to learn new skills on special assignments (such as rotational programs), mentorship, supervisory feedback, and free and paid education. To improve the quality of performing internal audit services, internal auditors should seek opportunities to learn about trends and best practices as well as emerging topics, risks, trends, and changes that may affect the organizations for which they work and the internal audit profession.

Internal auditors are responsible for developing their competencies and should seek opportunities to learn. However, the chief audit executive is responsible for the competencies of the internal audit function and should budget and plan for opportunities to train and educate internal audit staff. For example, internal auditors can develop new knowledge when properly supervised and assigned to engagements involving processes or areas with which they have had limited experience. Internal auditors should seek and welcome opportunities for supervision and mentorship through which they can receive robust feedback, guidance, and insight.

Many professional credentials require a minimum number of hours of continuing professional education within specific periods, such as annually. The chief audit executive should consider implementing a plan that requires internal auditors to obtain specific types and quantities of continuing professional education.

Internal auditors possessing credentials, such as the Certified Internal Auditor® designation, should be aware of the specific requirements of the certifying body's policy for maintaining their credentials. Failing to fulfill such requirements may result in consequences, including jeopardizing internal auditors' permission to use the credentials. All internal auditors should develop a plan and schedule for ongoing training and education. As part of the required continuing professional education, The IIA requires holders of its certifications to complete ethics training. While this requirement is linked specifically to IIA certifications, all internal audit professionals should obtain ethics-focused continuing professional education or training regularly.

News service subscriptions, webinars, and professional events provide internal auditors with opportunities to stay abreast of current developments in the internal audit profession and industries relevant to the organizations for which they work. Training may be used to introduce new technology or changes in internal audit practices.

Professional development initiatives should include a regular review and assessment of internal auditors' career paths and needs for professional development. The chief audit executive should ensure plans and budgets for training reflect a balance between investing in developing the competencies of the internal audit function as a whole and providing internal auditors with opportunities to achieve their individual goals to grow professionally.

Examples of Evidence of Conformance

- Documented plans for attending training events, professional conferences, and other continuing professional education.
- Records of internal auditors' completed continuing professional education and credentials obtained.
- Internal auditors' performance reviews and/or plans for professional development.
- Evidence of active involvement in The IIA and other relevant professional organizations, such as volunteer service.

Principle 4 Exercise Due Professional Care

Internal auditors apply due professional care in planning and performing internal audit services.

The standards that embody exercising due professional care require:

- Conformance with the Global Internal Audit Standards.
- Consideration of the nature, circumstances, and requirements of the work to be performed.
- Application of professional skepticism to critically assess and evaluate information.

Due professional care requires planning and performing internal audit services with the diligence, judgment, and skepticism possessed by prudent and competent internal auditors. When exercising due professional care, internal auditors perform in the best interests of those receiving internal audit services but are not expected to be infallible.

Standard 4.1 Conformance with the Global Internal Audit Standards

Requirements

Internal auditors must plan and perform internal audit services in accordance with the Global Internal Audit Standards.

The internal audit function's methodologies must be established, documented, and maintained in alignment with the Standards. Internal auditors must follow the Standards and the internal audit function's methodologies when planning and performing internal audit services and communicating results.

If the Standards are used in conjunction with requirements issued by other authoritative bodies, internal audit communications must also cite the use of the other requirements, as appropriate.

If laws or regulations prohibit internal auditors or the internal audit function from conforming with any part of the Standards, conformance with all other parts of the Standards is required and appropriate disclosures must be made.

When internal auditors are unable to conform with a requirement, the chief audit executive must document and communicate a description of the circumstance, alternative actions taken, the impact of the actions, and the rationale. Requirements related to disclosing nonconformance with the Standards are described in Standards 8.3 Quality, 12.1 Internal Quality Assessment, and 15.1 Final Engagement Communication.

Considerations for Implementation

The chief audit executive should review the Standards when changes occur and align the internal audit function's methodologies accordingly. If inconsistencies exist between the Standards and requirements issued by other authoritative bodies, internal auditors and the internal audit function may be required to or may choose to conform with the more stringent requirements.

The chief audit executive or a designated engagement supervisor should ensure that engagement work programs align with the requirements of the Standards and that internal audit engagements are conducted in accordance with the Standards' requirements.

While conformance with the requirements is expected, internal auditors or the internal audit function may occasionally be unable to conform with a requirement yet may take alternative actions to achieve the related principle. Such circumstances are usually related to specific sectors, industries, and jurisdictions. By documenting the circumstance, alternative actions taken, the impact, and the rationale, the chief audit executive provides information to support the external quality assessment such that the internal audit function may be able to achieve conformance with a principle, even when conformance with a standard is not possible.

If internal auditors are unable to conform with a standard when performing an internal audit engagement, they should discuss with the chief audit executive or a designated supervisor the reason for the nonconformance and the effect of the nonconformance on the engagement. The chief audit executive or supervisor should provide guidance regarding to whom and how to communicate the nonconformance. (See Standard 15.1 Final Engagement Communication.)

Additionally, laws, regulations, internal audit methodologies, and organizational policies may provide specifications for determining when and how nonconformance is to be disclosed.

Examples of Evidence of Conformance

- Documentation of the internal audit function's methodologies and an indication of when they were last updated.
- If applicable, final engagement communications and communications with the board and senior management where nonconformance has been disclosed.

- Documentation referencing the laws and/or regulations with which internal auditors were required to comply that prevented their conformance with the Standards.
- Documentation referencing authoritative requirements to which the internal audit function adheres in addition to the Standards.
- Results of the quality assurance and improvement program.

Standard 4.2 Due Professional Care

Requirements

Internal auditors must exercise due professional care by assessing the nature, circumstances, and requirements of the services to be provided, including:

- The organization's strategy and objectives.
- The interests of those for whom internal audit services are provided and the interests of other stakeholders.
- Adequacy and effectiveness of governance, risk management, and control processes.
- Cost relative to potential benefits of the internal audit services to be performed.
- Extent and timeliness of work needed to achieve the engagement's objectives.
- Relative complexity, materiality, or significance of risks to the activity under review.
- Probability of significant errors, fraud, noncompliance, and other risks that might affect objectives, operations, or resources.
- Use of appropriate techniques, tools, and technology.

Considerations for Implementation

To perform services with due professional care requires that internal auditors consider and understand the Purpose of Internal Auditing and the nature of the internal audit services to be provided. Internal auditors should start by understanding the internal audit charter, the internal audit plan, and the factors that help determine which engagements are included in the plan. When planning and performing internal audit services, internal auditors also consider the interests of the organization's customers and other stakeholders (including the public) affected by the organization's actions. Such interests include stakeholders' expectations (such as fair and honest business practices), needs (such as safety), and potential exposure to underlying risks that may not be obviously related to the organization's strategy and objectives.

The considerations in due professional care comprise the circumstances and aspects of risk that the chief audit executive must consider when performing the risk assessment on which the internal audit plan is based. Relevant circumstances include the organization's strategy and objectives and the adequacy and effectiveness of the organization's governance, risk management, and control processes.

Additionally, internal auditors consider these circumstances relative to an activity under review during engagement planning, as described in Domain V: Performing Internal Audit Services. The complexity, materiality, and significance of risks being evaluated is relative. A risk may not be material or significant to the organization but may be material or significant in an engagement or to an activity under review.

Thus, understanding the complexity, materiality, and significance in context is necessary to properly assess relevant risks and determine which risks should be prioritized for further evaluation.

Due professional care also requires weighing the costs (such as resource requirements) of the internal audit services against the benefits that may result. For example, if the controls in an activity under review are not adequately designed, the benefits of fully evaluating the effectiveness of those controls are not likely to be worth the costs. Internal auditors seek to provide the most value or benefit for the organization's investment in internal audit services. Additionally, thorough planning requires internal auditors to consider the techniques, tools, technology, and extent and timeliness of work needed to achieve the engagement objectives most efficiently. Internal auditors, especially the chief audit executive, should consider the use of data analysis software and other technology that support the review and evaluation processes.

Proper engagement supervision and a quality assurance and improvement program promote due professional care. (See also Standards 8.3 Quality, 8.4 External Quality Assessment, and Principle 12 Enhance Quality and its standards.)

Examples of Evidence of Conformance

- Planning notes documenting the strategy and objectives of the organization and activity under review.
- Documented assessments of governance, risk management, and control processes.
- Notes showing assessment of risks including errors, noncompliance, and fraud.
- Notes from meetings or discussions of the potential costs and benefits of internal audit services and the extent and timeliness of engagement work.
- Workpapers indicating supervisory review of engagements.
- Internal auditors' performance reviews.
- Notes from meetings, training, or other discussion of due professional care.
- Feedback from stakeholders solicited through surveys or other tools.
- Internal and external assessments performed as part of the internal audit function's quality assurance and improvement program.

Standard 4.3 Professional Skepticism

Requirements

Internal auditors must exercise professional skepticism when planning and performing internal audit services.

To exercise professional skepticism, internal auditors must:

- Maintain an attitude that includes inquisitiveness.
- Critically assess the reliability of information.
- Be straightforward and honest when raising concerns and asking questions about inconsistent information.
- Seek additional evidence to make a judgment about information and statements that might be incomplete, inconsistent, false, or misleading.

Considerations for Implementation

Professional skepticism enables internal auditors to make objective judgments based on facts, information, and logic, rather than trust or belief. Skepticism is the attitude of always questioning or doubting the validity and truthfulness of claims, statements, and other information. Internal auditors apply professional skepticism when they seek evidence to support and validate statements made by management, rather than simply trusting the information presented as true or genuine without question or doubt. Professional skepticism requires curiosity and the willingness to explore beyond the surface level of a given topic.

When gathering and analyzing information, internal auditors should apply professional skepticism to determine whether information is relevant, reliable, and sufficient. If internal auditors determine that information is incomplete, inconsistent, false, or misleading, they should perform additional analyses to identify the correct and complete information needed to support engagement results. Additional validation is provided by the review and approval of workpapers and/or engagement communications by the chief audit executive or a designated engagement supervisor.

Chief audit executives should help internal auditors build their competency related to professional skepticism. Workshops and other training opportunities can help internal auditors develop and learn to apply professional skepticism and understand the importance of avoiding bias and maintaining an open and curious mindset. Internal auditors can learn to recognize information that is inconsistent, incomplete, false, and/or misleading.

Examples of Evidence of Conformance

- Records of relevant training planned and completed, including a list of participants.
- Workpapers identifying an internal auditor's approach to evaluate and validate information gathered during an engagement.
- Documentation that false or misleading information was handled as an engagement finding.
- Workpapers and engagement communications, reviewed and signed or initialed by the engagement supervisor.

Principle 5 Maintain Confidentiality

Internal auditors use and protect information appropriately.

Because internal auditors have unrestricted access to the data, records, and other information necessary to fulfill the internal audit mandate, they often receive information that is confidential, proprietary, and/or personally identifiable. (See also Principle 6 Authorized by the Board and its standards.) This includes information in physical and digital form as well as information derived from oral communication, such as formal or informal meeting discussions. Internal auditors must respect the value and ownership of information they receive by using it only for professional purposes and protecting it from unauthorized access or disclosure, internally and externally.

Standard 5.1 Use of Information

Requirements

Internal auditors must follow the relevant policies, procedures, laws, and regulations when using information. The information must not be used for personal gain or in a manner contrary or detrimental to the organization's legitimate and ethical objectives.

Considerations for Implementation

Internal auditors have unrestricted access to information to enable them to provide internal audit services without interference. However, using and handling information appropriately is the responsibility of every internal auditor. The inappropriate use and handling of information that is confidential, proprietary, and/or personally identifiable may have unintended consequences, such as reputational damage and fines for violating laws and/or regulations.

The policies and procedures of the organization and the internal audit function generally govern internal auditors' handling and use of information throughout its lifecycle, from its point of access to its collection, transfer, storage, and/or destruction. Additionally, internal auditors should be aware of and compliant with any policies and procedures related to the third-party information they may access.

The chief audit executive should discuss with internal auditors the policies, procedures, and expectations related to the appropriate use of information to which they have access. The chief audit executive may require internal auditors to acknowledge their understanding through signed attestations or other formats.

When handling sensitive and/or personal data, the internal audit function should apply appropriate digital security measures. Examples include automated controls such as passwords and encryption.

Examples of misusing information include using, selling, or releasing insider financial, strategic, or operational knowledge of the organization to inform decisions to purchase or sell stock or to create a competitive product.

Examples of Evidence of Conformance

- Effectively designed and operating controls over access to and use of information.
- Documentation of relevant policies, procedures, and training related to the proper use of information.
- Minutes from meetings during which the appropriate use of information was discussed.
- Attendance records of training on use of information.
- Documentation by which internal auditors acknowledge their understanding of relevant policies, procedures, laws, and regulations.
- Performance reviews demonstrating that relevant policies, procedures, laws, and regulations have been followed.

Standard 5.2 Protection of Information

Requirements

Internal auditors must be aware of their responsibilities for protecting information and demonstrate respect for the confidentiality, privacy, and ownership of information acquired when performing internal audit services or as the result of professional relationships.

Internal auditors must understand and abide by the laws, regulations, policies, and procedures related to confidentiality, information privacy, and information security that apply to the organization and internal audit function.

Considerations specifically relevant to the internal audit function include:

- Custody, retention, and disposal of engagement records.
- Release of engagement records to internal and external parties.
- Handling of, access to, or copies of confidential information when it is no longer needed.

Internal auditors must not disclose confidential information to unauthorized parties unless there is a legal or professional responsibility to do so.

Internal auditors must manage the risk of exposing or disclosing information inadvertently.

The chief audit executive must ensure that the internal audit function and individuals assisting the internal audit function adhere to the same protection requirements.

Considerations for Implementation

The information acquired, used, and produced by the internal audit function is protected by laws, regulations, and the policies and procedures of the organization and the internal audit function and generally cover physical and digital security and access, retention, and disposal of information.

The chief audit executive should consult with legal counsel to better understand the impact of legal and/or regulatory requirements and protections (for example, legal privilege or attorney-client privilege). The organization's policies and procedures may require that specific authorities review and approve business information before external release.

Information access may be monitored to verify whether methodologies are followed. Information may be protected from intentional or unintentional disclosure through controls such as data encryption, password protection, email distribution, restrictions on the use of social media, and restrictions on physical access. When internal auditors no longer need access to the data, digital permissions should be revoked and printed copies should be handled according to established methodologies.

Examples of confidential information that may be protected from disclosure include individual salaries and records of personnel issues.

The chief audit executive should periodically assess and confirm internal auditors' needs for access to information and whether access controls are working effectively.

Examples of Evidence of Conformance

- Documentation demonstrating application of relevant methodologies.
- Documentation regarding the implementation of mechanisms that restrict information access and mitigate the risk of circumventing prevailing controls.
- Attendance records of training on protection of information.
- Documentation by which internal auditors acknowledge their understanding of relevant policies, procedures, laws, and regulations.
- Documentation of restrictions on the distribution of workpapers and final communication.
- Documentation of authorized disclosures and distribution.
- Records of disclosures required by law or approved by legal counsel, if applicable, and/or the board and senior management.
- Signed agreements to confidentiality or nondisclosure of information.
- Performance reviews demonstrating that policies and procedures related to the protection and disclosure of information have been followed.

Domain III: Governing the Internal Audit Function



Appropriate governance arrangements are essential to enable the internal audit function to be effective. This domain outlines the requirements for chief audit executives to work closely with the board to establish the internal audit function, position it independently, and oversee its performance. This domain also outlines senior management’s responsibilities that support the board’s responsibilities and promote strong governance of the internal audit function.

While the chief audit executive is responsible for the requirements in this domain, activities of the board and senior management are essential to the internal audit function’s ability to fulfill the Purpose of Internal Auditing. These activities are identified as “essential conditions” in each standard and establish a necessary foundation for an effective dialogue between the board, senior management, and the chief audit executive, ultimately enabling an effective internal audit function.

Meeting with the Board and Senior Management

The chief audit executive must discuss this domain with the board and senior management. The discussions should focus on:

- The Purpose of Internal Auditing as articulated in Domain I: Purpose of Internal Auditing.
- The essential conditions outlined under each of the standards in Domain III: Governing the Internal Audit Function.
- The potential impact on the effectiveness of the internal audit function if the board or senior management does not provide the support outlined in the essential conditions.

The discussions are needed to inform the board and senior management about the importance of the essential conditions and to gain alignment among their respective responsibilities.

The nature and frequency of these discussions depend on the circumstances and changes in the organization. For example, the chief audit executive should discuss these essential conditions with the board and senior management if:

- The Standards change significantly or a new internal audit function is created.
- The chief audit executive is new to the role or organization.
- There are significant changes in the relationship between the board and the chief audit executive, such as a new chairperson to whom the chief audit executive reports or a change in the structure or composition of the board that affects this reporting relationship.
- There are significant changes in the structure or composition of senior management that affect the chief audit executive’s positioning within the organization.

It is important for the chief audit executive to receive input from both the board and senior management. While the board may have the ultimate responsibility to approve the internal audit mandate, charter, and other requirements outlined in this domain, senior management typically has a key role in providing input to the board and the chief audit executive. Senior management's perspective is valuable and helps support the internal audit function's positioning and authority in the organization.

Disagreements on Essential Conditions

If either the board or senior management disagrees with one or more of these essential conditions, the chief audit executive must emphasize – with examples – how absence of the condition(s) may affect the internal audit function's ability to fulfill its purpose or conform with specific standards. The chief audit executive should also discuss alternatives to the essential conditions that may provide the same results.

The chief audit executive may reach agreement with the board and senior management that one or more of the essential conditions are not necessary to conform with the Standards. In such instances, the chief audit executive must document:

- The reasons for agreeing that a particular condition is unnecessary.
- Alternative conditions that compensate for the absent conditions, to support the judgments of the board and senior management.

If the chief audit executive does not agree with the board's and/or senior management's reasons for not performing one or more of the conditions, the chief audit executive may conclude that the internal audit function cannot conform with the Standards. In such cases, the chief audit executive should document the reasons why the board and/or senior management will not perform the essential conditions. This documentation should be shared with the board and senior management to ensure clarity regarding their positions and made available to an external quality assessor.

If the chief audit executive position is open for any reason, the board should appoint one or more individuals in the interim.

Definition of Board

The glossary to the Global Internal Audit Standards defines the term "board" as the highest-level body charged with governance, such as:

- A board of directors.
- An audit committee.
- A board of governors or trustees.
- A group of elected officials or political appointees.
- Another body that has authority over the relevant governance functions.

In an organization that has more than one governing body, "board" refers to the body or bodies authorized to provide the internal audit function with the appropriate authority, role, and responsibilities.

If none of the above exists, "board" should be read as referring to the group or person that acts as the organization's highest-level governing body. Examples include the head of the organization and senior management.

If the nature of the board varies from the definition provided in the glossary, the chief audit executive should document the governing structure to which the internal audit function reports and how this structure is consistent with the definition of board. This may include environments where multiple boards exist, sometimes found in multi-national organizations or the public sector, or where a multi-tiered structure is in place.

Application of this Domain

The Standards apply to individuals and functions that provide internal audit services. Internal audit services may be provided by persons within or outside the organization for organizations that vary in purpose, size, complexity, and structure. The Standards apply whether an organization employs internal auditors directly, contracts them through an external service provider, or both. The chief audit executive's responsibilities are performed by one or more individuals designated by the board. The chief audit executive, whether employed directly by the organization or through an external service provider, is responsible for conformance with the Standards as demonstrated through the quality assurance and improvement program. In all cases, the board retains the responsibility to support and oversee the internal audit function.

Principle 6 Authorized by the Board

The board establishes, approves, and supports the mandate of the internal audit function.

The internal audit function receives its mandate from the board (or applicable law in certain public sector environments). The mandate specifies the authority, role, and responsibilities of the internal audit function and is documented in the internal audit charter. The mandate empowers the internal audit function to provide the board and senior management with objective assurance, advice, insight, and foresight. The internal audit function carries out the mandate by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of governance, risk management, and control processes throughout the organization.

Standard 6.1 Internal Audit Mandate

Requirements

The chief audit executive must provide the board and senior management with the information necessary to establish the internal audit mandate. In those jurisdictions and industries where the internal audit function's mandate is prescribed wholly or partially in laws or regulations, the internal audit charter must include the legal requirements of the mandate. (See also Standard 6.2 Internal Audit Charter and "Applying the Global Internal Audit Standards in the Public Sector.")

To help the board and senior management determine the scope and types of internal audit services, the chief audit executive must coordinate with other internal and external assurance providers to gain an understanding of each other's roles and responsibilities. (See also Standard 9.5 Coordination and Reliance.)

The chief audit executive must document or reference the mandate in the internal audit charter, which is approved by the board. (See also Standard 6.2 Internal Audit Charter.)

Periodically, the chief audit executive must assess whether changes in circumstances justify a discussion with the board and senior management about the internal audit mandate. If so, the chief audit executive must discuss the internal audit mandate with the board and senior management to assess whether the authority, role, and responsibilities continue to enable the internal audit function to achieve its strategy and accomplish its objectives.

Essential Conditions

Board

- Discuss with the chief audit executive and senior management the appropriate authority, role, and responsibilities of the internal audit function.
- Approve the internal audit charter, which includes the internal audit mandate and the scope and types of internal audit services.

Senior Management

- Participate in discussions with the board and chief audit executive and provide input on expectations for the internal audit function that the board should consider when establishing the internal audit mandate.
- Support the internal audit mandate throughout the organization and promote the authority granted to the internal audit function.

Considerations for Implementation

The chief audit executive informs the board and senior management about the characteristics of an effective internal audit function by sharing knowledge about the Standards, relevant laws and/or regulations, and the results of research into leading practices of internal audit functions.

The chief audit executive should discuss with the board and senior management the internal audit mandate and other key considerations in the internal audit charter, focusing on helping the board and senior management to understand:

- **Authority** – The internal audit function’s authority is created by its direct reporting relationship to the board. Such authority allows for free and unrestricted access to the board, as well as all activities across the organization (for example, records, personnel, and physical property).
- **Role(s)** – The primary role of the internal audit function is to conduct internal audit activities and deliver internal audit services. There may be situations where roles beyond internal auditing are part of the chief audit executive’s responsibilities, such as risk management or compliance. These nonaudit roles are discussed further in Standard 7.1 Organizational Independence.
- **Responsibilities** – An internal audit function’s responsibilities comprise its accountability and obligations to carry out its role(s), as well as the specific expectations of key stakeholders. For example, responsibilities typically include expectations regarding performance of audit services; communications; compliance with laws, regulations, and policies; conformance with the Global Internal Audit Standards; and other activities incumbent in the role.

- Scope – The scope of internal audit services covers the entire breadth of the organization for which the internal audit function is responsible for providing services. This may include all activities, assets, and personnel of the organization or may be restricted to a subset according to geography or other division. The scope may specify the nature of internal audit services (for example, assurance only or assurance and advisory, focus on financial statements, compliance with laws and/or regulations), or may specify other limitations on the coverage of internal audit services.
- Internal audit services – Internal audit services may simply be defined as assurance and advisory services or may be more specifically defined, such as performance auditing, assurance regarding internal controls over financial reporting, and investigations.

Circumstances may justify a follow-up discussion with the board and senior management on the internal audit mandate or other aspects of the internal audit charter. These conditions may include, but are not limited to:

- A notable change in the Global Internal Audit Standards.
- A significant acquisition or reorganization within the organization.
- Significant changes in the board and/or senior management.
- Significant changes to the organization’s strategies, objectives, risk profile, or the environment in which it operates.
- New laws or regulations that may affect the nature and/or scope of internal audit services.

These conditions may arise at any point during the year. However, the chief audit executive should formally consider any such changes at least annually.

The chief audit executive coordinates with the organization’s assurance providers and advises the board regarding how other functions may contribute to the internal audit mandate. By helping the board understand the roles and responsibilities of other internal and external assurance providers and regulators, the chief audit executive may provide clarity about an appropriate internal audit mandate. (See also Standard 9.5 Coordination and Reliance.)

Examples of Evidence of Conformance

- Minutes of board meetings where the mandate was discussed, which may be part of the broader approval of the internal audit charter.
- Minutes of board meetings during which any changes to the internal audit charter are discussed and approved by the board.

Standard 6.2 Internal Audit Charter

Requirements

The chief audit executive must develop and maintain an internal audit charter that specifies, at a minimum, the internal audit function's:

- Purpose of Internal Auditing.
- Commitment to adhering to the Global Internal Audit Standards.
- Mandate, including scope and types of services to be provided, and the board's responsibilities and expectations regarding management's support of the internal audit function. (See also Standard 6.1 Internal Audit Mandate.)
- Organizational position and reporting relationships. (See also Standard 7.1 Organizational Independence.)

The chief audit executive must discuss the proposed charter with the board and senior management to confirm that it accurately reflects their understanding and expectations of the internal audit function.

Essential Conditions

Board

- Discuss with the chief audit executive and senior management other topics that should be included in the internal audit charter to enable an effective internal audit function.
- Approve the internal audit charter.
- Review the internal audit charter with the chief audit executive to consider changes affecting the organization, such as the employment of a new chief audit executive or changes in the type, severity, and interdependencies of risks to the organization.

Senior Management

- Communicate with the board and chief audit executive about management's expectations that should be considered for inclusion in the internal audit charter.

Considerations for Implementation

Key requirements for the internal audit charter are outlined in Standards 6.1 Internal Audit Mandate and 7.1 Organizational Independence.

The internal audit charter should describe administrative reporting responsibilities, such as the processes for:

- Approving the internal audit function's human resources administration and budgets.
- Approving the chief audit executive's expenses.
- Reviewing the chief audit executive's performance.

Where laws or regulations specify the reporting relationship, references to such documents should be included in the charter. If laws and/or regulations comprehensively cover the requirements for a charter, they may be substituted for the formal charter.

The format of an internal audit charter may vary from one organization to another. While there are models for an internal audit charter, the chief audit executive should customize the internal audit charter to address the unique organizational aspects that may affect the internal audit mandate, scope, and internal audit services.

The chief audit executive typically presents a final draft of the internal audit charter during a board meeting to be discussed and approved.

The chief audit executive and the board should also agree on the frequency with which to review and reaffirm whether the charter's provisions continue to enable the internal audit function to accomplish its objectives. A leading practice is to review the charter periodically, reference it when questions about the internal audit mandate arise, and update it as needed.

Other topics for consideration in the internal audit charter include:

- Safeguards to objectivity and independence, including processes for addressing potential impairments, and the frequency with which those safeguards are re-evaluated to ensure they are achieving the desired result. (See also Standard 7.1 Organizational Independence.)
- Unrestricted access, including how the internal audit function accesses the data, records, information, personnel, and physical properties necessary to fulfill the internal audit mandate.
- Communications, including the nature and timing of communicating with the board and senior management.
- Audit process, including any expectations regarding communications with management in the area under review (before, during, and after an engagement) and how disagreements with management are handled.
- Quality assurance and improvement, including expectations for developing and conducting internal and external assessments of the internal audit function and communicating the results of the assessments. (See also Standards 8.3 Quality and 8.4 External Quality Assessment, and Principle 12 Enhance Quality and its standards.)
- Approvals, including any circumstances specified by the board and senior management.

Examples of Evidence of Conformance

- Minutes of the board meetings during which the internal audit charter was discussed and approved.
- The approved charter and the date approved.
- Minutes of board meetings that include evidence that the chief audit executive periodically reviews the internal audit charter with the board and senior management.

Standard 6.3 Board and Senior Management Support

Requirements

The chief audit executive must provide the board and senior management with the information needed to support and promote recognition of the internal audit function throughout the organization.

The chief audit executive must coordinate the internal audit function's board communications with senior management to support the board's ability to fulfill its requirements.

Essential Conditions

Board

- Champion the internal audit function to enable it to fulfill the Purpose of Internal Auditing and pursue its strategy and objectives.
- Work with senior management to enable the internal audit function's unrestricted access to the data, records, information, personnel, and physical properties necessary to fulfill the internal audit mandate.
- Support the chief audit executive through regular, direct communications.
- Demonstrate support by:
 - Specifying that the chief audit executive reports to a level within the organization that allows the internal audit function to fulfill the internal audit mandate.
 - Approving the internal audit charter, internal audit plan, budget, and resource plan.
 - Making appropriate inquiries of senior management and the chief audit executive to determine whether any restrictions on the internal audit function's scope, access, authority, or resources limit the function's ability to carry out its responsibilities effectively.
 - Meeting periodically with the chief audit executive in sessions without senior management present.

Senior Management

- Support recognition of the internal audit function throughout the organization.
- Work with the board and management throughout the organization to enable the internal audit function's unrestricted access to the data, records, information, personnel, and physical properties necessary to fulfill the internal audit mandate.

Considerations for Implementation

The board and the chief audit executive should meet at least annually without management present. Holding such meetings quarterly is considered a leading governance practice. Such meetings often occur as a private or closed session following a normally scheduled board meeting.

The chief audit executive should also have other interactions with the board between official meetings to keep the board apprised of the internal audit function's progress. The types of information and the level of detail to be communicated by the chief audit executive to the board should be agreed upon by both parties.

As discussed in Standard 7.1 Organizational Independence, it is important that the chief audit executive report administratively to an individual in the organization who can support the internal audit function's pursuit of the internal audit mandate. A leading practice is for the chief audit executive to report to the chief executive officer or equivalent.

While it is critical for the chief audit executive to meet privately with the board, the chief audit executive should inform senior management of such discussions, unless doing so is inappropriate (for example, if a private conversation relates to an impropriety by a member of senior management).

The chief audit executive should work with senior management to understand each other's reporting requirements to the board to help enable timely, clear, and transparent reporting that is not redundant or conflicting. This helps the board exercise its oversight responsibilities and enables a collaborative working relationship between the chief audit executive and senior management.

The board's approval of the internal audit budget and resource plan is important as these demonstrate that the internal audit function has the resources necessary to complete its planned audit activities. The details provided to the board are subject to the judgment of the chief audit executive.

Examples of Evidence of Conformance

- Minutes of board meetings indicating board review and approval of the internal audit plan, internal audit budget, and resource plan.
- Minutes or other documentation of communication between the board and senior management in which the internal audit function's unrestricted access was discussed.
- An agreed-upon matrix or similar documentation showing what information should be communicated by the chief audit executive to the board and senior management and the expected frequency.

Principle 7 Positioned Independently

The board establishes and protects the internal audit function's independence and qualifications.

The board is responsible for enabling the independence of the internal audit function. Independence is defined as the freedom from conditions that impair the internal audit function's ability to carry out its responsibilities in an unbiased manner. The internal audit function is only able to fulfill the Purpose of Internal Auditing when the chief audit executive reports directly to the board, is qualified, and is positioned at a level within the organization that enables the internal audit function to discharge its services and responsibilities without interference.

Standard 7.1 Organizational Independence

Requirements

The chief audit executive must confirm to the board the organizational independence of the internal audit function at least annually. This includes communicating incidents where independence may have been impaired and the actions or safeguards employed to address the impairment.

The chief audit executive must document in the internal audit charter the reporting relationships and organizational positioning of the internal audit function, as determined by the board. (See also Standard 6.2 Internal Audit Charter.)

The chief audit executive must discuss with the board and senior management any current or proposed roles and responsibilities that have the potential to impair the internal audit function's independence, either in fact or appearance. The chief audit executive must advise the board and senior management of the types of safeguards to manage actual, potential, or perceived impairments.

When the chief audit executive has one or more ongoing roles beyond internal auditing, the responsibilities, nature of work, and established safeguards must be documented in the internal audit charter. If those areas of responsibility are subject to internal auditing, alternative processes to obtain assurance must be established, such as contracting with an objective, competent external assurance provider that reports independently to the board.

When the chief audit executive's nonaudit responsibilities are temporary, assurance for those areas must be provided by an independent third party during the temporary assignment and for the subsequent 12 months. Also, the chief audit executive must establish a plan to transition those responsibilities to management.

If the governing structure does not support organizational independence, the chief audit executive must document the characteristics of the governing structure limiting independence and any safeguards that may be employed to achieve this principle.

Essential Conditions

Board

- Establish a direct reporting relationship with the chief audit executive and the internal audit function to enable the internal audit function to fulfill its mandate.
- Authorize the appointment and removal of the chief audit executive.
- Provide input to senior management to support the performance evaluation and remuneration of the chief audit executive.
- Provide the chief audit executive with opportunities to discuss significant and sensitive matters with the board, including meetings without senior management present.

- Require that the chief audit executive be positioned at a level in the organization that enables internal audit services and responsibilities to be performed without interference from management. This positioning provides the organizational authority and status to bring matters directly to senior management and escalate matters to the board when necessary.
- Acknowledge the actual or potential impairments to the internal audit function's independence when approving roles or responsibilities for the chief audit executive that are beyond the scope of internal auditing.
- Engage with senior management and the chief audit executive to establish appropriate safeguards if chief audit executive roles and responsibilities impair or appear to impair the internal audit function's independence.
- Engage with senior management to ensure that the internal audit function is free from interference when determining its scope, performing internal audit engagements, and communicating results.

Senior Management

- Position the internal audit function at a level within the organization that enables it to perform its services and responsibilities without interference, as directed by the board.
- Recognize the chief audit executive's direct reporting relationship with the board.
- Engage with the board and the chief audit executive to understand any potential impairments to the internal audit function's independence caused by nonaudit roles or other circumstances and support the implementation of appropriate safeguards to manage such impairments.
- Provide input to the board on the appointment and removal of the chief audit executive.
- Solicit input from the board on the performance evaluation and remuneration of the chief audit executive.

Considerations for Implementation

Internal auditing is most effective when the internal audit function is directly accountable to the board (also known as “functionally reporting to the board”), rather than directly accountable to management for the activities over which it provides assurance and advice. A direct reporting relationship between the board and the chief audit executive enables the internal audit function to perform internal audit services and communicate engagement results without interference or undue limitations. Examples of interference include management failing to provide requested information in a timely manner and restricting access to information, personnel, or physical properties. Limiting budgets or resources in a way that interferes with the internal audit function's ability to operate effectively is an example of undue limitation. (See also Standard 11.3 Communicating Results.)

While the chief audit executive reports functionally to the board, the administrative reporting relationship is often to a member of management. This enables access to senior management and the authority to challenge management's perspectives. To achieve this authority, it is leading practice for the chief audit executive to report administratively to the chief executive officer or equivalent, although reporting to

another senior officer may achieve the same objective if appropriate safeguards are implemented. Subsidiary, branch, and divisional heads of the internal audit function should be able to communicate directly with the senior management responsible for those areas.

When evaluating whether independence is impaired, the chief audit executive should consider reporting relationships, roles, and responsibilities to determine whether actual, potential, or perceived impairments exist. Additionally, through discussions with the concerned parties, the chief audit executive may be able to resolve any situations of perceived impairments that do not in fact affect the internal audit function's ability to perform its responsibilities independently.

Situations that may introduce impairments to independence include:

- The chief audit executive lacks direct communication or interaction with the board.
- Management attempts to limit the scope of the internal audit services that were previously approved by the board and documented in the internal audit charter.
- Management attempts to restrict access to the data, records, information, personnel, and physical properties required to perform the internal audit services.
- Management pressures internal auditors to suppress or change internal audit findings.
- The budget for the internal audit function is reduced to a level that leaves the function unable to fulfill its responsibilities as outlined in the internal audit charter.
- An assurance engagement is performed by the internal audit function or supervised by the chief audit executive in a functional area for which the chief audit executive is responsible, has oversight, or is otherwise able to exert significant influence.
- The internal audit function performs, or the chief audit executive supervises, assurance services related to an activity that is managed by a senior executive (non-CEO) to which the chief audit executive reports administratively. For example, the chief audit executive reports to the chief financial officer and is responsible for auditing treasury, a function that also reports to the chief financial officer.

In addition to the responsibilities of managing the internal audit function, the chief audit executive is sometimes asked to take on nonaudit roles that may impair or appear to impair the internal audit function's independence. Examples include situations such as:

- A new regulatory requirement prompts an immediate need to develop controls and other risk management activities to ensure compliance.
- The chief audit executive has the most appropriate expertise to adapt existing risk management activities to a new business segment or geographic market.
- The organization's resources are too constrained or the organization is too small to afford a separate compliance function.

When discussing nonaudit roles and responsibilities with the board and senior management, the chief audit executive should identify appropriate safeguards depending on whether the roles are permanent or temporary and intended to be transferred to management.

When the board agrees that an impairment has occurred, the chief audit executive should suggest to the board and senior management potential safeguards to manage the risks. It is also important to specify a timeline for transitioning temporary nonaudit responsibilities to management.

The requirement is to have assurance activities overseen by an independent third party for the subsequent 12 months after the chief audit executive completes temporary responsibilities in that area. However, judgment should be used as there may be circumstances whereby the perception of impairment may exist beyond 12 months. The chief audit executive should discuss with the board and senior management whether 12 months is appropriate or not.

To determine the other parties to which disclosure of existing impairments must be made, the chief audit executive should consider the nature of the impairment, the impairment's impact on the reliability of the results of internal audit services, and the expectations of relevant stakeholders. If a potential impairment of the internal audit function's independence is discovered after an engagement has been completed that may affect the reliability or perceived reliability of the engagement findings, recommendations, and/or conclusions, the chief audit executive should discuss the concern with the management of the activity under review, the board, senior management, and/or other affected stakeholders and determine the appropriate actions to resolve the situation. (See also Standards 2.3 Disclosing Impairments to Objectivity and 11.4 Errors and Omissions.)

Before a chief audit executive is hired, the board should be involved in the recruitment and appointment process. For example, the board may discuss the qualifications and competencies necessary to lead the internal audit function and perform any additional roles and responsibilities expected by the organization. Additionally, the board should consider reviewing candidates' résumés and participating in interviews before a candidate is selected.

Examples of Evidence of Conformance

- The internal audit charter, which documents the internal audit function's reporting relationships.
- Meeting minutes or other evidence of the chief audit executive's direct communication with the board and senior management regarding potential impairments to independence and planned safeguards.
- Board meeting minutes or other documentation showing that the chief audit executive confirmed with the board the ongoing independence of the internal audit function or discussed impairments affecting the internal audit function's ability to fulfill its mandate and the safeguards to manage the impairments.
- The internal audit charter documenting board approval of long-term nonaudit roles and responsibilities and corresponding safeguards to independence, including the expected duration of the roles, responsibilities, and safeguards and how the effectiveness of the safeguards will be evaluated periodically.
- Documented methodologies to be followed when an impairment is suspected or identified.
- Formal action plans that outline specific safeguards to address independence concerns.
- Documentation of assurance services to be provided by other internal or external providers as a safeguard to independence.
- Minutes or other documentation evidencing the board's approval of the appointment or removal of the chief audit executive.

Standard 7.2 Chief Audit Executive Qualifications

Requirements

The chief audit executive must help the board understand the qualifications and competencies of a chief audit executive that are necessary to manage the internal audit function. The chief audit executive facilitates this understanding by providing information and examples of common and leading qualifications and competencies.

The chief audit executive must maintain and enhance the qualifications and competencies necessary to fulfill the roles and responsibilities expected by the board. (See also Principle 3 Demonstrate Competency and its standards.)

Essential Conditions

Board

- Review the requirements necessary for the chief audit executive to manage the internal audit function, as described in Domain IV: Managing the Internal Audit Function.
- Approve the chief audit executive's roles and responsibilities and identify the necessary qualifications, experience, and competencies to carry out these roles and responsibilities.
- Engage with senior management to appoint a chief audit executive with the qualifications and competencies necessary to manage the internal audit function effectively and ensure the quality performance of internal audit services.

Senior Management

- Engage with the board to determine the chief audit executive's qualifications, experience, and competencies.
- Enable the appointment, development, and remuneration of the chief audit executive through the organization's human resources processes.

Considerations for Implementation

The board collaborates with senior management to determine which competencies and qualifications the organization expects in a chief audit executive. The competencies may vary according to the internal audit mandate, the complexity and specific needs of the organization, the organization's risk profile, and the industry and jurisdiction within which the organization operates, among other factors. The desired competencies and qualifications are typically documented in a job description and include:

- A comprehensive understanding of the Global Internal Audit Standards and leading internal audit practices.
- Experience building and managing an effective internal audit function by recruiting, hiring, and training internal auditors and helping them develop relevant competencies.
- Certified Internal Auditor® designation or other relevant professional education, certifications, and credentials.
- Leadership experience.
- Industry or sector experience.

While this list includes ideal competencies and qualifications, the chief audit executive may be selected for other qualities or areas of expertise that are supplemented by the competencies of other members of the internal audit function, especially when the chief audit executive has entered the position from a different role, industry, or sector. In such cases, the chief audit executive should work collaboratively with knowledgeable members of the internal audit function and network with others in the profession to gain relevant experience.

The board may review and approve the job description for the chief audit executive to ensure it reflects the expected qualifications and competencies.

The board should encourage the chief audit executive to pursue continuing professional education, membership in professional associations, professional certifications, and other opportunities for professional development. (See also Principle 3 Demonstrate Competency and its standards.)

Given the importance of the chief audit executive role, a succession plan should be developed to identify internal or external candidates for replacing the chief audit executive. Such plans should be aligned with the organization's overall succession-planning process and be shared with the board and senior management.

Examples of Evidence of Conformance

- Documented approval by the board of the chief audit executive's job description and/or appointment or other evidence that the board evaluated the qualifications and competencies required for the chief audit executive's role.
- The chief audit executive's professional education plans and evidence of completion.
- Documented participation in professional associations.
- Documented succession-planning conversations with the board, senior management, and/or the organization's human resources function.

Principle 8 Overseen by the Board

The board oversees the internal audit function to ensure the function's effectiveness.

Board oversight is essential to enable the overall effectiveness of the internal audit function. Achieving this principle requires collaborative and interactive communication between the board and the chief audit executive as well as the board's support in ensuring the internal audit function obtains sufficient resources to fulfill the internal audit mandate. Additionally, the board receives assurance about the quality of the performance of the chief audit executive and the internal audit function through the quality assessment and improvement program, including the board's direct review of the results of the external quality assessment.

Standard 8.1 Board Interaction

Requirements

The chief audit executive must provide the board with the information needed to conduct its oversight responsibilities. This information may be specifically requested by the board or may be, in the judgment of the chief audit executive, valuable for the board to exercise its oversight responsibilities.

The chief audit executive must report to the board and senior management:

- The internal audit plan and budget and subsequent significant revisions to them. (See also Standards 6.3 Board and Senior Management Support and 9.4 Internal Audit Plan.)
- Changes potentially affecting the mandate or charter. (See also Standards 6.1 Internal Audit Mandate and 6.2 Internal Audit Charter.)
- Potential impairments to independence. (See also Standard 7.1 Organizational Independence.)
- Results of internal audit services, including conclusions, themes, assurance, advice, insights, and monitoring results. (See also Standards 11.3 Communicating Results, 14.5 Engagement Conclusions, and 15.2 Confirming the Implementation of Recommendations or Action Plans.)
- Results from the quality assurance and improvement program. (See also Standards 8.3 Quality, 8.4 External Quality Assessment, 12.1 Internal Quality Assessment, and 12.2 Performance Measurement.)

There may be instances when the chief audit executive disagrees with senior management or other stakeholders on the scope, findings, or other aspects of an engagement that may affect the ability of the internal audit function to execute its responsibilities. In such cases, the chief audit executive must provide the board with the facts and circumstances to allow the board to consider whether, in its oversight role, it should intervene with senior management or other stakeholders.

Essential Conditions

Board

- Communicate with the chief audit executive to understand how the internal audit function is fulfilling its mandate.
- Communicate the board's perspective on the organization's strategies, objectives, and risks to assist the chief audit executive with determining internal audit priorities.
- Set expectations with the chief audit executive for:
 - The frequency with which the board wants to receive communications from the chief audit executive.
 - The criteria for determining which issues should be escalated to the board, such as significant risks that exceed the board's risk tolerance.

- The process for escalating matters of importance to the board.
- Gain an understanding of the effectiveness of the organization’s governance, risk management, and control processes based on the results of internal audit engagements and discussions with senior management.
- Discuss with the chief audit executive disagreements with senior management or other stakeholders and provide support as necessary to enable the chief audit executive to perform the responsibilities outlined in the internal audit mandate.

Senior Management

- Communicate senior management’s perspective on the organization’s strategies, objectives, and risks to assist the chief audit executive with determining internal audit priorities.
- Assist the board in understanding the effectiveness of the organization’s governance, risk management, and control processes.
- Work with the board and the chief audit executive on the process for escalating matters of importance to the board.

Considerations for Implementation

To provide the board with the information needed to exercise its oversight responsibilities, two-way communication is needed. The chief audit executive may use a variety of communication methods such as written and oral reports and presentations, formal meetings, and informal discussions. The chief audit executive may document the board’s expectations formally in the internal audit methodologies. Periodically, the chief audit executive should confirm with the board that the frequency, nature, and content of communications meet the board’s expectations and help the board achieve its oversight responsibilities.

The frequency of communication between the board and the chief audit executive should consider the need for timely communication about significant issues. The chief audit executive should seek information from the board about its perspectives and expectations related to understanding and oversight of not just financial risk management but also a broad range of nonfinancial governance and risk management concerns including, for example, strategic initiatives, cybersecurity, health and safety, sustainability, business resilience, and reputation.

To identify the issues the chief audit executive escalates beyond senior management, criteria may be established outlining the significance or materiality that exceeds the risk tolerance. The criteria should be linked to a process for the chief audit executive to follow to escalate communications from management to the board. Typically, disagreements between the chief audit executive and senior management should be discussed with senior management to ensure the information presented to the board is accurate and reflects management’s perspective.

Typically, formal board meetings allow formal communication at least quarterly. Additionally, the chief audit executive and board members often communicate between meetings as needed, sometimes informally.

Examples of Evidence of Conformance

- Board agendas and meeting minutes documenting the nature, topics, and frequency of discussions with the chief audit executive.
- Presentations made by the chief audit executive to the board.
- Internal audit communications to board members.
- Documentation of the criteria for identifying issues to be brought to the attention of the board and a process for communicating or escalating such issues.

Standard 8.2 Resources

Requirements

The chief audit executive must evaluate whether internal audit resources are sufficient to fulfill the internal audit mandate and achieve the internal audit plan. If not, the chief audit executive must develop a strategy to obtain sufficient resources and inform the board about the impact of insufficient resources and how any resource shortfalls will be addressed.

Essential Conditions

Board

- Collaborate with senior management to provide the internal audit function with sufficient resources to fulfill the internal audit mandate and achieve the internal audit plan.
- Discuss with the chief audit executive, at least annually, the sufficiency, both in numbers and capabilities, of internal audit resources to fulfill the internal audit mandate and achieve the internal audit plan.
- Consider the impact of insufficient resources on the internal audit mandate and plan.
- Engage with senior management and the chief audit executive on remedying the situation if the resources are determined to be insufficient.

Senior Management

- Engage with the board to provide the internal audit function with sufficient resources to fulfill the internal audit mandate and achieve the internal audit plan.
- Engage with the board and the chief audit executive on any issues of insufficient resources and how to remedy the situation.

Considerations for Implementation

To analyze the sufficiency of the resources necessary to fulfill the internal audit mandate and achieve the plan, the chief audit executive may perform a gap analysis between the resources available within the internal audit function and those needed to perform internal audit services. (See also Principle 10 Manages Resources and its standards.) The chief audit executive's strategy should provide a resource plan, which may include a budget request, and should consider options for staffing the internal audit function and using technology to perform services. This plan may also include a cost-benefit analysis of the various approaches to present to the board.

Although a discussion of resources between the board and the chief audit executive typically occurs at least annually in connection with presentation of the internal audit plan, having a quarterly discussion is a leading practice. The discussion should include considering the options to achieve the desired internal audit coverage, including outsourcing or using guest auditors, as well as implementing technology to improve the internal audit function's efficiency and effectiveness.

Examples of Evidence of Conformance

- Agendas, meeting minutes, and communications between the chief audit executive and the board and/or senior management, documenting discussions of the sufficiency of internal audit resources.
- Internal audit resource plans indicating the sufficiency of resources needed to achieve the internal audit plan.
- Budget requests pertaining to internal audit resources.
- Documentation of gap analyses between the internal audit plan and available resources.
- Documentation of a cost-benefit analysis.
- Documentation of the chief audit executive's resourcing strategy.

Standard 8.3 Quality

Requirements

The chief audit executive must develop, implement, and maintain a quality assurance and improvement program that covers all aspects of the internal audit function. The program includes two types of assessments:

- External assessments. (See also Standard 8.4 External Quality Assessment.)
- Internal assessments. (See also Standard 12.1 Internal Quality Assessment.)

At least annually, the chief audit executive must communicate the results of the internal quality assessment to the board and senior management. The results of the external quality assessments must be reported when completed. In both cases, such communications include:

- The internal audit function's conformance with the Standards and achievement of performance objectives.
- If applicable, compliance with laws and/or regulations relevant to internal auditing.
- If applicable, plans to address the internal audit function's deficiencies and opportunities for improvement.

Essential Conditions

Board

- Discuss with the chief audit executive the quality assurance and improvement program, as outlined in Domain IV: Managing the Internal Audit Function.
- Approve the internal audit function's performance objectives at least annually. (See also Standard 12.2 Performance Management.)

- Assess the effectiveness and efficiency of the internal audit function. Such an assessment includes:
 - Reviewing the internal audit function’s performance objectives, including its conformance with the Standards, laws and regulations; ability to meet the internal audit mandate; and progress towards completion of the internal audit plan.
 - Considering the results of the internal audit function’s quality assurance and improvement program.
 - Determining the extent to which the internal audit function’s performance objectives are being met.

Senior Management

- Provide input on the internal audit function’s performance objectives.
- Participate with the board in an annual assessment of the chief audit executive and internal audit function.

Considerations for Implementation

The chief audit executive’s communications to the board and senior management regarding the internal audit function’s quality assurance and improvement program should include:

- The scope, frequency, and results of internal and external quality assessments conducted under the direction of, or with the assistance of, the chief audit executive.
- Action plans that address deficiencies and opportunities for improvement. Actions should be agreed upon with the board.
- Progress toward completing the agreed-upon actions.

An assessment of the internal audit function’s quality may consider:

- The level of contribution to the improvement of governance, risk management, and control processes.
- Productivity of internal audit staff (for example, planned hours compared to actual hours on projects or time used on audit projects compared to administrative time).
- Compliance with internal audit laws and/or regulations.
- Cost efficiency of the internal audit processes.
- Strength of relationships with senior management and other key stakeholders.
- Other performance measures. (See also Standard 12.2 Performance Measurement.)

Examples of Evidence of Conformance

- Agendas and minutes from board meetings documenting discussions with the chief audit executive about the internal audit function’s quality assurance and improvement program.
- Chief audit executive presentations and other communications covering the results of the quality assessments and status of action plans to address any opportunities for improvement.
- Quality assurance and improvement program workpapers or other evidence demonstrating the completion of related activities.

Standard 8.4 External Quality Assessment

Requirements

The chief audit executive must develop a plan for an external quality assessment and discuss the plan with the board. The external assessment must be performed at least once every five years by a qualified, independent assessor or assessment team. The requirement for an external quality assessment may also be met through a self-assessment with independent validation.

When selecting the independent assessor or assessment team, the chief audit executive must ensure at least one person holds an active Certified Internal Auditor® designation.

Essential Conditions

Board

- Discuss with the chief audit executive the plans to have an external quality assessment of the internal audit function conducted by an independent, qualified assessor or assessment team.
- Collaborate with senior management and the chief audit executive to determine the scope and frequency of the external quality assessment.
- Consider the responsibilities and regulatory requirements of the internal audit function and the chief audit executive, as described in the internal audit charter, when defining the scope of the external quality assessment.
- Review and approve the chief audit executive's plan for the performance of an external quality assessment. Such approval should cover, at a minimum:
 - The scope and frequency of assessments.
 - The competencies and independence of the external assessor or assessment team.
 - The rationale for choosing to conduct a self-assessment with independent validation instead of an external quality assessment.
- Require receipt of the complete results of the external quality assessment or self-assessment with independent validation directly from the assessor.
- Review and approve the chief audit executive's action plans to address identified deficiencies and opportunities for improvement, if applicable.
- Approve a timeline for completion of the action plans and monitor the chief audit executive's progress.

Senior Management

- Collaborate with the board and the chief audit executive to determine the scope and frequency of the external quality assessment.
- Review the results of the external quality assessment, collaborate with the chief audit executive and board to agree on action plans that address identified deficiencies and opportunities for improvement, if applicable, and agree on a timeline for completion of the action plans.

Considerations for Implementation

The board and chief audit executive may determine that it is appropriate to conduct an external assessment more frequently than every five years. There are several reasons to consider a more frequent review, including changes in leadership (for example, senior management or the chief audit executive), significant changes in internal audit methodologies, the merger of two or more internal audit functions, or significant staff turnover. Additionally, some organizations, such as those in highly regulated industries may prefer or be required to increase the frequency or scope of the external quality assessments.

The external quality assessment should include a comprehensive review of the adequacy of the internal audit function's:

- Conformance with the Global Internal Audit Standards.
- Mandate, charter, strategy, methodologies, processes, risk assessment, and internal audit plan.
- Compliance with applicable laws and/or regulations.
- Performance criteria and measures as well as assessment results.
- Competencies and due professional care, including the sufficient use of tools and techniques, and focus on continual development.
- Qualifications and competencies, including those of the chief audit executive role, as defined by the organization's job description and hiring profile.
- Integration into the organization's governance processes, including the relationships among those involved in positioning the internal audit function to operate independently.
- Contribution to the organization's governance, risk management, and control processes.
- Contribution to the improvement of the organization's operations and ability to attain its objectives.
- Ability to meet expectations articulated by the board, senior management, and stakeholders.

In addition to the requirement that at least one member of the external assessment team be a Certified Internal Auditor[®], other important qualifications of the assessment team to consider include:

- Experience with and knowledge of the Standards and leading internal audit practices.
- Experience as a chief audit executive or comparable senior level of internal audit management.
- Experience in the organization's industry or sector.
- Previous experience performing external quality assessments.
- Completion of external quality assessment training recognized by The Institute of Internal Auditors.
- Attestation by assessment team members that they have no conflicts of interest, in fact or appearance.

The chief audit executive should consider potential impairments to the independence of assessors driven by past, present, or anticipated future relationships with the organization, its personnel, or its internal audit function. If a potential assessor is a former employee of the organization, the length of time the assessor has been independent should be evaluated. Examples of potential impairments include:

- External audits of financial statements.
- Assistance to the internal audit function.
- Personal relationships.
- Previous or planned participation in internal quality assessments.
- Advisory services in governance, risk management, and control processes; financial reporting; or other areas.

Individuals from another department of the organization, although organizationally separate from the internal audit function, are not considered independent for the purpose of conducting an external assessment. Likewise, individuals from a related organization (for example, a parent organization, an affiliate in the same group of entities, or an entity with regular oversight, supervision, or quality assurance responsibilities with respect to the subject organization) are not considered independent. In the public sector, internal audit functions in separate entities within the same tier of government are not considered independent if they report to the same chief audit executive.

Reciprocal peer assessments between two organizations are not considered independent. However, assessments rotated among three or more peer organizations – organizations within the same industry, regional association, or other affinity group – may be considered independent. Care should be exercised to ensure that independence and objectivity are not impaired and that all team members are able to exercise their responsibilities fully.

A self-assessment with independent validation typically includes:

- A comprehensive and fully documented internal assessment that emulates the external quality assessment process in terms of evaluating the internal audit function's conformance with the Standards.
- Validation by a qualified, independent external quality assessor or assessment team. The independent validation should determine that the internal assessment was conducted completely and accurately.
- Benchmarking, leading practices, and interviews with key stakeholders, such as board members, senior management, and operational management.

Examples of Evidence of Conformance

- Board meeting minutes where the chief audit executive's external quality assessment plan is discussed and approved by the board.
- Formal external quality assessment report prepared and validated by a qualified, independent assessor.
- Presentations to the board by external assessors covering the results of the external quality assessment.
- Chief audit executive presentations to the board covering external assessment results and action plans, as appropriate.

Domain IV: Managing the Internal Audit Function



The chief audit executive is responsible for managing the internal audit function in accordance with the internal audit charter and Global Internal Audit Standards. This responsibility includes strategic planning, obtaining and deploying resources, building relationships, communicating with stakeholders, and ensuring and enhancing the performance of the function.

The individual responsible for managing the internal audit function is expected to conform with the Standards including performing the responsibilities described in this domain whether the individual is directly employed by the organization or contracted through an external service provider. The specific job title and responsibilities may vary across organizations.

The chief audit executive may delegate appropriate responsibilities to other qualified professionals in the internal audit function but retains ultimate accountability.

The direct reporting relationship between the board and the chief audit executive enables the internal audit function to fulfill its mandate. (See also Standard 7.1 Organizational Independence.) In addition, the chief audit executive typically has an administrative reporting line to the highest-ranking person in senior management, such as the chief executive officer, to support day-to-day activities and establish the status and authority necessary to ensure the results of the internal audit services are given due consideration.

Principle 9 Plan Strategically

The chief audit executive plans strategically to position the internal audit function to fulfill its mandate and achieve long-term success.

Planning strategically requires the chief audit executive to understand the internal audit mandate and the organization's governance, risk management, and control processes. A properly resourced and positioned internal audit function develops and implements a strategy to support the organization's success. In addition, the chief audit executive creates and implements methodologies to guide the internal audit function and develop the internal audit plan.

Standard 9.1 Understanding Governance, Risk Management, and Control Processes

Requirements

To develop an effective internal audit strategy and plan, the chief audit executive must understand the organization's governance, risk management, and control processes.

To understand governance processes, the chief audit executive must consider how the organization:

- Establishes strategic objectives and makes strategic and operational decisions.
- Oversees risk management and control.
- Promotes an ethical culture.
- Delivers effective performance management and accountability.
- Structures its management and operating functions.
- Communicates risk and control information throughout the organization.
- Coordinates activities and communications among the board, internal and external providers of assurance services, and management.

To understand risk management and control processes, the chief audit executive must consider how the organization identifies and assesses significant risks and selects appropriate control processes. This includes understanding how the organization identifies and manages the following key risk areas:

- Reliability and integrity of financial and operational information.
- Effectiveness and efficiency of operations and programs.
- Safeguarding of assets.
- Compliance with laws and/or regulations.

Considerations for Implementation

The chief audit executive's understanding is developed by gathering information broadly and viewing it comprehensively. Sources of information include discussions with the board and senior management, reviews of board and senior management minutes and presentations, communications and workpapers from internal audit engagements, and assessments and reports completed by other providers of assurance and advisory services.

Understanding Governance Processes

The chief audit executive should be well informed about leading governance principles, globally accepted governance frameworks and models, and professional guidance specific to the industry and sector within which the organization operates. Based on this knowledge, the chief audit executive should identify whether any of these have been implemented in the organization and should gauge the maturity of the organization's governance processes. The organization's governance structure, processes, and practices may be affected by unique organizational characteristics such as its type, size, complexity, structure, and process maturity as well as the legal and/or regulatory requirements to which the organization is subject.

The chief audit executive may review board and committee charters and agendas and minutes from their meetings to gain additional insight into the role the board plays in the organization's governance, especially regarding strategic and operational decision-making.

The chief audit executive may speak with individuals in key governance roles (for example, the board chair, top elected or appointed official in a governmental organization, chief ethics officer, human resources officer, chief compliance officer, and chief risk officer) to gain a clearer understanding of the organization's processes and assurance activities. The chief audit executive may review the reports and/or results of previously completed governance reviews, paying particular attention to any identified concerns.

Understanding Risk Management Processes

The chief audit executive should understand globally accepted risk management principles, frameworks, and models as well as professional guidance specific to the industry and sector within which the organization operates. The chief audit executive should gather information to assess the maturity of the organization's risk management processes, including identifying whether the organization has defined its risk appetite and implemented a risk management strategy and/or framework. Discussions with the board and senior management help the chief audit executive understand their perspectives and priorities related to the organization's risk management.

To gather risk information, the chief audit executive should review recently completed risk assessments and related communications issued by senior and operational management, those charged with risk management, external auditors, regulators, and other internal and external providers of assurance services.

Understanding Control Processes

The chief audit executive should become familiar with globally accepted control frameworks and consider those used by the organization. For each identified organizational objective, the chief audit executive should develop and maintain a broad understanding of the organization's control processes and their effectiveness. The chief audit executive may develop an organizationwide risk and control matrix to:

- Document identified risks that may affect the ability to achieve organizational objectives.
- Indicate the relative significance of risks.
- Understand key controls in organizational processes.
- Understand which controls have been reviewed for design adequacy and deemed to be operating as intended.

A thorough understanding of the organization's governance, risk management, and control processes enables the chief audit executive to identify and prioritize opportunities to provide internal audit services that may enhance the organization's success. The identified opportunities form the basis of internal audit strategy and plan.

Examples of Evidence of Conformance

- Documentation of the chief audit executive's inquiry, gathering, review, and consideration of the governance, risk management, and control frameworks and processes used by the organization, including:
 - The organization's board and committee charters, which outline the governance expectations of the organization.
 - Assessment of laws, regulations, and other requirements related to governance, risk management, and control processes.

- Review of the agendas and minutes from board meetings documenting discussion of the organization’s governance, risk management, and control processes, including the strategies, approaches, and oversight of each.
- Meeting minutes or notes from discussions between the chief audit executive and those in the organization with roles in governance and risk management.
- Review of the organization’s risk appetite statement or documented communication with the board and senior management regarding the organization’s risk appetite and risk tolerance.
- Documentation of orientation or training provided to internal audit staff regarding the organization’s governance, risk management, and control processes.
- Review of business strategies and business plans.
- Review of communications received from regulators.
- Demonstrated understanding of the organization’s risk and control matrix.

Standard 9.2 Internal Audit Strategy

Requirements

The chief audit executive must develop and implement a strategy for the internal audit function that supports the strategic objectives and success of the organization and aligns with the expectations of the board, senior management, and other key stakeholders.

An internal audit strategy is a plan of action designed to achieve a long-term or overall objective. The internal audit strategy must include a vision, strategic objectives, and supporting initiatives for the internal audit function. An internal audit strategy helps guide the internal audit function toward the fulfillment of the internal audit mandate.

The chief audit executive must review the internal audit strategy with the board and senior management periodically.

Considerations for Implementation

To develop the vision and strategic objectives of the internal audit strategy, the chief audit executive should start by considering the organization’s strategy and objectives and the expectations of the board and senior management. The chief audit executive also may consider the types of services to be performed and the expectations of other stakeholders served by the internal audit function, as agreed in the internal audit charter.

The vision describes the desired future state – in the next three to five years, for example – of the internal audit function and provides direction to help the function fulfill its mandate. The vision is also designed to inspire internal auditors to continuously improve. The strategic objectives define achievable targets to attain the vision. The supporting initiatives outline more specific tactics and steps for achieving each strategic objective.

One approach to developing a strategy is to identify and analyze the internal audit function's strengths, weaknesses, opportunities, and threats – an exercise designed to determine ways to improve the function. Another approach is to perform a gap analysis between the current and the desired states of the internal audit function.

The initiatives supporting the strategy should include:

- Opportunities to help internal auditors develop their competencies.
- The introduction and application of technology when it improves the internal audit function's efficiency and effectiveness.
- Opportunities to improve the internal audit function as a whole.

When the chief audit executive determines the strategic objectives and supporting initiatives, the actions to be taken should be prioritized and assigned target dates.

The internal audit strategy should be adjusted whenever changes occur in the organization's strategic objectives or stakeholders' expectations. Factors that may prompt a more frequent review of the internal audit strategy include:

- Changes in the organization's strategy or the maturity of its governance, risk management, and control processes.
- Changes in the organization's policies and procedures or the laws and/or regulations to which the organization is subject.
- Changes in members of the board, senior management, or the chief audit executive.
- Results of internal and external assessments of the internal audit function.

The chief audit executive may design a timeline for implementation of the internal audit strategy and related performance measures. (See also Standard 12.2 Performance Measurement.) A periodic review of the internal audit strategy should include a discussion of the internal audit function's progress on initiatives with the board and senior management.

Examples of Evidence of Conformance

- Documented internal audit strategy, including vision, strategic objectives, and supporting initiatives.
- Minutes or correspondence from meetings with the board, senior management, and/or other stakeholders where expectations were discussed.
- Notes showing the information and analyses that informed the strategy.
- Internal audit methodologies for producing and reviewing the internal audit strategy and monitoring its implementation.
- Results of periodic self-assessments or other reviews of the progress on initiatives.

Standard 9.3 Methodologies

Requirements

The chief audit executive must establish methodologies to guide the internal audit function in a systematic and disciplined manner to implement the internal audit strategy, develop the internal audit plan, and conform with the Standards. The chief audit executive must evaluate the effectiveness of the methodologies and update them as necessary to improve the internal audit function and respond to significant changes that affect the function. The chief audit executive must provide internal auditors with training on the methodologies. (See also Principles 13 Plan Engagements Effectively, 14 Conduct Engagement Work, and 15 Communicate Engagement Results and Monitor Action Plans, and their standards.)

Considerations for Implementation

The form, content, level of detail, and degree of documentation of methodologies may differ based on the size, structure, complexity, industry/regulatory expectations, and maturity of the organization and the internal audit function. Methodologies may exist as individual documents (such as standard operating procedures) or may be collected into an internal audit manual or integrated into internal audit management software. Internal audit methodologies supplement the Standards by providing specific instructions and criteria that help internal auditors implement the Standards and perform services with quality. Additionally, internal audit methodologies describe processes and procedures for communicating, handling operational and administrative matters, and overseeing the internal audit function. (See also Standards 14.3 Evaluation of Findings, 14.5 Engagement Conclusions, and 15.2 Confirming the Implementation of Recommendations or Action Plans.)

Documented methodologies that are most likely to be necessary to implement the strategy, achieve the internal audit plan, and conform with Standards include the internal audit function's approach to:

- Assessing risks for the organization and for each engagement.
- Developing and updating the internal audit plan.
- Determining the balance between assurance and advisory engagements.
- Coordinating with internal and external assurance providers.
- Managing external service providers, when used.
- Performing internal audit engagements.
- Communicating throughout internal audit services.
- Retaining and releasing engagement records and other information, consistent with the organization's guidelines and pertinent regulatory or other requirements.
- Monitoring and confirming the implementation of internal auditors' recommendations or management's action plans.
- Assuring the quality and improvement of the internal audit function.
- Developing performance measurements to assess progress toward meeting objectives.
- Performing additional services identified in the internal audit mandate.

The effectiveness of the internal audit methodologies should be reviewed during assessments of the internal audit function's quality. Reasons for updating established methodologies include significant changes in professional internal audit standards and guidance, legal and/or regulatory requirements, technology, and department size or composition. A change of the chief audit executive or board chairman may also warrant the review and revision of internal audit methodologies.

Examples of Evidence of Conformance

- Documentation of software program incorporating methodologies.
- Meeting agendas and minutes, emails, signed acknowledgments, training schedules, or similar documentation evidencing communications to internal audit personnel about internal audit methodologies.
- Documentation of quality reviews of audit work demonstrating that methodologies are followed.
- Footnotes or endnotes within the methodologies or internal audit manual citing the standard that the content is addressing.
- Documentation of updates to the methodologies.

Standard 9.4 Internal Audit Plan

Requirements

The chief audit executive must create an internal audit plan that supports the achievement of the organization's objectives.

The chief audit executive must base the internal audit plan on a documented assessment of the organization's strategies, objectives, and risks. This assessment must be informed by input from the board and senior management as well as the chief audit executive's understanding of the organization's governance, risk management, and control processes. The assessment must be performed at least annually.

The internal audit plan must:

- Consider the internal audit mandate and the full range of agreed-to internal audit services.
- Specify internal audit services that support the evaluation and improvement of the organization's governance, risk management, and control processes.
- Consider coverage of information technology governance, fraud risk, the effectiveness of the organization's compliance and ethics programs, and other high-risk areas.
- Identify the necessary human, financial, and technological resources necessary to complete the plan.
- Be dynamic and updated timely in response to changes in the organization's business, risks operations, programs, systems, controls, and organizational culture.

The chief audit executive must review and revise the internal audit plan as necessary and communicate timely to the board and senior management:

- The impact of any resource limitations on internal audit coverage.
- The rationale for not including an assurance engagement in a high-risk area or activity in the plan.
- Conflicting demands for services between major stakeholders, such as high-priority requests based on emerging risks and requests to replace planned assurance engagements with advisory engagements.
- Limitations on scope or restrictions on access to information.

The chief audit executive must discuss the internal audit plan, including significant interim changes, with the board and senior management. The plan and significant changes to the plan must be approved by the board.

Considerations for Implementation

This standard requires an organizationwide risk assessment to be completed at least annually as the basis for the plan. However, the chief audit executive should keep continuously apprised of risk information, updating the risk assessment and internal audit plan accordingly. If the organization's environment is dynamic, the internal audit plan may need to be updated as frequently as every six months, quarterly, or even monthly. The size, complexity, and type of changes occurring in the organization relative to the maturity of the organization's governance, risk management, and control processes should be considered when determining the appropriate level of effort to update the risk assessment.

One approach to preparing the internal audit plan is to organize potentially auditable units within the organization into an audit universe to facilitate the identification and assessment of risks. An audit universe is most useful when it is based on an understanding of the organization's objectives and strategic initiatives and aligned with the organization's structure or risk framework. Auditable units may include business units, processes, programs, and systems. The chief audit executive can link those organizational units to key risks in preparation for a comprehensive risk assessment and the identification of assurance coverage throughout the organization. This process enables the chief audit executive to prioritize the risks to be evaluated further during internal audit engagements.

To strive to ensure that the audit universe and risk assessment cover the organization's key risks, the internal audit function should independently review and validate the key risks that were identified within the organization's risk management system. The internal audit function should only rely on management's information about risks if it has concluded that the organization's risk management processes are effective.

To complete the organizationwide risk assessment, the chief audit executive should consider objectives and strategies not just at the broad organizational level but also at the level of specific auditable units. Additionally, the chief audit executive should give due consideration to risks – such as those related to ethics, fraud, information technology, third-party relationships, and noncompliance with regulatory requirements – that may be tied to more than one business unit or process and may require more complex evaluation.

To support this risk assessment, the chief audit executive may gather information from recently completed internal audit engagements as well as discussions with members of the board and senior management. (See also Standards 9.1 Understanding Governance, Risk Management, and Control Processes and 11.3 Communicating Results.) The chief audit executive may implement a methodology for continuously assessing risks. Risks should be considered not only in terms of negative effects and barriers to achieving objectives but also in terms of opportunities that enhance the organization's ability to achieve its objectives.

The chief audit executive should develop a process to identify and assess significant, new, and emerging risks that should be considered for coverage in the audit plan. For example, resource limitations may make it impossible for the internal audit function to assess every risk in the audit universe annually. In such cases, the chief audit executive may need to increase reliance on sources of risk information such as management's risk assessments, meetings with the board and senior management, and the results of previous engagements and other audit work.

To create the internal audit plan, the chief audit executive considers the level of risk identified across each of the auditable units relative to the known level of control effectiveness. Also influencing the internal audit plan are requests made by the board and senior management, the assurance coverage expected throughout the organization, engagements required by laws or regulations, and the internal audit function's ability to rely on the work of other assurance providers. The chief audit executive should plan to reevaluate reliance periodically.

When developing the internal audit plan, the chief audit executive should consider the following:

- Engagements required by laws or regulations.
- Engagements critical to the organization's mission or strategy.
- Areas and activities with significant levels of risk.
- Whether all significant risks have sufficient coverage by assurance providers.
- Advisory and ad hoc requests.
- The time and resources required for each potential engagement.
- Each engagement's potential benefits to the organization, such as the engagement's potential to contribute to the improvement of the organization's governance, risk management, and control processes.

To schedule internal audit engagements, the chief audit executive should consider:

- The organization's operational priorities.
- Schedule of external audit engagements and regulatory reviews.
- Competencies and availability of internal auditors.
- Ability to access the activity under review.

The proposed internal audit plan should include:

- The resources and hours available for engagements compared to other administrative and nonaudit activities or initiatives focused on improving the internal audit function.
- The list of proposed engagements and related analysis, specifying the degree to which the engagements are:
 - Assurance or advisory.
 - Focused on certain departments, units, or objectives of the organization.
 - Predominately addressing financial, compliance, operational, cybersecurity, or other objectives.

- The rationale for selecting each proposed engagement; for example, significance of risk, organizational theme or trend (root cause), regulatory requirement, or time since last engagement.
- General purpose and preliminary scope of each proposed engagement.
- A percentage of hours to be reserved for contingencies and ad hoc requests.
- The next set of engagements that would have been performed if additional resources were available. Discussion regarding these engagements may help the board assess the adequacy of resources available to the internal audit function.

The chief audit executive, the board, and senior management should agree upon the criteria that define the significant changes that require a revision of the audit plan. The agreed-upon criteria and protocol should be incorporated into the internal audit function's methodologies. Examples of significant changes include canceling or postponing engagements related to significant risks or critical strategic objectives. If risks arise that necessitate revisions to the plan before a formal discussion with the board can be scheduled, the board should be informed of the changes immediately, and a formal approval should occur as soon as possible.

Examples of Evidence of Conformance

- Approved internal audit plan.
- Documented risk assessment and prioritization, including the inputs upon which the plan is based.
- Minutes of meetings in which the chief audit executive discussed with the board and senior management the audit universe, organizationwide risk assessment, internal audit plan, and the criteria and protocol for handling significant changes to the plan.
- Notes documenting discussions to gather information to inform the organizationwide risk assessment and internal audit plan.
- Documented list of those to whom the internal audit plan was distributed.
- Documented methodologies for organizationwide risk assessment and protocol for handling significant changes.

Standard 9.5 Coordination and Reliance

Requirements

The chief audit executive must coordinate with internal and external providers of assurance services and consider relying upon their work. Coordination of services minimizes duplication of efforts, highlights gaps in coverage of key risks, and enhances the overall value added by providers.

If unable to achieve an appropriate level of coordination, the chief audit executive must raise any concerns with senior management and, if necessary, the board.

When the internal audit function relies on the work of other assurance service providers, the chief audit executive must document the basis for that reliance and is still responsible for the conclusions reached by the internal audit function.

Considerations for Implementation

The chief audit executive should develop a methodology for evaluating other providers of assurance and advisory services that includes a basis for relying upon their work. The evaluation should consider the providers' roles, responsibilities, organizational independence, competency, and objectivity, as well as the due professional care applied to their work. The chief audit executive should understand the objectives, scope, and results of the work performed.

The chief audit executive should identify the organization's assurance and advisory service providers by communicating with senior management and reviewing the organizational reporting structure and board meeting agendas or minutes. Internal providers of assurance and advice include functions that may report to or be part of senior management, such as compliance, environmental, financial control, health and safety, information security, legal, risk management, and quality assurance. External assurance providers may report to senior management, external stakeholders, or the chief audit executive.

Examples of coordination include:

- Synchronizing the nature, extent, and timing of planned work.
- Establishing a common understanding of assurance techniques, methods, and terminology.
- Providing access to one another's work programs and reports.
- Using management's risk management information to provide joint risk assessments.
- Creating a shared risk register or list of risks.
- Combining results for joint reporting.

The process of coordinating assurance activities varies by organization, from informal in small organizations to formal and complex in large or heavily regulated organizations. The chief audit executive considers the organization's confidentiality requirements before meeting with the various providers to gather the information necessary to coordinate services. Frequently, the providers share the objectives, scope, and timing of upcoming engagements and the results of prior engagements. The providers also discuss the potential for relying on one another's work.

One method to coordinate assurance coverage is to create an assurance map, or a matrix of the organization's risks and the internal and external providers of assurance services that cover those risks. The assurance map links identified significant risk categories with relevant sources of assurance and provides an evaluation of the level of assurance for each risk category. Because the map is comprehensive, it exposes gaps and duplications in assurance coverage, enabling the chief audit executive to evaluate the sufficiency of assurance services in each risk area. The results can be discussed with the other assurance providers so that the parties may reach an agreement about how to coordinate activities. In a combined assurance approach, the chief audit executive coordinates the internal audit function's assurance engagements with other assurance providers to reduce the frequency and redundancy of engagements, maximizing the efficiency of assurance coverage.

The chief audit executive may choose to rely on the work of other providers for various reasons, such as to assess specialty areas outside the internal audit function's expertise, to decrease the amount of testing needed to complete an engagement, and to enhance risk coverage beyond the resources of the internal audit function.

To determine whether the internal audit function may rely on the work of another provider, the methodology should consider the provider's:

- Potential or actual conflicts of interest and whether disclosures were made.
- Reporting relationships and the potential impacts of this arrangement.
- Relevance and validity of professional experience, qualifications, and certifications.
- Methodology and the due professional care applied in planning, supervising, documenting, and reviewing the work.
- Findings and conclusions and whether they are reasonable, based on sufficient, reliable, and relevant evidence.

After evaluating the work of another assurance provider, the chief audit executive may determine that the internal audit function cannot rely upon the work. Internal auditors may either retest the work and gather additional information or independently perform assurance services.

If the internal audit function intends to rely upon the work of another assurance provider on an ongoing or long-term basis, the parties should document the agreed-upon relationship and specifications for the assurance to be provided and the testing and evidence required to support the assurance.

Examples of Evidence of Conformance

- Communications regarding distinct assurance and advisory roles and responsibilities, which may be documented in the notes from meetings with individual providers of assurance and advisory services or in minutes of meetings with the board and senior management.
- Assurance maps and/or combined assurance plans that identify which provider is responsible for assurance services in each area.
- Documentation and implementation of the methodology to determine whether to rely on a provider's work.
- Documented agreements with other assurance providers confirming the specifications of the assurance work they will perform.

Principle 10 Manage Resources

The chief audit executive manages resources to implement the internal audit function's strategy and achieve its plan and mandate.

Managing resources requires obtaining and deploying financial, human, and technological resources effectively. The chief audit executive needs to obtain the resources required to perform internal audit responsibilities and deploy the resources according to the methodologies established for the internal audit function.

Standard 10.1 Financial Resource Management

Requirements

The chief audit executive must manage the internal audit function's financial resources.

The chief audit executive must develop a budget that enables the successful implementation of the internal audit strategy and achievement of the plan. The budget includes the resources necessary for the function's operation, including training and acquisition of technology and tools. The chief audit executive must manage the day-to-day activities of the internal audit function effectively and efficiently, in alignment with the budget.

The chief audit executive must seek budget approval from the board. The chief audit executive must communicate promptly the impact of insufficient financial resources to the board and senior management.

Considerations for Implementation

The chief audit executive should follow the budget processes established by the organization. Whether the internal audit function is insourced or outsourced, an adequate budget should still be approved by the board.

Periodically, the chief audit executive should review the planned budget compared to the actual budget and analyze significant variances to determine whether adjustments are needed. The budget may include reserves for unexpected but necessary changes to the internal audit plan. If an audit function's budget is established within a larger budget managed by another department, business unit, or authority, the chief audit executive still should understand the funds allocated to the internal audit function, track spending, and monitor the sufficiency of the financial resources deployed in the internal audit function.

If significant additional resources are needed due to unforeseen circumstances, the chief audit executive should discuss the circumstances with the board and senior management promptly.

Examples of Evidence of Conformance

- Documentation of the internal audit plan against the budget, forecast, and actual expenses.
- Minutes of meetings in which the chief audit executive discussed the internal audit budget with the board and senior management.
- Board meeting minutes discussing the internal audit function's budget and approval.

Standard 10.2 Human Resources Management

Requirements

The chief audit executive must establish an approach to recruit, develop, and retain internal auditors who are qualified to successfully implement the internal audit strategy and achieve the internal audit plan.

The chief audit executive must strive to ensure that human resources are appropriate, sufficient, and effectively deployed to achieve the approved internal audit plan. *Appropriate* refers to the mix of knowledge, skills, and abilities; *sufficient* refers to the quantity of resources; and *effective deployment* refers to assigning resources in a way that optimizes the achievement of the internal audit plan.

The chief audit executive must communicate with the board and senior management regarding the appropriateness and sufficiency of the internal audit function's human resources. If the function lacks appropriate and sufficient human resources to achieve the internal audit plan, the chief audit executive must determine how to obtain the resources or communicate timely to the board and senior management the impact of the limitations. (See also Standard 8.2 Resources.)

The chief audit executive must evaluate the competencies of individual internal auditors within the internal audit function and encourage professional development. The chief audit executive must collaborate with internal auditors to help them develop their individual competencies through training, supervisory feedback, and/or mentoring. (See also Standard 3.1 Competency.)

Considerations for Implementation

The structure and approach to resourcing the internal audit function should align with the internal audit charter and support the achievement of the internal audit function's strategy and implementation of the internal audit plan.

In formulating an approach for managing the internal audit function's human resources, the chief audit executive should:

- Consider organizational characteristics, such as structure and complexity, geographic complexities, diversity of cultures and languages, and volatility of the risk environment in which the organization operates.
- Consider the internal audit budget and the cost effectiveness and flexibility of various staffing approaches (for example, hiring an employee or contracting with an external service provider).
- Understand the options for obtaining the human resources needed to fulfill the internal audit charter and achieve the internal audit plan.
- Communicate with the board and senior management to agree upon an approach.
- Consider succession planning for the chief audit executive position including discussions with the board.

To support an approach for recruiting competent internal auditors, the chief audit executive should:

- Collaborate with the human resources function to develop job specifications or descriptions that align with Standard 3.1 Competency and relevant professional competency frameworks.
- Consider the benefits of recruiting internal auditors with diverse backgrounds, experiences, and perspectives and creating an inclusive work environment that allows for effective collaboration and sharing of diverse views.
- Participate in recruitment activities, such as job fairs, student events, professional networking opportunities, and interviews with prospective candidates for hire.

To develop and retain internal auditors, the chief audit executive should:

- Implement compensation, promotion, and recognition activities that support the achievement of the internal audit function's strategic objectives.
- Implement methodologies for training, evaluating performance, improving competencies, and promoting the professional development of internal auditors.
- Consider the human resources objectives of the internal audit function and the organization, such as cross-functional sharing of knowledge and succession planning.
- Cultivate an ethical, professional environment in which internal auditors are trained adequately and collaborate effectively. (See also Domain II: Ethics and Professionalism.)

To evaluate whether the human resources are appropriate and sufficient to achieve the internal audit plan, the chief audit executive should consider:

- The competencies of the internal auditors and the competencies needed to perform internal audit services.
- The nature and complexity of the services.
- The number of internal auditors and productive work hours available.
- Scheduling constraints, including the availability of internal auditors and the organization's information, people, and properties.
- The ability to rely on the work of other assurance providers. (See also Standard 9.5 Coordination and Reliance.)

In addition to competencies, the chief audit executive considers the timing or schedule of internal audit engagements, based on the schedules of individual internal auditors and the availability of staff responsible for the activity under review. If an engagement is scheduled to occur at a specific time, then the resources needed to complete that engagement should be available at that time.

If the resources are insufficient to cover the planned engagements, the chief audit executive may provide training for existing staff, request an expert from within the organization to serve as a guest auditor, hire additional staff, rely on other assurance providers, develop a rotational auditing program, or contract with an external service provider. External service providers may provide specialized skills, complete special projects, or perform engagements.

When the internal audit function is sourced internally, internal audit staffing may be supplemented by a rotational staffing model, whereby employees from other business units join the internal audit function temporarily and later return to the business unit. Employees transferring into the internal audit function may provide specialized skills and knowledge as well as unique perspectives and insights. Additionally, when employees transfer back into business units, their internal audit experiences contribute to a deeper understanding of the organization's governance, risk management, and control processes. When a rotational

model is used, the chief audit executive should be aware of potential impairments to objectivity and should implement related safeguards. (See also Standard 2.2 Safeguarding Objectivity.)

The internal audit methodology for supervising engagements should include sufficient opportunities for internal auditors to receive constructive feedback from more experienced internal auditors in supervisory roles; such feedback may be provided through written or oral comments in the supervisory reviews of workpapers and other communications. Mentorship programs offer on-the-job experiences through which less experienced internal auditors can follow and directly observe knowledgeable staff performing engagements. The ongoing monitoring and periodic self-evaluations that comprise the internal audit function's internal quality assessments provide additional opportunities for internal auditors to receive feedback and suggestions to increase their effectiveness. (See also Standard 12.1 Internal Quality Assessment.) Individual performance evaluations carried out at regular intervals, such as annually, are another source of input that can contribute to internal auditors' professional development.

The chief audit executive should follow the organization's human resources policies or, as in the public sector, follow regulatory or contractually driven human resources frameworks. In these cases, the chief audit executive should work to thoroughly understand the frameworks and optimize the job classifications, assessment processes, and other mandated human resources frameworks to support the internal audit function. The board and senior management should be advised when these mandated frameworks diminish the ability to fulfill the human resources needs of the internal audit function.

Examples of Evidence of Conformance

- Documented analysis of gaps between competencies of internal auditors on staff and those required.
- Job descriptions.
- Résumés of internal auditors employed by the organization.
- Documented training plans and evidence of completed training.
- External service provider contracts and résumés of internal auditors assigned by the provider.
- The internal audit plan, with the estimated schedule of engagements and resources allocated.
- Meeting minutes documenting discussions regarding the internal audit budget.
- Post-engagement comparison of budgeted work hours to actual hours.
- Assessments of the performance of the internal audit function and individual internal auditors.

Standard 10.3 Technological Resources

Requirements

The chief audit executive must strive to ensure that the internal audit function has technology to support the internal audit process. The chief audit executive must regularly evaluate the technology used by the internal audit function and pursue opportunities to improve effectiveness and efficiency.

When implementing new technology, the chief audit executive must implement appropriate training for internal auditors in the effective use of technological resources. The chief audit executive must collaborate with the organization's information technology and information security functions to implement technological resources properly.

The chief audit executive must communicate the impact of technology limitations on the effectiveness or efficiency of the internal audit function to the board and senior management.

Considerations for Implementation

The internal audit function should use technology to improve its effectiveness and efficiency. Examples of such technology include:

- Audit management systems.
- Governance, risk management, and control process mapping applications.
- Tools that assist with data science and analytics.
- Tools that assist with communication and collaboration.

To evaluate whether the internal audit function has technological resources to perform its responsibilities, the chief audit executive should:

- Assess the feasibility of acquiring and implementing technology-enabled enhancements across the internal audit function's processes.
- Collaborate with other departments on shared governance, risk, and control management systems.
- Present sufficiently supported technology funding requests to the board and senior management for approval.
- Develop and implement plans to introduce approved technologies. Plans should include training internal auditors and demonstrating the realized benefits to the board and senior management.
- Identify and respond to the risks that arise from technology use, including those related to information security and privacy of individual data.

Examples of Evidence of Conformance

- Sections of the internal audit strategy describing current or planned initiatives for using technology to advance the internal audit function's objectives.
- Documented discussions or plans related to requests for and implementation of technologies.

- Records of technology implementation, training, and use, including workpapers evidencing use of technology during engagements.
- The names of internal auditors and their technology-related certifications and qualifications.
- Information security, records management, and other policies and procedures relevant to the internal audit function's use of technological resources.

Principle 11 Communicate Effectively

The chief audit executive guides the internal audit function to communicate effectively with its stakeholders.

Effective communication requires building relationships, establishing trust, and enabling stakeholders to benefit from the results of internal audit services. The chief audit executive is responsible for helping the internal audit function establish ongoing communication with stakeholders to build trust and foster relationships. Additionally, the chief audit executive oversees the internal audit function's formal communications with the board and senior management to enable quality and provide insights based on the results of internal audit services.

Standard 11.1 Building Relationships and Communicating with Stakeholders

Requirements

The chief audit executive must develop an approach for the internal audit function to build relationships and trust with key stakeholders, including the board, senior management, operational management, regulators, and internal and external assurance providers and other consultants.

The chief audit executive must promote formal and informal communication between the internal audit function and stakeholders, contributing to the mutual understanding of:

- Organizational interests and concerns.
- Approaches for identifying and managing risks and providing assurance.
- Roles and responsibilities of relevant parties and opportunities for collaboration.
- Relevant regulatory requirements.
- Significant organizational processes, including financial reporting.

Considerations for Implementation

Regular, ongoing communication among the board, senior management, and the internal audit function contributes to a common understanding of the organization's risks and assurance priorities and promotes adaptability to changes. The chief audit executive should be included in the organization's communication channels to keep current with major developments and planned activities that could affect the objectives

and risks of the organization. The chief audit executive also should attend meetings with the board and key governance committees, as well as senior management and groups that report directly to senior management, such as compliance, risk management, and quality control.

In addition, the chief audit executive should discuss a methodology for communication with the board and senior management to determine the criteria defining significant issues requiring formal communication, the format and content of formal communication, and the frequency with which such communication should occur.

Meeting independently with individual senior executives and members of the board allows the chief audit executive to build relationships with them and learn about their concerns and perspectives. To better understand business objectives and processes, internal auditors should meet with key members of operational management, such as the heads of business units and employees who perform operational tasks. In certain highly regulated industries or sectors, meetings between the chief audit executive and external auditors and regulators may be appropriate.

The chief audit executive and internal auditors may initiate discussions with management and the board about strategies, objectives, and risks as well as industry news, trends, and regulatory changes. Such discussions, along with surveys, interviews, and group workshops, are useful tools for obtaining input, especially on fraud and emerging risks. Websites, newsletters, presentations, and other forms of communication can be effective methods for sharing the internal audit function's role and benefits with employees and other stakeholders.

The chief audit executive may delegate individual internal auditors to be responsible for maintaining ongoing communication with the management of key functions such as business segment leaders, global operations, information technology, finance, compliance, and human resources. (See also Standard 9.5 Coordination and Reliance.)

Communication should include opportunities for ongoing, informal interaction between internal auditors and the organization's employees. When informal interactions occur consistently, employees gain trust in internal auditors, increasing the likelihood of candid discussions that may not occur in formal meetings. As a part of relationship-building, informal interaction may enhance internal auditors' comprehensive understanding of the organization and its control environment. Rotating internal auditors into and out of assignments in specific business units or locations may balance the benefits of informal communication against the need to protect internal auditors' objectivity.

Examples of Evidence of Conformance

- Documentation of the internal audit function's plan for managing stakeholder relationships.
- Agendas or minutes from meetings among members of the internal audit function and stakeholders.
- Surveys, interviews, and group workshops through which internal auditors solicit input from internal stakeholders.
- Websites or web pages, newsletters, presentations, and other outlets through which the internal audit function communicates with stakeholders in the organization.

Standard 11.2 Effective Communication

Requirements

The chief audit executive must establish and implement methodologies to promote accurate, objective, clear, concise, constructive, complete, and timely internal audit communications.

Considerations for Implementation

Methodologies may include policies, criteria, style guides, and procedures to guide the internal audit function's communications and achieve consistency. Communication methodologies should consider the expectations of the board, senior management, and other relevant stakeholders. (See also Standards 9.3 Methodologies and 15.1 Final Engagement Communication.) The chief audit executive may provide communications training to internal auditors, such as training in writing or preparing presentations of final communications.

Methodologies, such as supervisory reviews, should enhance the degree to which engagement communications are:

- Accurate – free from errors and distortions and faithful to the underlying facts. When communicating, internal auditors should use precise terms and descriptions, supported by information gathered. Internal auditors also should consider other standards related to accuracy, including Standard 11.4 Errors and Omissions.
- Objective – impartial, unbiased, and the result of a fair and balanced assessment of all relevant facts and circumstances. Findings, conclusions, recommendations and/or action plans, and other results of internal audit services should be based on balanced assessments of relevant circumstances. Communications should focus on identifying factual information and linking the information to objectives. Internal auditors should avoid terms that may be perceived as biased. (See also Principle 2 Maintain Objectivity and its standards.)
- Clear – logical and easily understood by relevant stakeholders, avoiding unnecessary technical language. Clarity is increased when internal auditors use language that is consistent with terminology used in the organization and easily understood by the intended audience. Internal auditors should avoid unnecessary technical language and define important terms that are uncommon or used in a way that is specific or unique to the communication or presentation. Internal auditors improve the clarity of their communications by including significant details that support findings, conclusions, recommendations and/or action plans.
- Concise – succinct and free from unnecessary detail and wordiness. Internal auditors should avoid redundancies and exclude information that is unnecessary, insignificant, or unrelated to the engagement or service.
- Constructive – helpful to stakeholders and the organization and enabling improvement where needed. Internal auditors should express information with a cooperative and helpful tone that facilitates collaboration with the activity under review to determine opportunities for improvement.
- Complete – relevant, reliable, and sufficient information and evidence to support the results of internal audit services. Completeness enables the reader to reach the same conclusions as those reached by internal auditors. Internal auditors should adapt communications to meet the needs

of various recipients and consider the information they need to take the actions for which they are responsible. For example, communications to the board and senior management may differ from those delivered to the management of an activity under review.

- Timely – appropriately timed, according to the significance of the issue, allowing management to take corrective action. Timeliness may be different for each organization and depend upon the nature of the engagement.

The chief audit executive may establish key performance measures to monitor the effectiveness of internal audit communication, which can be used as part of the function's quality assurance and improvement program. (See also Standard 8.3 Quality, and Principle 12 Enhance Quality and its standards.)

Examples of Evidence of Conformance

- Style guides, templates, and other documented methodologies for effective communication.
- Records of participation in training or meetings on effective communication skills.
- Final communications and other documents approved by the chief audit executive, as well as supporting documents that demonstrate the characteristics of effective communications.
- Presentation slides or meeting minutes that demonstrate the characteristics of effective communications.
- Records demonstrating the timeliness of communications.
- Workpapers that demonstrate the characteristics of effective communications.
- Workpapers with supervisory review notes on improving communication effectiveness.
- Results of stakeholder surveys regarding the quality of internal audit communications.
- Results of quality assurance and improvement program.

Standard 11.3 Communicating Results

Requirements

The chief audit executive must communicate the results of internal audit services to the board and senior management periodically and for each engagement as appropriate. The chief audit executive must understand the expectations of the board and senior management regarding the nature and timing of communications.

The results of internal audit services can include:

- Engagement conclusions.
- Themes such as effective practices or root causes.
- Conclusions at the level of the business unit or organization.

Engagement Conclusions

The chief audit executive must review and approve final engagement communications, which include engagement conclusions, and decide to whom and how they will be disseminated before they are issued. If these duties are delegated to other internal auditors, the chief audit executive retains overall responsibility. The chief audit executive must seek the advice of legal counsel and/or senior management as required before releasing final communications to parties outside the organization, unless otherwise required or restricted by laws and/or regulations. (See also Standards 11.4 Errors and Omissions, 11.5 Communicating the Acceptance of Risks, and 15.1 Final Engagement Communication.)

Themes

The findings and conclusions of multiple engagements, when viewed holistically, may reveal patterns or trends, such as root causes. When the chief audit executive identifies themes related to the organization's governance, risk management, and control processes, the themes must be communicated timely, along with insights, advice, and/or conclusions, to the board and senior management.

Conclusions at the Level of the Business Unit or Organization

The chief audit executive may be required to make a conclusion at the level of the business unit or organization about the effectiveness of governance, risk management, and/or control processes, due to industry requirements, laws and/or regulations, or the expectations of the board, senior management, and/or other stakeholders. Such a conclusion reflects the professional judgment of the chief audit executive based on multiple engagements and must be supported by relevant, reliable, and sufficient information.

When communicating such a conclusion to the board or senior management, the chief audit executive must include:

- A summary of the request.
- The criteria used as a basis for the conclusion, for example a governance framework or risk and control framework.
- The scope, including limitations and the period to which the conclusion pertains.
- A summary of the information that supports the conclusion.
- A disclosure of reliance on the work of other assurance providers, if any.

Considerations for Implementation

The results of internal audit services may be based on individual engagements, multiple engagements, and interactions with the board and senior management over time.

Engagement Conclusions

While Standard 13.1 Engagement Communication requires internal auditors to communicate throughout an engagement with those responsible for the activity under review, the chief audit executive is responsible for the dissemination of final engagement communications to the appropriate parties. Appropriate parties may include the board, senior management, and/or those responsible for developing and implementing management's action plans. (See also Standard 15.1 Final Engagement Communication.)

The chief audit executive should encourage internal auditors to acknowledge satisfactory and positive performance in engagement communications. Examples of good practices identified across engagements may be transferable to other parts of the organization or serve as a benchmark throughout the organization.

Themes

Tracking the findings and conclusions of multiple engagements may enable the identification of trends, such as the improvement or worsening of conditions compared to criteria, a root cause underlying the conditions, or an opportunity to share a practice that increases effectiveness or efficiency. Such trends also may lead to additional engagements that focus on the theme across the organization.

Communications to the board and senior management should include:

- Significant control weaknesses and robust root cause analysis.
- Thematic or systemic issues, actions, or progress across multiple engagements or business units.

Insights obtained from other assurance providers should be considered when identifying themes. (See also Standard 9.5 Coordination and Reliance.)

Conclusions at the Level of the Business Unit or Organization

When communicating conclusions at the levels of the business unit or organization overall, the chief audit executive should consider how a conclusion relates to the strategies, objectives, and risks of the organization. The chief audit executive also should consider whether the conclusion solves a problem, adds value, and/or provides management or other stakeholders with confidence regarding an overall theme or condition.

The chief audit executive also considers the time period to which the conclusion relates and any scope limitations to determine which engagements would be relevant to the overall conclusion. All related engagements or projects are considered, including those completed by other internal and external assurance providers. (See also Standard 9.5 Coordination and Reliance.)

For example, an overall conclusion may be based on aggregate engagement conclusions at the organization's local, regional, and national levels, along with results reported from outside entities such as independent third parties or regulators. The scope statement provides context for the overall conclusion by specifying the time period, activities, limitations, and other variables that describe the conclusion's boundaries.

The chief audit executive should summarize the information on which the overall conclusion is based and identify the relevant risk or control frameworks or other criteria used as a basis for the overall conclusion. The chief audit executive should articulate how the overall conclusion relates to the strategies, objectives, and risks of the organization. Overall conclusions are usually communicated in writing but also may be provided orally.

Examples of Evidence of Conformance

- Final engagement communications, including engagement findings, recommendations, and conclusions.
- The chief audit executive's outline, meeting minutes, speaking notes, slides, or documents indicating communication with the board and senior management.
- Analyses including data reports, diagrams, and graphs showing trends.
- Relevant risk or control frameworks or other criteria used as a basis for the overall conclusion.

Standard 11.4 Errors and Omissions

Requirements

If a final engagement communication contains a significant error or omission, the chief audit executive must communicate corrected information promptly to all parties who received the original communication.

Significance is determined according to criteria agreed upon with the board.

Considerations for Implementation

The chief audit executive and the board should agree on a protocol for communicating the correction. To determine the significance, the chief audit executive should evaluate whether the mistaken or omitted information could have legal or regulatory consequences or change the findings, conclusions, recommendations, or management's action plans.

The chief audit executive determines the most appropriate method of communication so that the corrected information is received by all parties who received the original communication. In addition to communicating the corrected information, the chief audit executive should identify the cause of the error or omission and take corrective action to prevent a similar situation from occurring in the future.

Examples of Evidence of Conformance

- Internal audit methodologies for handling errors and omissions.
- Criteria agreed upon with the board and used by the chief audit executive to determine the level of significance.
- Correspondence and other records showing how the chief audit executive determined the significance and cause of the error or omission.
- The chief audit executive's calendar, board or other meeting minutes, memos, and email correspondence where an error or omission was discussed.
- The original and corrected final communication documents.
- Documentation that relevant parties received the corrected communications.

Standard 11.5 Communicating the Acceptance of Risks

Requirements

The chief audit executive must communicate unacceptable levels of risk.

When the chief audit executive concludes that management has accepted a level of risk that exceeds the organization's risk appetite or risk tolerance, the matter must be discussed with senior management. If the chief audit executive determines that the matter has not been resolved by senior management, the matter must be escalated to the board. It is not the responsibility of the chief audit executive to resolve the risk.

Considerations for Implementation

The chief audit executive gains an understanding of the organization's risks and risk tolerance through discussions with the board and senior management, relationships and ongoing communication with stakeholders, and the results of internal audit services. (See also Standards 8.1 Board Interaction; 9.1 Understanding Governance, Risk Management, and Control Processes; and 11.1 Building Relationships and Communicating with Stakeholders.) This understanding provides the chief audit executive with perspective about the level of risk the organization considers acceptable. If the organization has a formal risk management process, the chief audit executive should understand management's policies for acceptance of risk.

The chief audit executive may discuss and seek the board's agreement on methodologies for documenting and communicating the acceptance of risks that exceed the risk appetite or risk tolerance. In addition to the requirements in the Standards, methodologies should consider the organization's risk management process, policies, and procedures. The risk management process may include a preferred approach to communicating significant risk issues. Specifications may include the timeliness of communicating, the hierarchy of reporting, and requirements for consultation with the organization's legal counsel or head of compliance. The internal audit methodology also should include procedures for documenting the discussions and actions taken, including a description of risk, the reason for concern, management's reason for not implementing internal auditors' recommendations or other actions, the name of the individual responsible for accepting the risk, and the date of discussion.

The chief audit executive may become aware that management has accepted a risk by reviewing management's response to engagement findings and monitoring management's progress to implement recommendations and action plans. Building relationships and maintaining communication with stakeholders are additional means of remaining apprised of risk management activities including management's acceptance of risk.

When risks exceed the risk appetite, impacts may include:

- Harm to the organization's reputation.
- Harm to the organization's employees or other stakeholders.
- Significant regulatory fines, limitations on business conduct, or other financial or contractual penalties.
- Material misstatements.
- Conflicts of interest, fraud, or other illegal acts.
- Significant impediments to achieving strategic objectives.

270

The chief audit executive's professional judgment contributes to the determination of whether management has accepted a level of risk that exceeds the risk appetite or risk tolerance. For example, if management has made insufficient progress on action plans, the chief audit executive may conclude that management has accepted a level of risk that exceeds the risk appetite or risk tolerance. Before escalating a concern to the board and/or senior management, the chief audit executive should address the issue directly with the management responsible for the risk area to share concerns, understand management's perspective, and agree on an updated action plan.

The requirements of this standard are only implemented when the chief audit executive cannot reach agreement with the management responsible for managing the risk. If the risk identified as unacceptable remains unresolved after a discussion with senior management, the chief audit executive escalates the concern to the board. The board is responsible for deciding how to address the concern with management.

Examples of Evidence of Conformance

- Documentation of discussions and agreement with the board on methodologies for communicating risk concerns.
- Documentation of discussions about the risk and actions recommended to operational management and senior management, including minutes of meetings.
- Documentation explaining the risk concern and internal audit actions taken to address the concern, including the process of escalating the discussion from operational management to senior management.
- Documentation from meetings with the board, including private or closed sessions during which the concern was escalated to the board.

Principle 12 Enhance Quality

The chief audit executive is responsible for the internal audit function's conformance with the Global Internal Audit Standards and continuous performance improvement.

Quality is a combined measure of conformance with the Global Internal Audit Standards and the achievement of the internal audit function's performance objectives. Therefore, a quality assurance and improvement program is designed to evaluate and promote the internal audit function's conformance with the Standards, achievement of performance objectives, and pursuit of continuous improvement. The program includes internal and external assessments. (See also Standards 8.3 Quality and 8.4 External Quality Assessment.)

The chief audit executive is responsible for ensuring that the internal audit function is continuously seeking improvement. This requires developing measures to assess the performance of internal audit engagements, internal auditors, and the internal audit function. These measures form the basis for evaluating progress toward performance objectives including continuous improvement.

Standard 12.1 Internal Quality Assessment

Requirements

The chief audit executive must develop and conduct internal assessments of the internal audit function's conformance with the Global Internal Audit Standards and progress toward performance objectives.

The chief audit executive must establish a methodology for internal assessments, as described in Standard 8.3 Quality, that includes:

- Ongoing monitoring of the internal audit function's conformance with the Standards and progress toward performance objectives.
- Periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of internal audit practices to evaluate conformance with the Standards.
- Communication with the board and senior management about the results of internal assessments.

Based on the results of periodic self-assessments, the chief audit executive must develop action plans to address instances of nonconformance with the Standards and opportunities for improvement, including a proposed timeline for actions. The chief audit executive must communicate the results of periodic self-assessments and action plans to the board and senior management. (See also Standards 8.1 Board Interaction, 8.3 Quality, and 9.3 Methodologies.)

Internal assessments must be documented and included in the evaluation conducted by an independent third party as part of the organization's external quality assessment. (See also Standard 8.4 External Quality Assessment.)

If nonconformance with the Standards affects the overall scope or operation of the internal audit function, the chief audit executive must disclose to the board and senior management the nonconformance and its impact.

Considerations for Implementation

Ongoing Monitoring

Ongoing monitoring involves the day-to-day supervision, review, and measurement of the internal audit function. Ongoing monitoring is incorporated into the routine policies and practices used to manage the internal audit function and includes the processes, tools, and information necessary to evaluate conformance with the Standards.

The internal audit function's progress toward performance objectives and conformance with the Standards is monitored primarily through methodologies such as supervisory reviews of engagement planning, workpapers, and final communications. These methodologies enable the identification of weaknesses or areas in need of improvement and action plans to address them. The chief audit executive may develop templates or automated workpapers for internal auditors to use throughout engagements to promote standardization and consistency in the application of the work practices.

Adequate engagement supervision is a fundamental element of a quality assurance and improvement program. Supervision begins with planning and continues throughout the engagement. Supervision may include setting expectations, encouraging communications among team members throughout the engagement, and reviewing and signing off on workpapers timely. (See also Standard 12.3 Oversee and Improve Engagement Performance.)

Additional mechanisms commonly used for ongoing monitoring include:

- Checklists or automated tools to provide assurance on internal auditors' compliance with established methodologies and to facilitate consistent performance of internal audit services in conformance with the Standards. These may be especially important for use in internal audit functions with limited staff resources for supervision.
- Feedback from internal audit stakeholders regarding the efficiency and effectiveness of the internal audit team. Feedback may be solicited immediately after the engagement or periodically (for example, semi-annually or annually) through survey tools or discussions between the chief audit executive and management.
- Other measurements that may be valuable in determining the efficiency and effectiveness of the internal audit function include metrics indicating the adequacy of resource allocation (such as budget-to-actual variance), the timeliness of engagement completion, the achievement of the internal audit plan, and surveys of stakeholder satisfaction.

In addition to validating conformance with the Standards, ongoing monitoring may identify opportunities to improve the internal audit function. In such cases, the chief audit executive may address these opportunities by developing an action plan.

Periodic Self-assessments

Periodic self-assessments provide a more holistic, comprehensive review of the Standards and the internal audit function. Periodic self-assessments address conformance with every standard, whereas ongoing monitoring may focus on the standards relevant to performing engagements. Periodic self-assessments may be conducted by senior members of the internal audit function, a dedicated quality assurance team, individuals within the internal audit function who have attained the Certified Internal Auditor® designation or have extensive experience with the Standards, or individuals with audit competencies from elsewhere in the organization. The chief audit executive should consider including internal auditors in the periodic self-assessment process to improve their understanding of the Standards.

Periodic self-assessments enable the internal audit function to validate its conformance with the Standards. When a periodic self-assessment is performed shortly before an external assessment, the time and effort required to complete the external assessment may be reduced.

Periodic self-assessments evaluate:

- The adequacy of the internal audit function's methodologies.
- How well the internal audit function supports the achievement of the organization's objectives.
- The quality of internal audit services performed and supervision provided.
- The degree to which stakeholder expectations are met and performance objectives are achieved.

The individual or team conducting the periodic self-assessment evaluates the internal audit function's conformance against each standard and may interview and survey the internal audit function's stakeholders. Through this process, the chief audit executive can assess the quality of and adherence to the internal audit function's methodologies.

Examples of Evidence of Conformance

- Completed checklists that support workpaper reviews, survey results, and performance measures related to the efficiency and effectiveness of the internal audit function.
- Documentation of completed periodic assessments including the plan, workpapers, and communications.
- Presentations to the board and management and meeting minutes covering the results of internal assessments.
- Documented results of ongoing monitoring and periodic self-assessments, including corrective action plans.
- Actions taken to improve the internal audit function's efficiency, effectiveness, and conformance with the Standards.

Standard 12.2 Performance Measurement

Requirements

The chief audit executive must develop objectives to evaluate the internal audit function's performance. The chief audit executive must consider the input and expectations of the board and senior management when developing the performance objectives.

The chief audit executive must develop a performance measurement methodology to assess progress toward achieving the function's objectives and to promote the continuous improvement of the internal audit function.

When assessing the internal audit function's performance, the chief audit executive must solicit feedback from the board and senior management as appropriate.

The chief audit executive must develop an action plan to address issues and opportunities for improvement.

Considerations for Implementation

The establishment of performance objectives is critical to determining whether an internal audit function is fulfilling its mandate in conformance with the Standards and achieving improvement in accordance with the function's strategy.

Establishment of performance objectives should take into consideration the desired outcomes articulated within:

- The Principles of the Global Internal Audit Standards.
- The internal audit charter.
- The internal audit function's strategy.

The chief audit executive may identify a set of focused performance objectives that are reported to the board and senior management while maintaining a more comprehensive set of performance objectives for managing the internal audit function. Care should be taken to identify performance objectives that advance desired outcomes and are balanced across outcome areas: stakeholder expectations, extent of business unit or organization conclusions, human resources needs, financial and operational efficiency, and learning and development.

After identifying the performance objectives, the chief audit executive should establish targets, both quantitative and qualitative, to track progress toward meeting the performance objectives. The chief audit executive should have a methodology in place to periodically validate the accuracy of the measures being reported and raise performance expectations.

The action plans to address issues and opportunities to achieve performance objectives should be tracked by the chief audit executive and communicated with the board and senior management. Examples of performance categories to consider when establishing performance objectives and measures may include:

- Coverage of engagement objectives expected to be reviewed according to the internal audit mandate.
- The extent to which the internal audit conclusions at the level of the business unit or organization address significant objectives of the organization. (See also Standard 11.3 Communicating Results.)
- The percentage of recommendations or action plans completed by management that result in desired outcomes, as monitored by the internal audit function. This measure is not exclusively a reflection of the internal audit function's performance. While internal audit functions may track the implementation of recommendations or action plans, management is responsible for completing such actions and ensuring that desired outcomes are achieved. (See also Standard 15.2 Confirming the Implementation of Recommendations or Action Plans.)
- Percentage of the organization's key risks and controls reviewed.
- Stakeholder satisfaction regarding understanding of engagement objectives, timeliness of engagement work, and clarity of engagement conclusions.
- Percentage of internal audit plan (as adjusted and approved) completed on time.
- Balance of assurance and advisory engagements in the internal audit plan relative to the internal audit strategy.
- External quality assurance reviews confirming internal audit function conformance with the Standards.
- Quality assurance reviews confirming that adequate competencies are in place to perform the scheduled internal audit engagements.
- Internal auditor learning and development plans linked to the internal audit strategy and the organization's developing risks.
- Staff holding at least one recognizable professional certification relevant to internal auditing.

Examples of Evidence of Conformance

- Performance objectives identified as most impactful to the internal audit function fulfilling the Principles of the Standards, the internal audit charter, and the internal audit function's strategy.
- Performance measures that address the tracked performance objectives and respective targets for those measures.
- Action plans for identified issues and opportunities to achieve the identified performance objectives.

Standard 12.3 Oversee and Improve Engagement Performance

Requirements

The chief audit executive must establish and implement methodologies for engagement supervision, quality assurance, and the development of competencies.

- The chief audit executive or an engagement supervisor must provide internal auditors with guidance throughout the engagement, verify work programs are complete, and confirm engagement workpapers adequately support findings, conclusions, and recommendations.
- To assure quality, the chief audit executive must verify whether engagements are performed in conformance with the Standards and the internal audit function's methodologies.
- To develop competencies, the chief audit executive must provide internal auditors with feedback about their performance and opportunities for improvement.

The extent of supervision required depends on the maturity of the internal audit function, the proficiency and experience of internal auditors, and the complexity of engagements.

The chief audit executive is responsible for supervising engagements, whether the engagement work is performed by the internal audit staff or by other service providers. Supervisory responsibilities may be delegated to appropriate and qualified individuals, but the chief audit executive retains ultimate responsibility.

The chief audit executive must ensure that evidence of supervision is documented and retained, according to the internal audit function's established methodologies.

Considerations for Implementation

When planning engagements, the chief audit executive or a designated engagement supervisor should review the engagement objectives. Supervision may include opportunities for staff development, such as post-engagement meetings between the internal auditors who performed the engagement and the chief audit executive.

Assessing the skills of the internal audit staff is an ongoing process extending beyond reviewing engagement workpapers. Based on the results of skill assessments, the chief audit executive may identify which internal auditors are qualified to supervise engagements and assign tasks accordingly.

During the planning phase, the engagement supervisor approves the engagement work program and may assume responsibility for other aspects of the engagement. (See also Principle 13 Plan Engagements Effectively and its standards.)

The primary criterion for approval of the work program is whether it achieves the engagement objectives efficiently. The work program includes procedures for identifying, analyzing, evaluating, and documenting engagement information. Engagement supervision also involves monitoring that the work program is completed and approving changes to the work program.

The engagement supervisor should maintain ongoing communication with the internal auditors assigned to perform the engagement and the management of the activity under review. The engagement supervisor reviews the engagement workpapers, which describe the audit procedures performed, the information identified, and the findings and preliminary conclusions made during the engagement. The supervisor evaluates whether the information, testing, and resulting evidence are relevant, reliable, and sufficient to achieve the engagement objectives and support the engagement conclusions. In internal audit functions that do not have individual auditors for supervision and ongoing monitoring, the chief audit executive may consider the use of tools such as checklists or other automated tools to assist in overseeing conformance with the Standards in each engagement.

Standard 11.2 Effective Communication requires that engagement communications be accurate, objective, clear, concise, constructive, complete, and timely. An engagement supervisor reviews engagement communications and workpapers for these elements because workpapers provide the primary support for engagement communications.

Throughout the engagement, the engagement supervisor and/or chief audit executive meet with the internal auditors assigned to perform the engagement and discuss the engagement process, which provides opportunities to train, develop, and evaluate the internal auditors. A supervisor may ask for additional evidence or clarification when reviewing the engagement communications and workpapers. Internal auditors may be able to improve their work by answering questions posed by the engagement supervisor.

Usually, the supervisor's review notes are cleared from the final documentation once adequate evidence has been provided or workpapers have been amended with additional information that addresses the supervisor's concerns and questions. Alternatively, the internal audit function may retain a separate record of the supervisor's review notes, the steps taken to resolve them, and the results of those steps.

The chief audit executive is responsible for all internal audit engagements and significant professional judgments made throughout the engagements, regardless of whether the work was performed by the internal audit function or other assurance providers. The chief audit executive develops methodologies to minimize the risk that internal auditors will make judgments or take actions that are inconsistent with the chief audit executive's professional judgment and may adversely affect the engagement. The chief audit executive establishes a means to resolve any professional judgment differences. This may include discussing pertinent facts, pursuing additional inquiry or research, and documenting differing viewpoints in engagement workpapers as well as any conclusions. If there is a difference in professional judgment over an ethical issue, the issue may be referred to individuals in the organization who are responsible for ethical matters.

Examples of Evidence of Conformance

- Engagement workpapers with documentation of supervision.
- Completed checklists that support workpaper reviews.
- Interview and survey results that include feedback about the engagement experience from internal auditors and other individuals directly involved with the engagement.
- Documentation of communication between engagement supervisor and staff internal auditors regarding the engagement work.

Domain V: Performing Internal Audit Services



Performing internal audit services requires internal auditors to effectively plan engagements, conduct the engagement work to develop findings and conclusions, collaborate with management to identify recommendations and/or action plans that address the findings, and communicate with management and the employees responsible for the activity under review throughout the engagement and after it closes.

Although the standards for performing engagements are presented in a sequence, the steps in performing engagements are not always distinct, linear, and sequential. In practice, the order in which steps are performed may vary by engagement and have overlapping and iterative aspects. For example, engagement planning includes gathering information and assessing risks, which may continue throughout the engagement. Each step may affect another or the engagement as a whole. Therefore, internal auditors should review and understand all standards in this domain before beginning an engagement.

Internal audit services involve providing assurance, advice, or both. Internal auditors are expected to apply and conform with the Standards when performing engagements, whether they are providing assurance or advice, except when otherwise specified in individual standards.

Assurance services are intended to provide confidence about governance, risk management, and control processes to the organization's stakeholders, especially the board, senior management, and the management of the activity under review. Through assurance services, internal auditors provide objective assessments of the differences between the existing conditions of an activity under review and a set of evaluation criteria. Internal auditors evaluate the differences to determine whether there are reportable findings and to provide a conclusion about the engagement results, including reporting when processes are effective.

Internal auditors may initiate advisory services or perform them at the request of the board, senior management, or the management of an activity. The nature and scope of advisory services may be subject to agreement with the party requesting the services. Examples of advisory services include advising on the design and implementation of new policies, processes, systems, and products; providing forensic services; providing training; and facilitating discussions about risks and controls. When performing advisory services, internal auditors are expected to maintain objectivity by not taking on management responsibility. For example, internal auditors may perform advisory services as individual engagements, but if the chief audit executive takes on responsibilities beyond internal auditing, then appropriate safeguards must be implemented to maintain the internal audit function's independence. (See also Standard 7.1 Organizational Independence.)

Internal audit services are performed as described in the chief audit executive's established methodologies. (See also Standard 9.3 Methodologies.) The chief audit executive may delegate appropriate responsibility to other qualified professionals in the internal audit function but retains ultimate accountability.

Principle 13 Plan Engagements Effectively

Internal auditors plan each engagement using a systematic, disciplined approach.

The Global Internal Audit Standards, along with the methodologies established by the chief audit executive, form the foundation of internal auditors' systematic, disciplined approach to planning engagements. Internal auditors are responsible for effectively communicating at all stages of the engagement.

Engagement planning starts with understanding the initial expectations for the engagement and the reason the engagement was included in the internal audit plan. When planning engagements, internal auditors gather the information that enables them to understand the organization and the activity under review and to assess the risks relevant to the activity. The engagement risk assessment allows internal auditors to identify and prioritize the risks to determine the engagement objectives and scope. Internal auditors also identify the criteria and resources needed to perform the engagement and develop an engagement work program, which describes the specific engagement steps to be performed.

Standard 13.1 Engagement Communication

Requirements

Internal auditors must communicate effectively throughout the engagement. (See also Principle 11 Communicate Effectively and its related standards and Standard 15.1 Final Engagement Communication.)

Internal auditors must communicate the objectives, scope, and timing of the engagement with management. Subsequent changes must be communicated with management timely. (See also Standard 13.3 Engagement Objectives and Scope.)

At the end of an engagement, if internal auditors and management do not agree on the engagement results, internal auditors must discuss and try to reach a mutual understanding of the issue with the management of the activity under review. If a mutual understanding cannot be reached, internal auditors must not be obligated to change any portion of the engagement results unless there is a valid reason to do so. Internal auditors must follow an established methodology to allow both parties to express their positions regarding the content of the final engagement communication and the reasons for any differences of opinion regarding the engagement results. (See also Standards 9.3 Methodologies and 14.4 Recommendations and Action Plans.)

Considerations for Implementation

Engagement communications may include initial, ongoing, closing, and final communications with the management of the activity under review. The type of engagement may affect the communications needed. To ensure effective communication, a variety of methods should be used: formal, informal, written, and oral. Engagement communications may occur through scheduled meetings, presentations, emails and other

documents, and informal discussions. Requirements for the quality and content of engagement communications should be established by the chief audit executive in alignment with the expectations of the board and senior management and documented in internal audit methodologies. (See also Standards 9.3 Methodologies and 11.2 Effective Communication.)

The extent of ongoing communication depends upon the nature and length of the engagement and may include:

- Announcing the engagement.
- Discussing the engagement risk assessment, objectives, scope, and timing.
- Requesting the information and resources necessary to perform the engagement.
- Setting expectations for additional engagement communications.
- Providing updates about the engagement progress, including governance, risk management, or control issues that require immediate attention and changes to the scope, objectives, timing, or length of the engagement.
- The engagement results, including findings, recommendations, and/or management's action plans to address the findings.
- The timing of and owner responsible for implementing recommendations and/or action plans.

Internal auditors should give advance notice of the engagement to the appropriate stakeholders, typically including management and relevant staff, to set the foundation for cooperation and open dialogue. Internal auditors should follow the policy established by the chief audit executive to determine the timing and type of notice given. The announcement should inform management about the reason for the review. It should also inform management of the proposed starting time and the approximate duration of the engagement to plan a schedule that does not conflict with other significant events occurring in the activity under review. Additionally, internal auditors should request the information and documentation needed to assess risks and begin developing the work program.

Another common initial communication is an opening or entrance meeting. When internal auditors have conducted an engagement risk assessment, they should communicate the results to the management of the activity under review. They also should communicate the initial engagement objectives and scope, preferably in a meeting. This discussion provides an opportunity for internal auditors to confirm that the management of the activity under review understands and supports the objectives, scope, and timing of the engagement. The discussion allows the parties to make any necessary adjustments to the engagement approach and establish the expectations for additional communication, including the frequency of communication and who will receive the final communication. Internal auditors should document this discussion in the engagement workpapers.

Ongoing communication throughout the engagement between internal auditors and the management of the activity under review is essential for transmitting information that requires immediate attention and updating relevant parties about engagement progress or changes to the objectives or scope. This ongoing communication provides transparency and helps internal auditors and the management of the activity identify and resolve any misunderstandings or differences.

Depending on the type of engagement, internal auditors may have a closing communication (also called an "exit conference"), which is an opportunity for internal auditors, the management of the activity under review, and relevant staff to finalize the engagement results before issuing a final communication. The closing communication provides an opportunity for management and internal auditors to discuss any differences or disagreements about the engagement results with a goal of reaching agreement.

Discussing the feasibility of internal auditors' recommendations or management's action plans may include weighing the costs, such as the severity of the risk compared to the benefits of implementing the recommendations or action plans. (See also Standard 14.4 Recommendations and Action Plans.) Management action plans may not be fully developed before the closing communication, but management may have ideas about the actions it will take to address the findings. Even if management has not completely developed action plans, ideas can be discussed and evaluated. After the discussion, management can confirm its action plans, the expected timing of implementation, and the personnel responsible for implementing the actions.

Examples of Evidence of Conformance

- Documentation (emails, meeting minutes, notes, or memos) showing that the required communications occurred throughout the engagement.
- Documentation of feedback received (such as through surveys) from the management of the activity under review.

Standard 13.2 Engagement Risk Assessment

Requirements

Internal auditors must develop an understanding of the activity under review to assess the relevant risks. For advisory services, a formal, documented risk assessment may not be necessary, depending on the agreement with relevant stakeholders.

To develop an adequate understanding, internal auditors must identify and gather reliable, relevant, and sufficient information regarding:

- The organization's strategies, objectives, and risks relevant to the activity under review.
- The organization's risk tolerance, if established.
- The risk assessment supporting the internal audit plan.
- The governance, risk management, and control processes of the activity under review.
- Applicable frameworks, guidance, and other criteria that can be used to evaluate the effectiveness of those processes.

Internal auditors must review the gathered information to understand how processes are intended to operate.

Internal auditors must identify the risks to review by:

- Identifying the potentially significant risks to the objectives of the activity under review.
- Considering specific risks related to fraud.
- Evaluating the significance of the risks and prioritizing them for review.

Internal auditors must identify the criteria that management uses to measure whether the activity is achieving its objectives.

When internal auditors have identified the relevant risks for an activity under review in past engagements, only a review and update of the previous engagement risk assessment is required.

Considerations for Implementation

Internal auditors should consult with the engagement supervisor while planning.

To develop an understanding of the activity under review and assess relevant risks, internal auditors should start by understanding the internal audit plan, the discussions that led to its development, and the reason the engagement was included. Engagements included in the internal audit plan may arise from the internal audit function's organizationwide risk assessment or from stakeholder requests.

When internal auditors begin an engagement, they should consider the risks applicable to the engagement and inquire whether any changes have occurred since the internal audit plan was developed. Reviewing the organizationwide risk assessment and any other risk assessments recently conducted (such as those completed by management) may help internal auditors identify risks relevant to the activity under review. Internal auditors should understand any stakeholder expectations that exist regarding the purpose, objectives, and scope of the engagement.

Internal auditors should examine the alignment between the organization and the activity under review. Internal auditors gather and consider the information about the organization's strategies and processes for governance, risk management, and control processes, as well as the organization's objectives, policies, and procedures. Internal auditors should consider how these aspects of the organization relate to the activity under review and to the engagement as they begin to develop the engagement risk assessment.

To gather information, internal auditors may:

- Review risk assessments recently conducted by the internal audit function, management, or external service providers. The objectives considered should include those related to compliance, financial reporting, operations or performance, fraud, information technology, strategy, and internal audit plans.
- Review communications of engagements previously performed by the internal audit function and other assurance and advisory service providers, such as financial, environmental, social responsibility, and governance.
- Review workpapers from previous engagements.
- Review reference materials, including authoritative guidance from The IIA and other bodies, laws, and regulations relevant to the organization's sector, industry, and jurisdiction.
- Consider the relevant risk categories of the organization, including strategic, operational, financial, and compliance.
- Consider the risk tolerance, if it has been defined.
- Use organizational charts and job descriptions to determine who is responsible for relevant information, processes, and other aspects of the activity under review.
- Inspect physical property of the activity under review.
- Examine documentation from the information owner or outside sources, including management's policies, procedures, flowcharts, and reports.
- Examine websites, databases, and systems.
- Inquire through interviews, discussions, or surveys.
- Observe a process in action.
- Meet with other assurance and advisory service providers.

Surveys, interviews, physical inspections, and process walk-throughs allow internal auditors to observe the current conditions in the activity under review.

To perform the engagement risk assessment, internal auditors use the gathered information to understand and document the objectives of the activity under review, the risks that could affect the achievement of each objective, and the controls intended to manage each risk. (See also Standard 14.6 Engagement Documentation.)

Internal auditors may create a chart, spreadsheet, risk and control matrix, process narrative, or other tool to document the risks and the controls designed to manage these risks. Such documentation enables internal auditors to apply professional judgment, experience, and logic to consider the information gathered in the context of the activity under review and to estimate the significance of the risks in terms of a combination of impact, likelihood, and possibly other risk factors.

Determining the significance of risks requires internal auditors to apply their knowledge, experience, and critical thinking to make judgments about the organization, the activity under review, and the engagement purpose and context. As part of due professional care, internal auditors should consider input from the management of the activity under review to gain insight into the business objectives, significant risks, and controls. Establishing a mutual understanding of the risks of the activity under review increases the usefulness of the engagement risk assessment.

The risks to be addressed during the engagement should be prioritized according to significance. This is often illustrated by plotting the risks on a graph, such as a heat map, based on the likelihood of the risk occurring and its potential impact. Such documentation should be retained as part of the engagement workpapers. For the most significant risks, assessing the adequacy of the design of the controls helps internal auditors determine which controls to continue testing for operating effectiveness.

When used, a risk and control matrix is typically developed throughout the engagement. As the engagement progresses through the testing phase, the matrix may be used to document the risk event, control and its type (that is, preventive, detective, directive, or corrective), cause, effect (consequence), and assessment of residual risk.

Examples of Evidence of Conformance

Workpapers documenting:

- Relevant organizational strategies, objectives, and risks of the organization.
- Objectives of the activity being reviewed.
- Governance, risk management, and control processes of the activity under review.
- Organizational charts and job descriptions.
- Notes and/or photographs from direct observation or inspection.
- Policies and procedures for the activity.
- Relevant laws and/or regulations and documented compliance assessments.
- Relevant information gathered from websites, databases, and systems.
- Notes from interviews, discussions, or surveys.
- Relevant information from previously completed risk assessments and engagements and the work of other assurance providers.
- Each risk's significance and the adequacy of the control design.

Standard 13.3 Engagement Objectives and Scope

Requirements

Internal auditors must establish and document the objectives and scope for each engagement.

The engagement objectives must articulate the purpose of the engagement and describe the specific goals to be achieved, including those mandated by laws and/or regulations.

The scope must establish the engagement's focus and boundaries by specifying the activities, locations, processes, systems, components, time period to be covered in the engagement, and other elements to be reviewed, and be sufficient to achieve the engagement objectives.

Internal auditors must consider whether the engagement is intended to provide assurance or advisory services because stakeholder expectations and the requirements of the Standards differ depending on the type of engagement.

Scope limitations must be discussed with management when identified, with a goal of achieving resolution. Scope limitations are assurance engagement conditions, such as resource constraints or restrictions on access to personnel, facilities, data, and information, that prevent internal auditors from performing the work as expected in the audit work program. (See also Standard 13.5 Engagement Resources.)

If a resolution cannot be achieved with management, the chief audit executive must elevate the scope limitation issue to the board according to an established methodology.

Internal auditors must have the flexibility to make changes to the engagement objectives and scope when audit work identifies the need to do so as the engagement progresses.

The chief audit executive must approve the engagement objectives and scope and any changes that occur during the engagement.

Considerations for Implementation

The objectives and scope for assurance engagements are determined primarily by the internal auditors, whereas the objectives and scope for advisory engagements are typically jointly established by the internal auditors and the management of the activity under review.

Internal auditors should align the engagement objectives with the business objectives of the activity under review, as well as with those of the organization. Properly defining engagement objectives and scope before the engagement starts enables internal auditors to:

- Focus efforts on the risks relevant to the activity under review based on the results of the engagement risk assessment. (See also Standard 13.2 Engagement Risk Assessment.)
- Develop the engagement work program.
- Avoid duplicating efforts or performing work that does not add value.

- Determine the engagement timeline.
- Allocate appropriate and sufficient resources to complete the engagement. (See also Standard 13.5 Engagement Resources.)
- Communicate clearly with management and the board.

Assurance engagements focus on providing assurance that the controls in place are adequately designed and operating to manage the risks that could prevent the activity under review from achieving its business objectives. The objectives of these engagements direct the priorities for testing the controls of processes and systems during the engagement. These include controls designed to manage risks related to:

- Assignment of authority and responsibility.
- Compliance with policies, plans, procedures, laws, and regulations.
- Reporting accurate, reliable information.
- Effectively and efficiently using resources.
- Safeguarding assets.

Once the engagement objectives have been established, internal auditors should use professional judgment and consult with the engagement supervisor as necessary to determine the scope of engagement work. The scope should be broad enough to achieve the engagement objectives. When determining the scope, internal auditors should consider each engagement objective independently to ensure that it can be accomplished within the scope.

Internal auditors should consider whether requests from the engagement stakeholders for items to be included in or excluded from the scope, or restrictions on the length of the engagement, constitute a scope limitation.

Examples of Evidence of Conformance

- Engagement planning memorandum.
- Engagement workpapers documenting:
 - Alignment of objectives and the engagement risk assessment.
 - Scope that achieves the engagement objectives.
 - Approved engagement work program containing the engagement objectives and scope.
 - Minutes from meetings with stakeholders about the engagement objectives and scope.
 - Scope limitations and requests from engagement stakeholders for items to be included or excluded.
 - Final engagement communication.

Standard 13.4 Evaluation Criteria

Requirements

Internal auditors must identify the most relevant criteria to be used to evaluate the aspects of the activity under review defined in the engagement objectives and scope. For advisory services, the identification of evaluation criteria may not be necessary, depending on the agreement with relevant stakeholders.

Internal auditors must assess the extent to which the board and senior management have established adequate criteria to determine whether the activity under review has accomplished its objectives and goals. If such criteria are adequate, internal auditors must use them for the evaluation. If the criteria are inadequate, internal auditors must identify appropriate criteria through discussion with the board and/or senior management.

Considerations for Implementation

As part of gathering information and planning the engagement, internal auditors identify the criteria used by the organization to evaluate the effectiveness and efficiency of the governance, risk management, and control processes of the activity under review. Internal auditors should focus on the evaluation criteria most relevant to the engagement. Such criteria should represent the desired state of the activity and be specific and practical. Internal auditors compare the criteria against the existing state (condition). For example, if an engagement objective is to assess the effectiveness of the control processes in the activity under review, the criteria could be the expected results or outcomes of the activity's control processes, while the condition is revealed by the actual outcomes.

Adequate criteria are essential for identifying a difference between the desired state and the condition, which represents potential findings. Additionally, adequate criteria are necessary for determining the significance of the findings and reaching meaningful conclusions. Internal auditors use professional judgment to determine whether the organization's criteria are adequate. Adequate criteria are relevant, aligned with the objectives of the organization and the activity under review, and produce reliable comparisons. Examples of adequate criteria include:

- Internal (policies, procedures, key performance indicators, or targets for the activity).
- External (laws, regulations, and contractual obligations).
- Authoritative practices (frameworks, standards, guidance, and benchmarks specific to an industry, activity, or profession).
- Established organizational practices.
- Expectations based on the design of a control.
- Procedures that may not be formally documented.

When evaluating the adequacy of the criteria, internal auditors should determine whether the organization has established basic principles to define appropriate governance, risk management, and control processes. Internal auditors should consider whether the organization has developed and clearly articulated its risk tolerance, including materiality thresholds for various business units, functions, or processes. Internal auditors should ascertain whether the organization has adopted or clearly articulated a satisfactory level of control.

For example, satisfactory could mean that a certain percentage of transactions within one control objective are conducted in accordance with established control procedures or that a certain percentage of controls overall are working as intended.

Additionally, internal auditors should research recommended practices and compare management's criteria to those used by other organizations. Determining the criteria that are best for achieving the engagement objectives requires internal auditors to apply professional judgment. Internal auditors may determine that the documented policies, procedures, and/or other criteria lack detail or are otherwise inadequate. Internal auditors may assist management in determining adequate criteria or may seek input from experts to help identify or develop relevant criteria. Management's criteria may appear adequate generally, but internal auditors may suggest better criteria for the engagement.

When the criteria used by the activity under review are inadequate or nonexistent, internal auditors may recommend that management implement the criteria identified by the internal auditors. The discussion about the lack of adequate criteria may lead to a decision to provide advisory services.

Internal auditors should inform the management of the activity under review of the criteria to be used during the engagement. The agreed-upon criteria should be documented to preclude misinterpretation or challenge by the management of the activity under review.

Examples of Evidence of Conformance

- Workpapers documenting the sources of criteria considered and the process used to determine the adequacy of the criteria used.
- Documentation, such as meeting minutes, a planning memorandum, or an email, indicating internal auditors' discussion of criteria with the management of the activity under review and/or the board.

Standard 13.5 Engagement Resources

Requirements

When planning an engagement, internal auditors must identify the types and quantity of resources necessary to achieve the engagement objectives.

Internal auditors must consider:

- The nature and complexity of the engagement.
- The time frame within which the engagement is to be completed.
- Whether the available financial, human, and technological resources are appropriate and sufficient to achieve the engagement objectives.

If the available resources are inappropriate or insufficient, internal auditors must discuss the concerns with the chief audit executive to obtain the resources.

Considerations for Implementation

Identifying and assigning resources when planning an engagement is typically handled by an internal auditor designated to lead and supervise the engagement. To determine the type and quantity of resources needed for an engagement, the engagement supervisor should understand the information gathered and developed throughout engagement planning, paying special attention to the nature and complexity of work to be performed. The supervisor applies professional judgment to assign resources based on the steps identified in the work program to achieve the engagement objectives and the time that each step is expected to take. (See Standard 13.6 Work Program.) It is also important to consider constraints that may affect the engagement's performance, such as the number of hours budgeted, timing, logistics, and communications in multiple languages.

When planning engagements, internal auditors should consider the most efficient and effective application of available financial, human, and technological resources. The engagement supervisor may have access to the chief audit executive's information about the specialized competencies held by members of the internal audit function, which can help inform how to assign staff. Planning the engagement requires determining whether the available resources are appropriate and sufficient or additional resources are necessary to complete the engagement.

When resource limitations interfere with the internal audit function's ability to achieve the engagement objectives, the engagement supervisor is responsible for escalating the concern to the chief audit executive. The chief audit executive is responsible for discussing with senior management and the board the implications of resource limitations and determining the course of action to take. For example, when the chief audit executive is unable to obtain the necessary resources, the engagement scope may need to be reduced. (See also Principle 10 Manage Resources and its standards.)

To improve the effective implementation of resources, internal auditors may document the actual time spent performing the engagement against the budgeted time. The documentation can be reviewed to improve future resource planning.

Examples of Evidence of Conformance

- Approved engagement work program showing utilization of appropriate and sufficient resources.
- Planning documentation analyzing the engagement's resourcing needs and assignment of resources.
- Post-engagement survey of the management of the activity under review inquiring about timeliness and resource adequacy.
- Contracts and/or relationships with external service providers.

Standard 13.6 Work Program

Requirements

Internal auditors must develop and document an engagement work program to achieve the engagement objectives.

The engagement work program must be based on the information obtained during engagement planning, including, when applicable, the results of the engagement risk assessment.

The engagement work program must identify:

- Criteria to be used to evaluate each objective.
- Tasks to achieve the engagement objectives.
- Methodologies, including the analytical procedures to be used, and tools to perform the tasks.
- Internal auditors assigned to perform each task.

The chief audit executive must review and approve the engagement work program before it is implemented and promptly when any subsequent changes are made.

Considerations for Implementation

When planning an engagement, internal auditors collect and organize information to create a work program. The engagement work program builds on the information gathered and developed during engagement planning and details the tasks and methodologies that will be used to achieve the engagement objectives and analyze and evaluate information as internal auditors develop engagement findings, recommendations, and conclusions. For advisory services, the work program should be developed in collaboration with the stakeholders who requested the service.

Work performed during the planning phase should be documented in workpapers and referenced in the work program. (See also Standard 14.6 Engagement Documentation.) Work programs should include a place to add the name of the internal auditor who completed the work, the date the work was completed, and an indication of review and approval of the various tasks completed as the work is completed.

Internal auditors may develop the work program by linking the risks and controls identified during the engagement risk assessment with a testing approach to be implemented. As analyses and evaluations are conducted, internal auditors may link the risks and controls to the findings and conclusions.

The level of analysis and detail applied during the planning phase varies by internal audit function and engagement. When sampling is used, the work program should include the sampling methodology, population, sample size, and whether the results can be projected to the population.

Evaluating the adequacy of the control design may be completed as part of engagement planning, because it helps internal auditors clearly identify key controls to be further tested for effectiveness. The evaluation of the adequacy of the control design should be documented in either the work program or a separate workpaper. (See also Standard 14.6 Engagement Documentation.) However, the most appropriate time to

perform this evaluation depends on the nature of the engagement. If it is not completed during planning, the control design evaluation may occur as a specific stage of engagement performance, or internal auditors may evaluate the control design while performing tests of the effectiveness of the controls.

Examples of Evidence of Conformance

Workpapers supporting the development of the work program, such as:

- Risk and control matrix with testing approach.
- Maps or descriptions of control processes.
- Notes on evaluation of the adequacy of the control design.
- Plan for additional testing.
- Minutes, notes, or documentation from planning meetings during which tasks and procedures were determined.
- Complete engagement work program with documented approval.
- Documented approval of changes to the work program.

Principle 14 Conduct Engagement Work

Internal auditors implement the engagement work program to achieve the engagement objectives.

To implement the engagement work program, internal auditors gather information and perform analyses and evaluations to produce evidence. These steps enable internal auditors to:

- Provide assurance and identify potential findings.
- Determine the causes, effects, and significance of the findings.
- Develop recommendations and/or collaborate with management to develop action plans.
- Develop conclusions.

Standard 14.1 Gathering Information for Analyses and Evaluation

Requirements

To perform analyses and evaluations, internal auditors must gather information that is:

- Relevant – consistent with engagement objectives, within the scope of the engagement, and contributes to the development of engagement results.
- Reliable – factual and current. Internal auditors use professional skepticism to evaluate whether information is reliable. Reliability is strengthened when the information is:
 - Obtained directly by an internal auditor or from an independent source.
 - Corroborated.
 - Gathered from a system with effective governance, risk management, and control processes.

- Sufficient – when it enables internal auditors to perform analyses and complete evaluations and can enable a prudent, informed, and competent person to repeat the engagement work program and reach the same conclusions as the internal auditor.

Internal auditors must evaluate whether the information is relevant and reliable and whether it is sufficient such that analyses provide a reasonable basis upon which to formulate potential engagement findings and conclusions. (See also Standard 14.2 Analyses and Potential Engagement Findings.)

Internal auditors must determine whether to gather additional information for analyses and evaluation when evidence is not relevant, reliable, or sufficient to support engagement findings. If relevant evidence cannot be obtained, internal auditors must determine whether to identify that as a finding.

Considerations for Implementation

When gathering information to complete each step in the engagement work program, internal auditors focus on the information that is relevant to the engagement objectives and within the engagement scope. In applying professional skepticism, internal auditors should critically assess whether the information is factual, current, and obtained directly (such as by observation) or from a source independent of those responsible for an activity under review. Corroborating the information by comparing it against more than a single source is another way to increase reliability.

Procedures to gather information for analyses may include:

- Interviewing or surveying individuals involved in the activity.
- Directly observing a process, also known as performing a walk-through.
- Obtaining confirmation or verification of information from an individual who is independent of the activity under review.
- Inspecting or examining physical evidence such as documentation, inventory, or equipment.
- Directly accessing organizational systems to observe or extract data.
- Working with system users and administrators to obtain data.

When gathering information, internal auditors should consider whether to test a complete data population or a representative sample. Using data analysis software facilitates the ability to test complete or targeted data populations. If internal auditors choose to select a sample, they should apply methods to ensure that the sample is as representative of the entire population as possible.

Examples of Evidence of Conformance

- Engagement work program, which includes procedures for gathering data relevant to the engagement objectives.
- Description of information gathered, including its source, the date it was gathered, and the period to which it pertains.
- Documented explanation of how the internal auditor determined that the information gathered was sufficient to perform an analysis.

Standard 14.2 Analyses and Potential Engagement Findings

Requirements

Internal auditors must analyze relevant, reliable, and sufficient information to develop potential engagement findings. For advisory services, gathering evidence to develop findings may not be necessary, depending on the agreement with relevant stakeholders.

Internal auditors must analyze information to determine whether there is a difference between the evaluation criteria and the existing state of the activity under review, known as the “condition.” (See also Standard 13.4 Evaluation Criteria.)

Internal auditors must determine the condition by using information and evidence gathered during the engagement.

A difference between the criteria and the condition indicates a potential engagement finding that must be noted and further evaluated. If initial analyses do not provide sufficient evidence to support a potential engagement finding, internal auditors must exercise due professional care to determine whether additional analyses are required.

If additional analyses are required, the work program must be adjusted accordingly and approved by the chief audit executive.

If internal auditors determine that no additional analyses are required and there is no difference between the criteria and the condition, the internal auditors must provide assurance in the engagement conclusion regarding the effectiveness of the activity’s governance, risk management, and control processes.

Considerations for Implementation

The engagement work program may include a list of specific analyses to be conducted, such as:

- Tests of the accuracy or effectiveness of a process or activity.
- Ratio, trend, and regression analyses.
- Comparisons between current period information and budgets, forecasts, or similar information from prior periods.
- Analyses of relationships among sets of information (for example, financial information, such as recorded payroll expenses, and nonfinancial information, such as changes in the average number of employees).
- Internal benchmarking, comparing information between different areas within the organization.
- External benchmarking, comparing information from similar organizations.

Internal auditors should understand and use technologies that improve the efficiency and effectiveness of analyses, such as software applications that enable testing of an entire population rather than just a sample.

The analyses should yield a meaningful comparison between the evaluation criteria and the condition. When the analyses indicate a difference between the criteria and the condition, subsequent engagement procedures should be applied to determine the cause and effect of the difference and significance of the potential findings. Common examples of potential engagement findings include errors, irregularities, illegal acts, and opportunities for improving efficiency or effectiveness.

Internal auditors exercise due professional care to determine the extent and type of additional procedures that should be used to evaluate the potential findings and determine their cause, effect, and significance. The chief audit executive and the internal audit methodologies may provide guidance for determining whether to perform additional analyses. Considerations include the:

- Results of the engagement risk assessment, including the adequacy of control processes.
- Significance of the activity under review and the potential findings.
- Extent to which the analyses support potential engagement findings.
- Availability and reliability of information for further evaluation.
- Costs compared to the benefits of performing additional analyses.

Examples of Evidence of Conformance

- Workpapers that document the analyses performed, including data analytics programs or software used, test populations, sampling processes, and sampling methods.
- Workpapers cross-referenced in the work program and/or final communication.
- Documentation related to the final communication.
- Supervisory reviews of the engagement.

Standard 14.3 Evaluation of Findings

Requirements

Internal auditors must evaluate each potential engagement finding to determine its significance. When evaluating potential engagement findings, internal auditors must collaborate with management to identify the root causes when possible, determine the potential effects, and evaluate the significance of the issue.

To determine the significance of the risk, internal auditors must consider the likelihood of the risk occurring and the impact the risk may have on the organization's governance, risk management, or control processes.

If internal auditors determine that the organization is exposed to a significant risk, it must be documented and communicated as a finding.

Internal auditors must determine whether to report other risks as findings, based on the circumstances and established methodologies.

Internal auditors must prioritize each engagement finding based on its significance, using methodologies established by the chief audit executive.

Considerations for Implementation

To develop engagement findings, internal auditors compare the established criteria to the existing condition in the activity under review. (See also Standard 14.2 Analyses and Potential Engagement Findings.) If there is a difference between the two, internal auditors are required to investigate the potential finding further. The evaluation should explore:

- The root cause of the difference, which often relates to a control deficiency and is a direct reason the condition exists. To the extent feasible, internal auditors should determine the root cause, which is an underlying or deeper issue that contributed to the condition. At its simplest, determining the root cause involves asking a series of questions about why the difference exists. Identifying the root cause involves collaboration with management, who may be in a better position to understand the underlying causes for the difference.
- How the impact of the difference may be quantified. In many cases, the extent of the exposure is an estimate informed by internal auditors' professional judgment with input from the management of the activity under review. (See also Principle 4 Exercise Due Professional Care and its standards.)

To determine the significance of a finding, internal auditors identify and evaluate existing controls for design adequacy and effectiveness, then determine the level of residual risk, which is the risk that remains despite having controls in place. Although internal auditors are required to communicate significant risks as findings, internal auditors may also communicate other risks as findings or in some other way.

Internal auditors prioritize findings based on the methodology established by the chief audit executive to provide consistency across all internal audit engagements. A rating or ranking can be an effective communication tool for describing the significance of each finding and may assist management with prioritizing its action plans. When determining the significance, internal auditors should consider:

- The impact and likelihood of the risk.
- The risk tolerance.
- Any additional factors important to the organization.

The chief audit executive may provide templates for internal auditors to use to document engagement findings, ensuring proper documentation of various elements such as the:

- Criteria.
- Condition.
- Root cause (when possible).
- Effect (risk or potential exposure).
- Significance and prioritization.

Findings should be written succinctly, in plain language, such that the management of the activity under review understands the internal auditors' evaluation. Findings should explain the difference between the conditions and the criteria and should provide documented evidence that supports the internal auditors' evaluation and judgment about the findings' significance.

Examples of Evidence of Conformance

- Workpapers explaining the criteria used to evaluate the findings.
- Workpaper that lists the criteria, condition, root cause (when possible), effect (risk or potential exposure), and a prioritization of each finding.

- Workpaper or other documentation explaining the materiality, risk tolerance, and elements of any cost-benefit analysis used as the basis of the finding(s) analysis.
- Relevant internal audit methodologies, templates, and guidance.
- Documentation related to the final engagement communication.

Standard 14.4 Recommendations and Action Plans

Requirements

Internal auditors must determine whether to develop recommendations, request action plans from management, or collaborate with management to agree on actions to:

- Resolve the differences between the established criteria and the existing condition.
- Mitigate identified risks to an acceptable level.
- Address the root cause of the finding.
- Enhance or improve the activity under review.

When developing recommendations, internal auditors must discuss the recommendations with the management of the activity under review.

If internal auditors and management disagree about the engagement recommendations and/or action plans, internal auditors must follow an established methodology to allow both parties to express their positions and rationale and to determine a resolution. (See also Standard 9.3 Methodologies.)

Considerations for Implementation

Internal auditors should promptly discuss the findings and potential recommendations or action plans with the management authorized to make and oversee changes to the activity under review. The chief audit executive may create a methodology to help internal auditors identify the appropriate management. For example, the methodology may require that only a given role or level (such as a manager, director, or vice president) has such authority.

If a specific corrective action is identified that addresses a finding, internal auditors may communicate it as a recommendation. Alternatively, internal auditors may present several options for management to consider. In some cases, internal auditors may suggest that management research options and determine the appropriate course of action. A single finding may have multiple recommendations or corrective actions.

If the internal auditor and the management of the activity under review disagree about the engagement results, the chief audit executive should work with senior management to facilitate a resolution. Additionally, a formal statement from each party may be attached to the final communication or made available upon request.

Internal auditors should evaluate and discuss with management the feasibility and reasonableness of the recommendations and/or action plans. The evaluation should include a cost-benefit analysis and determination of whether the recommendations and/or action plans address the risk satisfactorily in accordance with the organization's risk tolerance.

Although internal auditors must collaborate with management on how to address the engagement findings, it is management's responsibility to implement actions to address the findings. (See also Standard 15.1 Final Engagement Communication.)

Examples of Evidence of Conformance

- Workpapers for each finding, with the criteria, condition, root cause (when possible), effect (risk or potential exposure), and recommendation(s) and/or action plans included.
- Notes, workpapers, or other documentation evidencing discussions with management regarding the findings and feasibility of recommendations and/or action plans.
- Documentation related to the final communication.

Standard 14.5 Engagement Conclusions

Requirements

Internal auditors must develop an engagement conclusion that summarizes the engagement results relative to the engagement objectives and management's objectives. The engagement conclusion must summarize the internal auditors' professional judgment about the overall significance of the aggregated engagement findings.

Assurance engagement conclusions must include the internal auditors' judgment regarding the effectiveness of the governance, risk management, and/or control processes of the activity under review, including an acknowledgment of when processes are effective.

Considerations for Implementation

The chief audit executive's methodologies for the internal audit function may provide a rating scale indicating whether reasonable assurance exists regarding the effectiveness of controls. For example, a scale may indicate satisfactory, partially satisfactory, needs improvement, or unsatisfactory depending on the internal auditors' assessments. (See also Standard 14.3 Evaluation of Findings.)

The conclusion may add context regarding the impacts of the findings within the activity under review and the organization. For example, some findings may have a significant impact on achieving goals or managing risks at an activity level, but not at an organizational level.

Advisory engagement conclusions should align with the objectives and scope.

Examples of Evidence of Conformance

- A workpaper showing the basis for the overall engagement conclusion.
- A conclusion statement in the final communication.

Standard 14.6 Engagement Documentation

Requirements

Internal auditors must document information and evidence to support the engagement results. The analyses, evaluations, and supporting information relevant to an engagement must be documented such that an informed, prudent internal auditor, or similarly informed and competent person, could repeat the work and derive the same engagement results.

Internal auditors and the engagement supervisor must review the engagement documentation for accuracy, relevance, and completeness. The chief audit executive must review and approve the engagement documentation. Internal auditors must retain engagement documentation according to relevant laws and/or regulations as well as policies and procedures of the internal audit function and the organization.

Considerations for Implementation

Documentation of the internal audit engagement through workpapers is an important part of a systematic and disciplined engagement process because it organizes engagement information in a way that enables reperformance of the work and supports engagement results. Documentation provides the basis for supervising individual internal auditors and allows the chief audit executive and others to evaluate the quality of the internal audit function's work. Documentation also serves to demonstrate the internal audit function's conformance with the Standards.

Engagement documentation should include:

- Date or period of the engagement.
- Engagement risk assessment.
- Engagement objectives and scope.
- Work program.
- Description of analyses, including details of procedures and source(s) of data.
- Engagement results.
- Names or initials of the individuals who performed and supervised the work.
- Evidence of communication to appropriate parties.

Workpapers may be organized according to the structure developed in the work program and cross-referenced to relevant pieces of information. Templates or software may be used for developing workpapers and creating a system for retaining the documentation. The result is a complete collection of documentation of the information obtained, procedures completed, engagement results, and the logical basis for each step. This documentation constitutes the primary source of support for internal auditors' communication with stakeholders, including the board, senior management, and the management of the activity under review. Most importantly, workpapers contain relevant, reliable, and sufficient information that enables a prudent, informed, and competent person, such as another internal auditor or an external auditor, to reach the same conclusions as those reached by the internal auditors who conducted the engagement.

Common workpapers include:

- Planning documentation.
- Process map, flowchart, or narrative descriptions of key processes.
- Summaries of interviews conducted, or surveys issued.
- Risk and control matrix.
- Details of tests conducted and analyses performed.
- Conclusions, including cross-referencing to the workpaper on audit findings.
- Proposed follow-up engagement work to be performed.
- Internal audit final communication with management responses.

A basic format for workpapers:

- Index or reference number.
- Title or heading that identifies the activity under review.
- Date or period of the engagement.
- Scope of work performed.
- Statement of purpose for obtaining and analyzing the data.
- Source(s) of data covered in the workpaper.
- Description of population evaluated, including sample size and method of selection used to analyze data (testing approach).
- Name of the internal auditor(s) who performed the engagement work.
- Review notes and name of the internal auditor(s) who reviewed the work.

Examples of Evidence of Conformance

- Workpapers documenting the work performed in accordance with the established methodology.
- Results of internal quality assessment reviews validating conformance with workpaper and supervision policies.

Principle 15 Communicate Engagement Results and Monitor Action Plans

Internal auditors communicate the engagement results to the appropriate parties and monitor management's progress toward the implementation of recommendations or action plans.

Internal auditors are responsible for issuing a final communication after completing the engagement and communicating the engagement results to management. Internal auditors continue to communicate with the management of the activity under review to confirm that action plans are implemented.

Standard 15.1 Final Engagement Communication

Requirements

For each engagement, internal auditors must develop a final communication that includes the engagement's objectives, scope, recommendations and/or action plans if applicable, and conclusions.

The final communication for assurance engagements also must include:

- The findings and their significance and prioritization.
- An explanation of scope limitations, if any.
- A conclusion regarding the effectiveness of the governance, risk management, and control processes of the activity reviewed.

The final communication must specify the individuals responsible for addressing the findings and the planned date by which the actions should be completed.

When internal auditors become aware that management has initiated or completed actions to address a finding before the final communication, the actions must be acknowledged in the communication.

The final communication must be accurate, objective, clear, concise, constructive, complete, and timely, as described in Standard 11.2 Effective Communication.

Internal auditors must ensure the final communication is reviewed and approved by the chief audit executive before it is issued.

The chief audit executive must disseminate the final communication to parties who can ensure that the results are given due consideration. (See also Standard 11.3 Communicating Results.)

If the engagement is not conducted in conformance with the Standards, the final engagement communication must disclose the following details about the nonconformance:

- Standard(s) with which conformance was not achieved.
- Reason(s) for nonconformance.
- Impact of nonconformance on the engagement findings and conclusions.

Considerations for Implementation

A statement that the engagement is conducted in conformance with the Global Internal Audit Standards should be included in the final engagement communication. Indicating that the internal audit engagement conformed with the Standards is appropriate only if supported by the results of engagement supervision and the quality assurance and improvement program.

The style and format of final engagement communication varies across organizations. The chief audit executive may provide templates and procedures.

Multiple versions of a final communication may be issued, with formats, content, and level of detail customized to address specific audiences, based upon how much they know about the activity under review, how the findings and conclusions affect them, and how they plan to use the information.

When issued as a report, the final communication may include the following components, in addition to the requirements:

- Title.
- Background (brief synopsis of the activity under review).
- Recognition (positive aspects of activity under review and/or appreciation of cooperation).
- Distribution list.

The review of the final communication should verify whether:

- The work performed and documented was consistent with the engagement objectives and scope and the Standards. (See also Standards 8.3 Quality and 12.1 Internal Quality Assessment.)
- The engagement results are clearly stated and supported by relevant, reliable, and sufficient information. (See also Standard 14.1 Gathering Information for Analyses and Evaluation.)
- The requirements for communicating with the management of the activity under review were met.

The chief audit executive determines how and to whom the final engagement communication is disseminated. Oral presentations are usually supported with a digital or printed copy of the presentation and/or a written report.

Examples of Evidence of Conformance

- Written final communications.
- Slides and/or meeting notes of presentations when final communication is oral.
- Documentation indicating that the final communication was reviewed and approved.
- Documentation that requirements for communicating with the activity under review were met.

Standard 15.2 Confirming the Implementation of Recommendations or Action Plans

Requirements

Internal auditors must confirm that management has implemented internal auditors' recommendations or management's action plans following an established methodology, which includes:

- Inquiring about progress on the implementation.
- Performing follow-up assessments using a risk-based approach.
- Updating the status of management's actions in a tracking system.

The extent of these procedures must consider the significance of the finding.

If management has not progressed in implementing the actions according to the established completion dates, internal auditors must obtain and document an explanation from management and discuss the issue with the chief audit executive. The chief audit executive is responsible for determining whether senior management, by delay or inaction, has accepted a risk that exceeds the risk tolerance. (See also Standard 11.5 Communicating the Acceptance of Risks.)

Considerations for Implementation

Internal auditors may use a software program, spreadsheet, or system to track whether management's action plans are implemented according to the established timelines. The tracking system indicates whether action plans remain open or are past due and provides a useful tool for internal auditors to communicate with the board and senior management. In addition, a program or system may automate the workflow from risk assessment to action plan completion. For example, the workflow may include automated emails that notify the appropriate parties regarding action plans that are nearing their target completion dates.

The methodology for confirming the implementation of management's action plans should include criteria for determining when to perform follow-up assessments to confirm that management's action plans have effectively addressed findings. Follow-up assessments may be performed for completed action plans selectively, depending on the risk's significance. Under certain circumstances, regulators may require reporting on management's action plans.

If management decides on an alternative action plan and internal auditors agree that the alternative plan is satisfactory or better than the original action plan, then progress on the alternative plan should be tracked until completion.

Examples of Evidence of Conformance

- A routinely updated tracking system (for example, a spreadsheet, database, or other tool) that contains the finding, associated corrective action plan, status, and internal audit's confirmation.
- Corrective action status reports prepared for the board and senior management.

Applying the Global Internal Audit Standards in the Public Sector

While the Global Internal Audit Standards apply to all internal audit functions, internal auditors in the public sector work in a political environment under governance, organizational, and funding structures that may differ from those of the private sector. The nature of these structures and related conditions may be affected by the jurisdiction and level of government in which the internal audit function operates. Additionally, some terminology used in the public sector differs from that of the private sector. These differences may affect how internal audit functions in the public sector apply the Standards. For this reason, the external quality assessment of an internal audit function in the public sector should be performed by an assessment team knowledgeable about public sector activities and governance structures. (See also Standard 8.4 External Quality Assessment.)

The public sector is founded upon and governed under a legal framework that includes laws, regulations, administrative orders and rules, and other types of governing requirements specific to the jurisdiction(s) within which an organization operates. Throughout the Global Internal Audit Standards, the term “laws and/or regulations” is used to represent the legal framework. Laws and/or regulations may establish the mandate, organizational position, reporting relationship, scope of work, funding, and other requirements of the internal audit function.

Through such mandates, internal audit functions in the public sector are often required to focus on:

- Ensuring compliance with laws and/or regulations.
- Identifying opportunities to improve the efficiency, effectiveness, and economy of government processes and programs.
- Determining whether public resources are adequately safeguarded and used appropriately to provide services in an equitable manner.
- Assessing whether an organization’s performance aligns with its strategic objectives and goals.

The following sections describe situations in which the application of the Standards may differ for internal auditors in the public sector.

Laws and/or Regulations

The chief audit executive must be aware of the laws and/or regulations that affect the internal audit function’s ability to fully conform with all provisions in the Standards. A charter or other documentation may be used to explain how the internal audit function is meeting the requirements of the laws and/or regulations as well as the intent of the Standards. When conformance is not possible, the chief audit executive must document the reason, make appropriate disclosures, and conform with all other requirements of the Standards. (See also Standards 4.1 Conformance with Global Internal Audit Standards, 6.1 Internal Audit Mandate, 6.2 Internal Audit Charter, 8.3 Quality, 8.4 External Quality Assessment, 12.1 Internal Quality Assessment, and 15.1 Final Engagement Communication.)

The following list describes situations in which laws and/or regulations may affect the ability of internal audit functions in the public sector to conform with the Standards:

- When laws and/or regulations serve as the internal audit mandate and charter, the chief audit executive may not have the authority or ability to make amendments. Thus, the requirement in Standard 6.1 Internal Audit Mandate to periodically review the mandate for updates may not be warranted. However, the chief audit executive could periodically conduct and document a focused review of the mandate and charter to determine that the established path to legal and/or regulatory compliance is accurately defined.
- Public disclosure laws and/or regulations may govern the types of documents that are required to be released to the public and those that cannot be released to the public. The methodologies of internal audit functions in the public sector should include these requirements. (See also Standards 5.1 Use of Information and 5.2 Protection of Information.)
- Laws and/or regulations may limit the type of private discussions that the chief audit executive may have with the board. (See also the Glossary definition of “board” as well as Standards 6.3 Board and Senior Management Support and 7.1 Organizational Independence.)
- Laws and/or regulations may require internal audit functions in the public sector to present internal audit results at public meetings. Methodologies for the dissemination of final communications should adhere to these requirements. (See also Standards 11.2 Effective Communication and 15.1 Final Engagement Communication.)
- In the public sector the external assurance provider is often mandated. In some jurisdictions, the authority of a supreme audit institution may supersede that of the internal audit function and internal audit functions may be required to adhere to planning as stipulated and conduct joint work. In Standard 11.1 Building Relationships and Communicating with Stakeholders the internal audit function is required to coordinate with the external assurance provider, and this authority may supersede the coordination role. (See also Standards 6.1 Internal Audit Mandate and 9.5 Coordination and Reliance.)

Internal auditors in the public sector have a broad base of stakeholders, including the public within the jurisdiction as well as appointed and elected officials. The internal audit function may be legally required to be accountable and transparent to the public. To adequately serve their stakeholders, internal auditors may consider input from the public when planning and performing internal audit services. Public input may be provided by users of government services, such as utilities, public transit systems, parks and recreation facilities, building permitting processes, and others. (See also Standards 9.4 Internal Audit Plan, 11.1 Building Relationships and Communicating with Stakeholders, and 13.2 Engagement Risk Assessment.)

Governance and Organizational Structure

Internal audit functions in the public sector are governed under a variety of structures. Some public sector organizations may be subject to multiple levels of governance, both within and outside the organization, which may complicate the reporting relationships of the chief audit executive as well as the oversight and funding of the function.

The Global Internal Audit Standards reference responsibilities related to the “board” and “senior management.” The glossary defines “board” using concepts that encompass various governance structures in the public sector. Because the board in the public sector may be a policy-setting body, it may not have authority over aspects of the chief audit executive and the internal audit function as described in the Standards. For example, such a body may not be able to appoint, remove, or set remuneration for the chief audit executive. In those situations, the board should still provide input to management regarding performance evaluations and decisions to appoint and remove the chief audit executive. In other public sector organizations, “senior management” may be defined differently than it is in the Standards. When the term is used to refer to the management of the activity under review, safeguards to independence must be implemented to mitigate the risk of interference with the internal audit function’s work.

The chief audit executive should avoid taking direction from elected officials without first consulting the board and senior management, who directly oversee the internal audit function, unless the officials have direct oversight responsibilities.

The examples below describe governance and organizational structures in which internal audit functions may need to adjust the application of some standards (the list is not exhaustive):

- Internal audit functions may be separate from other parts of the organization, and the chief audit executive reports directly to a legislative body that functions as a board.
- Internal audit functions may be placed at the highest level of the government organization, and the chief audit executive reports directly to the head of the organization.
- Internal audit functions may be placed within another component of the overall organization (such as a department or other unit within a government organization), and the chief audit executive reports to the head of the organization or a nonexecutive/supervisory board. This may occur when there is a tiered governance structure and where there is more than one governing body.
- Internal audit functions may be separate from other parts of the organization because the chief audit executive is elected and retained by the voters within a jurisdiction and does not report to any specific oversight body or person in the organization.
- Internal audit functions may be placed lower in the organization, and the chief audit executive reports to a single senior manager from that department.

While some of these situations do not meet the independence requirements in the Global Internal Audit Standards, establishing an audit committee comprising public members, independent of management, safeguards independence and provides ongoing oversight, advice, and feedback. (See also Standards 6.2 Internal Audit Charter and 6.3 Board and Senior Management Support, Principle 7 Positioned Independently and its standards, and Standard 8.1 Board Interaction.)

Funding

The funding processes for internal audit functions vary widely in the public sector. Some governance and organizational structures do not give the board and senior management authority over the budget. These conditions prevent the chief audit executive from being able to seek budget approval from the board and senior management and limit the ability to seek or obtain additional funding due to other funding priorities within the organization.

For example, some internal audit functions within the public sector can submit independent budget requests to their board or legislative body for approval. Others' budgets are part of a larger organizational budget, and the allocation to the internal audit function is determined by the head of the organization and often approved by an outside legislative body. In either case, the chief audit executive could advocate to the board for the resources needed.

Even when the budget is set by laws and/or regulations, the chief audit executive must adhere to other requirements of the standards related to managing the budget. (See also Standards 6.3 Board and Senior Management Support, 7.1 Organizational Independence, 8.2 Resources, and 10.1 Financial Resource Management.)

The following public sector conditions may limit the way the chief audit executive may spend allocated funds:

- The position classification structure and/or labor agreements often establish pay ranges for each position classification based on the knowledge, skills, and responsibilities of the position that limit the authority of the chief audit executive or board to establish the remuneration for each employee. In such situations, the chief audit executive should collaborate with the human resources function, as described in Standard 10.2 Human Resources Management.

- The internal audit function may be required to use only software approved for the organization, which may limit the chief audit executive's ability to obtain technology to support the internal audit function. Internal audit functions in the public sector should engage their board as advocates for supporting their technology needs and may need to use software available to achieve the audit plan in the most efficient way possible while maintaining conformance with the Standards. (See also Standard 10.3 Technological Resources.)
- When funding limitations prevent the chief audit executive from obtaining adequate resources to conduct an external quality assessment, internal audit functions in the public sector may benefit from participating in peer programs to conduct the assessment. (See also Standards 8.4 External Quality Assessment and 10.1 Financial Resource Management.)
- When an outside authority or oversight body provides the funding for the internal audit function in the public sector, the chief audit executive may be required to provide final engagement communications to the funding authority. (See also Standards 11.1 Building Relationships and Communicating with Stakeholders, 11.2 Effective Communication, and 15.1 Final Engagement Communication.)

About The IIA

The Institute of Internal Auditors (IIA) is a nonprofit international professional association that serves more than 245,000 global members and has awarded more than 190,000 Certified Internal Auditor® (CIA®) certifications worldwide. Established in 1941, The IIA is recognized throughout the world as the internal audit profession's leader in standards, certifications, education, research, and technical guidance. For more information, visit theiia.org.

Copyright © 2024 The Institute of Internal Auditors, Inc. All rights reserved. For permission to reproduce, please contact copyright@theiia.org.

Internal Audit



The Institute of
Internal Auditors

1035 Greenwood Blvd., Suite 401
Lake Mary, FL 32746 USA
theiia.org

135 of 135