AGENDA

A. Roll Call

B. Consideration of approval of minutes of April 8, 2011

C. Report of Chancellor Malcolm Portera

D. Administrative Report

E. Academic Affairs, Student Affairs, and Planning Committee Report

1. Consideration of Resolution approving submission of a Notification of Intent to Submit a Proposal (NISP) for a Master of Science (M.S.) Degree in Biotechnology (C.I.P. Code 26.1201) at UAB

2. Consideration of Resolution granting approval of and permission to Submit to the Alabama Commission on Higher Education (ACHE) a Proposal for a Master of Science in Integrated Science, Technology, Engineering, and Mathematics (MSISTEM) (C.I.P. Code 30.0101) at UAHuntsville

3. Administrative Action Items

a. Consideration of Resolution approving establishment of Concentrations in Biomaterials, Metallurgy, and Polymer Matrix Composites within the Bachelor of Science Degree in Materials Engineering (B.S.M.E.) (C.I.P. Code 141801) at UAB
J. Audit Committee Report

1. Consideration of Resolution approving appointment of PricewaterhouseCoopers as External Auditors for 2010-2011

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2. Consideration of Resolution approving revisions to Board Rule 407, Auditing Operations and Board Rule 408, Internal Audit Policies and Standards

K. Honorary Degrees and Recognition Committee Report

L. Administrative Action Items

1. Consideration of Resolutions Accepting Gifts

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<tr>
<th>Name</th>
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MINUTES OF THE JUNE 17, 2011 MEETING 
OF THE AUDIT COMMITTEE 
OF THE BOARD OF TRUSTEES OF THE UNIVERSITY OF ALABAMA

The Audit Committee of The Board of Trustees of The University of Alabama met in the Moonlight Ballroom at The Battle House Renaissance Hotel and Spa, Mobile, Alabama, on Friday, June 17, 2011. Trustee Vanessa Leonard chaired the meeting. Michael A. Bownes served as Secretary.

On roll call, the following Committee members were present:

The Honorable Marietta M. Urquhart, Trustee from the First Congressional District

The Honorable W. Davis Malone III, Trustee from the Second Congressional District

The Honorable Vanessa Leonard, Trustee from the Third Congressional District

The Honorable James W. Wilson III, Trustee from the Third Congressional District

The Honorable William Britt Sexton, Trustee from the Fourth Congressional District

The Honorable Joe H. Ritch, Trustee from the Fifth Congressional District

The Honorable Andria Scott Hurst, Trustee from the Seventh Congressional District

Other Trustees in attendance:

The Honorable Angus R. Cooper II, Trustee from the First Congressional District

The Honorable Joseph C. Espy III, Trustee from the Second Congressional District

The Honorable Finis E. St. John IV, President pro tempore, and Trustee from the Fourth Congressional District
The Honorable Ronald W. Gray, Trustee from the Fifth Congressional District

The Honorable Paul W. Bryant, Jr., Trustee from the Sixth Congressional District

The Honorable John J. McMahon, Jr., Trustee from the Sixth Congressional District

The Honorable Karen P. Brooks, Trustee from the Seventh Congressional District

The Honorable John H. England, Jr., Trustee from the Seventh Congressional District

The meeting was also attended by Chancellor and Interim UAHuntsville President Malcolm Portera, General Auditor Sabrina Heam, UA President Robert Witt, and UAB President Carol Garrison, as well as support staff from the UA System Office, UA, UAB, and UAHuntsville.

Kellee Reinhart introduced the press: Jonathan Reed from *The Crimson White*; Wayne Grayson from *The Tuscaloosa News*; and Rena Havener Phillips from *The Mobile Press Register*.

Chairman Leonard called for a motion to approve the minutes of the February 4, 2011 meeting. On motion of Trustee Sexton, seconded by Trustee Ritch, the minutes were approved.

Chairman Leonard called on Michael Lammons, Partner with Pricewaterhouse-Coopers (PwC), to discuss the proposed fees for the 2011 fiscal year and to respond to questions.

Mr. Lammons said that PwC values its relationship with The University of Alabama System and is committed to a continued level of quality service. The audit plan will be presented at the September 2011 meeting.

Mr. Lammons’ discussion of the fee proposal included schedules for audit and tax fees for FY 2011. The total assurance fees are down approximately $100,000 from the prior year due to a reduction in the number of bond offerings (about $65,000) and a reduction in the fees related to the Hospital (about $35,000). The reason for the reduction in fees related to the hospital is the combination of Highlands into the Hospital that will allow PwC to do one audit there instead of two. For the other individual audits, there is a
BE IT FURTHER RESOLVED that, in the scheduling of the audit and the publishing of the annual audited financial statements of The University of Alabama System, PricewaterhouseCoopers will work through The University of Alabama System Office. Copies of all Management Letters and Engagement Letters relative to this audit shall be furnished to the Chancellor, the Vice Chancellor for Finance, and the General Auditor.

Chairman Leonard called on General Auditor Sabrina Hearn to present information about Board Rules 407 and 408.

Ms. Hearn said that revisions to Board Rule 407, Auditing Operations, and Board Rule 408, Internal Audit Policies and Standards, are proposed to incorporate changes to professional standards for the practice of internal auditing. She recommended approval of the resolution.

Chairman Leonard called for a motion to approve the resolution. On motion of Trustee Ritch, seconded by Trustee Sexton, the resolution was approved.

RESOLUTION

BE IT RESOLVED by The Board of Trustees of The University of Alabama that it approves the revisions to Board Rule 407. Auditing Operations and Board Rule 408. Internal Audit Policies and Standards. (Exhibit A)

With no other business to come before the Committee, the meeting was adjourned.

Sabrina Hearn
General Auditor

Michael A. Bownes
Secretary of the Board of Trustees
Draft Board Rule 407-
Auditing Operations

I. Introduction

The purpose of this Rule is to provide a mechanism whereby the Board, through its Audit Committee (the "Committee"), may exercise oversight over all of the internal and external audit functions of The University of Alabama System (System), including all campuses. This Rule is intended to describe the purpose, authority, composition, operations, and responsibilities of the Committee.

Describe the operations of the
II. Committee as they relate

A. The purpose of the Audit Committee is to assist The Board of Trustees in fulfilling its oversight responsibilities for financial and operational reporting, risk management, internal control, internal audit functions, and compliance with laws, regulations and the codes of conduct.

Describe III. Committee Authority

The Committee has the position authority to conduct or authorize investigations into any matters within its scope of responsibility. It is empowered to:

A. Recommend, in conjunction with the Chancellor, to the Board the appointment, removal or replacement of the chief audit executive (General Auditor).

B. Recommend the appointment of an independent nationally recognized accounting firm for external financial and its working relationship within The University of Alabama System, other required audits.

C. Resolve disagreements between management and internal or external auditors.
D. Pre-approve all audit and non-audit services provided by the responsibilities of external auditor.

E. Retain independent counsel, accountants, or others to advise the campuses to Committee or assist in the General Auditor, conduct of an investigation, and

F. Meet with company officers, internal auditors, external auditors, outside counsel, or other employees, as necessary.

IV. Committee Composition

The Committee will consist of at least three members of The Board of Trustees. At least one member of the Committee will have financial expertise based on knowledge gained through education and/or experience.

V. Committee Operations (Meetings)

The Committee will meet at the call of the Chair of the Audit Committee. All Committee members are expected to attend each meeting. Meeting agendas will be prepared and provided in advance to members, along with appropriate briefing materials. Minutes will be prepared.

The Committee will invite members of management, internal and external auditors, or others to attend meetings and provide pertinent information as necessary. The Committee will hold executive sessions with internal and external auditors as appropriate.

VI. Committee Responsibilities

A. Internal Audit

In relation to internal auditing of The University of Alabama System, the Audit Committee shall carry out the following responsibilities:
1. Review with management and the General Auditor the charter, policies, standards, plans, activities, staffing, and organizational structure of the Internal Audit activity.

2. Review the effectiveness of the Internal Audit activity, and

3. Recommend for adoption by the Board the policies and standards by which the internal audit functions of the System will be governed.

B. External Audit

The Audit Committee, with the General Auditor to review and approve serving as liaison between the System and the external auditor, will carry out the following responsibilities:

(a) Review the external auditors' proposed audit scope of annual work to be undertaken;

(b) Staff and budget requirements necessary to implement the system audit plan. The system audit plan is the product of coordinating campus and Chancellor's Office audit plans to address the audit concerns of the campus administrators, the Chancellor and the Board; approach.

(c) Significant variations from the previously approved audit plan;

(d) Summary of audits conducted and significant findings;

(e) Problem areas encountered in the audit process.

3. Meet with Directors of Internal Audit annually and at other times as necessary.

March 2011
B. External Audit

2. Review and confirm the independence of the external auditors by obtaining statements from the auditors on relationships between the auditors and the System, including non-audit services and compensation practices, and discussing the relationships with the auditors.

The Board shall continue to appoint annually an independent nationally recognized accounting firm, if possible, to provide an external audit and to recommend improvements in the fiscal reporting and accounting policies and procedures within the University System. The General Auditor shall serve as liaison between the University System and the external auditor. The Audit Committee shall:

1. Review and approve the audit plan on a timely basis with the independent auditors to include:

(a) scope of audit work to be performed;

(b) extent of coordination with the General Auditor's staff;

(c) anticipated problem areas and concerns based on changes in the economy, governmental regulations, findings, and other such changes that may impact colleges and universities;

(d) recent developments in reporting practices and external auditing standards.

2. Review audit findings with the independent auditors and through the General Auditor ensure that appropriate actions are taken.

3. Receive and execute the audit engagement letter from the independent auditors.
4. Review the independent auditors' comments regarding internal control and other matters.

5. Recommend to the Board the appointment of independent auditors annually.

a. The Board's external auditing firm is authorized to perform audit and audit related services to the University System. "Audit related" is deemed to be federal audit support, internal control reviews and investigations, implementation of new accounting standards, review of income and other tax matters, internal financial reviews, due diligence procedures related to public debt offerings, and other transactions and audits of affiliated entities or special purpose audits.

7. The campuses are to request approval of the Audit Committee, through the General Auditor, for all additional services requested of the outside auditing firm appointed by the Board.

8.b. The Board's external auditing firm may not provide the following services while serving as the external auditing firm: bookkeeping, financial information systems design and implementation, appraisal or valuation services, actuarial services, internal audits, management and human resource services, broker/dealer and investment banking services, and legal services; provided, however, that with the advance approval of the Audit Committee, such services may be provided, but only where there are extenuating circumstances.

The managing partner of the external auditing firm will be rotated (rotation is required every seven years, with a two-year timeout).
9. 4. Review the performance of the external auditors and recommend to the Board the appointment, compensation, and discharge of the auditors.

5. Receive and execute the audit engagement letter from the external auditor.

6. Review with management and the external auditors the results of the audit and ensure that appropriate actions are taken, and

7. Review with management and the external auditors all matters required to be communicated to the committee under generally accepted auditing standards including recent developments and reporting practices.

C. State and Federal Audits

The University of Alabama System shall continue to cooperate with State and Federal auditors in providing timely information requested in connection with such audits. The General Auditor shall be the principal liaison officer between the System and the State and Federal auditors. The Audit Committee shall:

The Audit Committee will carry out the following responsibilities:

• 1. Review the report and findings of the State Examiners of Public Accounts.

• 2. Maintain an awareness of significant Federal audit findings through the General Auditor.

External auditors, such as CPAs, Federal Inspectors General, State Examiner of Public Accounts, and the U.S. General Accounting Office, usually hold exit conferences to discuss their findings with the auditee prior to preparing their final reports. These conferences are very useful as they provide a forum for clarifying facts and discussing alternative solutions to problems. It is the policy of the Board to insist upon these conferences. The General Auditor or his or her designate, and such Audit Committee members as deemed desirable are to be invited to attend these conferences.

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D. General

Minutes should be recorded for all meetings of the Audit Committee. Reports and all supporting data submitted to the Committee shall at all times be available for inspection and review by any member of the Board. An Annual Report and Periodic Report, as appropriate, should be made by the Committee to the Board. To the extent possible, given the composition of the Board, there shall be at least one member of the Audit Committee with financial expertise, gained through education and/or experience.

III. Responsibilities of the General Auditor

The Board of Trustees has authorized creation of the position of General Auditor, who shall be appointed by the Board. The General Auditor shall be responsible for the appointment of internal auditors and staffing of the internal audit function. He or she shall perform such other duties as may be included in the description of the position of General Auditor and shall report administratively to the Chancellor, but shall ultimately be responsible through the Audit Committee to the Board.

The General Auditor is responsible for the administration of the overall internal audit function of The University of Alabama System and shall have authority over such functions. The General Auditor is also responsible for the internal audit services for the UAB Health System Operating Entities as described in the agreement between the Board and the Health System dated February 11, 1999, so long as it remains in force.

In this regard, the following are the operational guidelines for the General Auditor:

A. In consultation with appropriate campus officials, develop, for recommendation to the Committee, system-wide policies with regard to the internal audit function to be adopted by the Board.
B. Monitor the implementation of Board audit policies on each campus.

C. Provide functional coordination and guidance of the System internal audit function.

1. After consultation with appropriate institutional and Chancellor's Office officials, prepare an audit plan which considers the needs of the campuses and the overall System. The plan should outline the anticipated audit needs and projected staff requirements and should be approved for each fiscal year prior to the beginning of that year. The plan should also contain the flexibility necessary to respond to campus administration needs as they arise.

2. Consolidate the campus audit plans into a System audit plan. If the campus officials believe that the audit coverage is inadequate or other problems exist, and if they are unable to agree with the General Auditor on an acceptable solution, the Chancellor and the Audit Committee shall be notified of the respective positions of the campus officials and the General Auditor.

D. Meet with the Committee and review the planned scope of internal audit work to be undertaken, projected staff, and budget requirements, before implementation of the System audit plan.

E. Act as liaison between the University System and the independent auditors, and review the independent auditors' plan and approve the scope for each campus. Such plan shall include a provision that the campuses supply assistance to independent auditors as appropriate, to keep external audit cost at a minimum and efficiency at a maximum.

F. Periodically prepare a summary of internal audits conducted on each campus, to highlight matters of interest to the Audit Committee.

G. Attend meetings of the Audit Committee as required.
H. Conduct such audits of the Chancellor's Office as deemed advisable.

I. Assume direct responsibility for auditing the operations and policy implementation of the System-wide investment program under the management of the System-wide Investment Committee.

J. Undertake such special audits as directed by the Board or the Chancellor. The General Auditor shall inform the appropriate campus or Chancellor's Office officials in advance of all such audits that involve campus or Chancellor's Office personnel or records.

K. Act as liaison between the Board and the State and Federal auditors. The System audit plan should address, where practical, the audit needs of State and Federal auditors and coordinate the audit of various agencies. The General Auditor shall be notified of, and attend if he or she deems desirable, any meeting at which State and Federal auditors shall discuss and negotiate their findings with campus officials. The General Auditor shall receive a copy of all Federal and State reports issued and be kept informed of the related action taken by campus officials.

L. Report to the Committee any matters on which he or she has any disagreement with campus officials. After an opportunity for each party to state a position, the Committee shall either resolve the question with those involved, or make a recommendation to the Board for determination.

M. Discuss all audits with appropriate campus officials prior to their release to the Chancellor or to the Audit Committee.

3. N. Attend exit conferences with the General Auditor, as necessary, and.

4. Ensure that campus information is handled discreetly and appropriate actions are taken as a result of 1-3 above.
Acknowledgement in any reports to the Audit Committee corrective action taken or planned by the campus.

Establish an anonymous reporting mechanism for questionable accounting, financial, and compliance matters.

Q. Perform such other duties as the Audit Committee may request.

IV. Campus Responsibilities

The President of each campus, or his or her designee, is responsible for:

A. Participating with the Office of Internal Audit in the formulation of the campus audit plan;

B. Meeting on a routine basis with the Office of Internal Audit to review the status of audit work to date and any adjustments made to the System audit plan;

C. Communicating to the Office of Internal Audit emergency or unanticipated audit needs as they arise which may necessitate a revision in the campus audit plan;

D. Reviewing with the Office of Internal Audit audit reports and implementation of recommendations;
E. Participating with the General Auditor in the presentation of the audit results to the Audit Committee when necessary;

F. Issuing an audit charter giving the Office of Internal Audit access to personnel, records and other property or information necessary to conduct audits;

G. Implementing audit recommendations. Where there is disagreement between campus management and the auditor as to the viability of the recommendation, attempts to compromise will be made in turn with the President, the Chancellor and the Audit Committee.
407. Auditing Operations

I. Introduction

This Rule provides a mechanism whereby the Board, through its Audit Committee (the “Committee”), may exercise oversight of the internal and external audit functions of The University of Alabama System (System), including all campuses. This Rule describes the purpose, authority, composition, operations, and responsibilities of the Committee.

II. Committee Purpose

The purpose of the Audit Committee is to assist The Board of Trustees in fulfilling its oversight responsibilities for financial and operational reporting, risk management, internal control, internal audit and compliance with laws, regulations and the codes of conduct.

III. Committee Authority

The Committee has the authority to conduct or authorize investigations into any matters within its scope of responsibility. It is empowered to:

A. Recommend, in conjunction with the Chancellor, to the Board the appointment, removal or replacement of the chief audit executive (General Auditor),

B. Recommend the appointment of an independent nationally recognized accounting firm for external financial and other required audits,

C. Resolve disagreements between management and internal or external auditors,

D. Pre-approve all audit and non-audit services provided by the external auditor,

E. Retain independent counsel, accountants, or others to advise the Committee or assist in the conduct of an investigation, and
F. Meet with company officers, internal auditors, external auditors, outside counsel, or other employees, as necessary.

IV. Committee Composition

The Committee will consist of at least three members of The Board of Trustees. At least one member of the Committee will have financial expertise based on knowledge gained through education and/or experience.

V. Committee Operations (Meetings)

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The Committee will invite members of management, internal and external auditors, or others to attend meetings and provide pertinent information as necessary. The Committee will hold executive sessions with internal and external auditors as appropriate.

VI. Committee Responsibilities

A. Internal Audit

The Audit Committee will carry out the following responsibilities:

1. Review with management and the General Auditor the charter, policies, standards, plans, activities, staffing, and organizational structure of the Internal Audit activity,

2. Review the effectiveness of the Internal Audit activity, and

3. Recommend for adoption by the Board the policies and standards by which the internal audit functions of the System will be governed.
B. **External Audit**

The Audit Committee, with the General Auditor serving as liaison between the System and the external auditor, will carry out the following responsibilities:

1. Review the external auditors' proposed audit scope and approach,

2. Review and confirm the independence of the external auditors by obtaining statements from the auditors on relationships between the auditors and the System, including non-audit services and compensation practices, and discussing the relationships with the auditors.
   
   a. The external auditing firm is authorized to perform audit and audit related services to the System. “Audit related” is deemed to be federal audit support, internal control reviews and investigations, implementation of new accounting standards, review of income and other tax matters, internal financial reviews, due diligence procedures related to public debt offerings, and other transactions and audits of affiliated entities or special purpose audits.

   b. The external audit firm should not provide the following services: bookkeeping, financial information systems design and implementation, appraisal or valuation services, actuarial services, internal audits, management and human resource services, broker/dealer and investment banking services, and legal services.

3. Review the managing partner rotation (rotation is required every seven years, with a two-year timeout),

4. Review the performance of the external auditors and recommend to the Board the appointment, compensation, and discharge of the auditors,

5. Receive and execute the audit engagement letter from the external auditor,
6. Review with management and the external auditors the results of the audit and ensure that appropriate actions are taken, and

7. Review with management and the external auditors all matters required to be communicated to the committee under generally accepted auditing standards including recent developments and reporting practices.

C. State and Federal Audits

The Audit Committee will carry out the following responsibilities:

1. Review the report and findings of the State Examiners of Public Accounts,

2. Maintain an awareness of significant federal audit findings through the General Auditor,

3. Attend exit conferences with the General Auditor, as necessary, and,

4. Ensure that appropriate actions are taken as a result of 1-3 above.

Draft Board Rule 408:  
Internal Audit Policies and Standards

I. Introduction

This Rule contains the policies and standards by which the internal audit functions of the University of Alabama System (System) will be governed.

II. Mission and Scope of Work

A. The mission of Internal Audit is to provide independent, objective assurance and consulting services designed to add value and improve the System’s operations. Internal Audit helps the System accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

B. The scope of work of the Internal Audit department is to determine whether the System’s risk management, control, and governance processes, as designed and represented by management, are adequate and functioning in a manner to ensure:

1. Risks are appropriately identified and managed.
2. Significant financial, managerial, and operating information are accurate, reliable, and timely.
3. Employee’s actions are in compliance with policies, standards, procedures, and applicable laws and regulations.
4. Resources are acquired economically, used efficiently, and adequately protected.
5. Programs, plans, and objectives are achieved.
6. Quality and continuous improvement are fostered in the control processes, and
7. Significant legislative or regulatory issues impacting the System are recognized and addressed properly.

III. Authority

The General Auditor and staff of the Internal Audit department are authorized to:

A. Have unrestricted access to all functions, records, property, and personnel.

B. Have full and free access to the Audit Committee.

C. Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives, and

D. Obtain the necessary assistance of personnel in units where they perform audits, as well as other specialized services from within or outside the System.

The General Auditor and staff of the Internal Audit department are not authorized to:

A. Perform any operational duties for the System or its campuses.

B. Initiate or approve accounting transactions external to the Internal Audit department, or

C. be done in accordance with generally accepted Direct the activities of any System or campus employee not employed by the Internal Audit department, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the Internal Auditors.
IV. Accountability

The General Auditor shall report administratively to the Chancellor and functionally to the Audit Committee. In the discharge of his/her duties, the General Auditor shall:

A. Report significant issues related to the processes for controlling the activities of the System, including potential improvements to those processes, and

B. Provide information periodically on the status and results of the annual audit plan and the sufficiency of department resources.

V. General Auditor Responsibilities

The General Auditor, or his/her designee, will carry out the following responsibilities:

A. Develop a flexible annual audit plan using appropriate risk-based methodology (including any risks or control concerns identified by management) and submit the plan to the Chancellor and the Audit Committee for review.

B. Implement the annual audit plan as approved, including, and as appropriate, any special tasks or projects requested by management and the Audit Committee.

C. Maintain a professional audit staff with sufficient knowledge, skills, experience, and professional certifications.

D. Establish a quality assurance program.

E. Create a culture of support and accessibility to campus management; and assist management in meeting objectives by performing consulting services in addition to assurance services.
F. Issue periodic reports to the Audit Committee and management summarizing results of audit activities.

G. Serve as liaison between the System and the external auditor.

H. Assist in the investigation of significant suspected fraudulent activities within the System.

I. Consider the scope of work of external auditors and regulators, as appropriate, for the purpose of providing optimal audit coverage to the System, and

J. Coordinate with other control and monitoring functions (risk management, compliance, security, legal, ethics, environmental, external audit), as appropriate.

VI. Campus Management Responsibilities

The President of each campus, or his or her designee, will carry out the following responsibilities:

A. Participate with Internal Audit to formulate the campus audit plan.

B. Meet routinely with Internal Audit to review the status of audit work.

C. Communicate to Internal Audit unanticipated audit needs as they arise.

D. Review with Internal Audit all audit reports and ensure all recommendations are implemented.

E. Provide requested information and assistance to external audit firm and keep General Auditor informed about status of audit requests and issues.

F. Participate with the General Auditor in presenting the audit results to the Audit Committee, when necessary, and
G. Issue an audit charter reinforcing Internal Audit access to personnel, records and other property or information necessary to conduct audits.

VII. Campus Management Acceptance of Risks

When a difference of opinion exists between Internal Audit and management, the General Auditor will exercise the following process until the difference is resolved.

A. The General Auditor and Campus President will meet to discuss the matter.

B. The General Auditor and Campus President will meet with the Chancellor to discuss the matter.

C. When the General Auditor believes that management has accepted a level of residual risk that may be unacceptable to the System, the General Auditor will discuss the matter with the Audit Committee.

VIII. Standards. Usually the Standards of Audit Practice

Internal Audit will operate under standards promulgated by the that the Board has approved. Current standards are the International Standards for the Professional Practice of Internal Auditing of The Institute of Internal Auditors, Inc., will be followed and will disclose areas of noncompliance to the Audit Committee. On occasion, other standards such as the Governmental Government Auditing Standards will apply. Each audit report is to disclose which standards were followed. Regardless of the standards followed, there are certain matters the Board wishes to emphasize.

Internal auditors will uphold the principles of integrity, objectivity, confidentiality, and competency as defined in The Institute of Internal Auditors Code of Ethics.

II. Nature of Auditing

Internal Auditing is an independent appraisal activity established within The University

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of Alabama System as a service to the organization. It is a control that functions by examining and evaluating the adequacy and effectiveness of other controls. For this appraisal function to be effective, it must have independence, objectivity, professional proficiency, and must operate under a code of ethics.

A. Independence

The Audit Committee reviews and approves the General Auditor's budget to assure the adequacy of the resources committed to internal audit.

Each President is to issue an audit charter which notifies campus officials of the importance of the audit function and authorizes full access to the facilities, records, and personnel.

The General Auditor further ensures that the audit function has sufficient independence through quality control reviews.

The Audit Committee reviews the audit work schedule for the year.

B. Objectivity

Objectivity is an independent mental attitude which internal auditors should maintain in performing audits. Internal auditors are not to subdue their judgment on audit matters to others.

Objectivity requires internal auditors to perform audits in such a manner that they have an honest belief in their work product and that no significant quality compromises are made. Internal auditors are not to be placed in situations in which they feel unable to make objective professional judgments. Drafting new procedures and designing and installing operating systems are tasks that are not compatible with audit functions. Performing such activities is presumed to impair audit objectivity.
C. Professional Proficiency

The internal auditing department should possess or should obtain the knowledge, skills, and disciplines needed to carry out its audit responsibilities.

The internal auditing staff should collectively possess the knowledge and skills essential to the practice of the profession within the University.

Internal audits should be performed with proficiency and due professional care. Professional proficiency is the responsibility of the internal auditing department and of each internal auditor. The department should assign to each audit those persons who collectively possess the necessary knowledge, skills, and disciplines to conduct the audit properly.

The General Auditor and the Directors of Internal Audit should provide assurance that the technical proficiency and educational background of internal auditors are appropriate for the audits to be performed.

Internal auditors are to maintain their technical competence through continuing education. The performance of each internal auditor is to be appraised at least once each year. Areas where improvement is desired should be identified during the performance appraisal. Goals should be established and training should be provided that will accomplish the desired improvement. Each professional is to meet the minimum standards required by the U.S. General Accounting Office.

The internal auditing department should provide assurance that internal audits are properly supervised. The Directors of Internal Audit are responsible for providing appropriate audit supervision.

III. Code of Ethics
All internal auditors employed by The University of Alabama System belong to the Institute of Internal Auditors, Inc. The Code of Ethics of the Institute calls for high standards of honesty, objectivity, diligence, and loyalty to which all auditors within The University of Alabama System should conform. The articles of the Code are as follows:

B. Members shall exercise honesty, objectivity, and diligence in the performance of their duties and responsibilities.

C. Members shall exhibit loyalty in all matters pertaining to the affairs of the employer or to whomsoever they may be rendering a service. However, members shall not knowingly be a party to any illegal or improper activity.

D. Members shall not knowingly engage in acts or activities which are discreditable to the profession of internal auditing or of their organization.

E. Members shall refrain from entering into any activity which may be in conflict with the interest of their organization or which would prejudice their ability to carry out objectively their duties and responsibilities.

F. Members shall not accept anything of value from an employee, client, customer, supplier, or business associate of their organization which would impair or be presumed to impair their professional judgment.

G. Members shall undertake only those services which they can reasonably expect to complete with professional competence.

H. Members shall adopt suitable means to comply with the Standards for the Professional Practice of Internal Auditing.

I. Members shall be prudent in the use of information acquired in the course of their duties. They shall not use confidential information for any personal gain nor in any manner which would be contrary to law or detrimental to the welfare of their organization.

J. Members, when reporting on the results of their work, shall reveal all material facts known to them which, if not revealed, could either distort reports of operations under review or conceal unlawful practices.

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K. Members shall continually strive for improvement in their proficiency and in the effectiveness and quality of their service.

L. Members, in the practice of their profession, shall be ever mindful of their obligation to maintain the high standards of competence, morality, and dignity promulgated by the Institute. Members shall abide by the Bylaws and uphold the objectives of the Institute.

IV. Objective and Scope of Internal Audit

The objective of internal auditing is to assist the campuses in the effective discharge of their responsibilities. To this end, internal auditing furnishes them with analyses, appraisals, recommendations, counsel, and information concerning the activities reviewed. The audit objective includes promoting effective control at reasonable cost.

The scope of internal auditing encompasses the examination and evaluation of the adequacy and effectiveness of the organization's system of internal control and the quality of performance in carrying out assigned responsibilities. The scope of internal auditing includes:

A. Reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information.

B. Reviewing the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations, which could have a significant impact on operations and reports, and determining the organization is in compliance.

C. Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets.

D. Appraising the economy and efficiency with which resources are employed.

E. Evaluating the method of utilizing resources (personnel, property, space, etc.) in an economical and efficient manner. The causes of any inefficiencies or uneconomical practices should be determined and recommendations to correct the problems should be presented. This includes consideration of the:
need for goods or services provided or procured;
reasonable costs incurred or expenditures made;
proper utilization of resources;
adequacy of revenue for goods or services provided.

Such matters are pursued primarily from the standpoint of improvements needed—usually by identifying avoidable costs or waste, possibilities for increased revenues, and alternative procedures for producing similar results at lower costs or better results at the same or lower costs.

F. Reviewing operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.

V. Communicating Results

Internal auditors should report the results of their audit work.

A. A signed, written report should be issued after the audit examination is completed. Interim reports may be written or oral and may be transmitted formally or informally.

B. The internal auditor should discuss conclusions and recommendations at appropriate levels of management before issuing final written reports.

C. Reports should be objective, clear, concise, constructive, and timely.

D. Reports should present the purpose, scope, and results of the audit; where appropriate, reports should contain an expression of the auditor’s opinion.

E. Reports should include recommendations for improvements and acknowledge satisfactory performance and corrective action.

F. The auditor's views about audit conclusions or recommendations should be included in the audit report.
G. The Directors of Internal Audit should review and approve the final audit report before issuance and should decide to whom the report will be distributed.

VI. Audit Report Follow-up

It is the responsibility of each campus President to institute a follow-up process which will ensure appropriate action has been taken on each audit recommendation. Disagreements occasionally occur during the audit. The Director of Internal Audit and the affected management should attempt to reconcile any disagreement during the audit field work process. Otherwise, affected management should state the reason(s) for disagreement with the audit finding(s). If differences persist, the Director of Internal Audit should attempt to reconcile these differences with campus management, and ultimately the President. If a compromise cannot be reached with campus officials, the disagreement should be referred to the General Auditor for resolution. Disagreement with an audit finding or recommendation constitutes management's decision to accept responsibility for any identified control weakness.

VII. Management of the Internal Auditing Department

The General Auditor and the Directors of Internal Audit should properly manage the Internal Audit Department so that:

A. Audit work fulfills the general purposes and responsibilities approved by The Board of Trustees.

B. Resources of the internal audit department are efficiently and effectively employed.

C. Audit work conforms to The University of Alabama System Standards for the Practice of Internal Auditing.

VIII. Quality Assurance

The purpose of a quality assurance program is to provide reasonable
assurance that audit work conforms with the established Standards, the internal audit department's statement of purpose, authority, and responsibility, and other applicable auditing standards. A quality assurance program consists of three major parts:

- Supervision
- Internal reviews
- External reviews

The Directors of Internal Audit are responsible for the supervision of the work of internal auditors, which should be carried out continually to assure conformance with internal auditing standards, methods, and audit programs.

The General Auditor will perform periodic reviews to appraise the overall quality of departmental operations. The frequency of such reviews may vary among internal audit departments, but such reviews are important to encourage compliance with the University's audit policies. External reviews will be commissioned in accordance with Institute of Internal Auditors, Inc., standards.

The General Auditor must report on the quality of the audit function at least annually to the Audit Committee.

IX. Coordination

Audits are to be conducted in such a manner as to make one audit serve as many purposes as possible. Adherence to this standard serves the dual purpose of providing maximum audit coverage and minimizing disruption of the auditee's activities. Groups whose work should be coordinated are the Department of Examiners of Public Accounts, the external auditors, and various federal auditors including the federal cognizant audit agency.

X. Coordination with Other Campuses

To the extent possible and practical, audits of a given functional area will be conducted at all three institutions. This coordination should promote opportunities to exchange ideas among the campuses, leading to more effective administration and providing the
Board, through the Audit Committee, with more comprehensive information.
I. Introduction

This Rule contains the policies and standards by which the Internal Audit functions of The University of Alabama System (System) will be governed.

II. Mission and Scope of Work

A. The mission of Internal Audit is to provide independent, objective assurance and consulting services designed to add value and improve the System’s operations. Internal Audit helps the System accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

B. The scope of work of the Internal Audit department is to determine whether the System’s risk management, control, and governance processes, as designed and represented by management, are adequate and functioning in a manner to ensure:

1. Risks are appropriately identified and managed,
2. Significant financial, managerial, and operating information are accurate, reliable, and timely,
3. Employee’s actions are in compliance with policies, standards, procedures, and applicable laws and regulations,
4. Resources are acquired economically, used efficiently, and adequately protected,
5. Programs, plans, and objectives are achieved,
6. Quality and continuous improvement are fostered in the control processes, and
7. Significant legislative or regulatory issues impacting the System are recognized and addressed properly.

III. Authority

The General Auditor and staff of the Internal Audit department are authorized to:

A. Have unrestricted access to all functions, records, property, and personnel,

B. Have full and free access to the Audit Committee,

C. Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives, and

D. Obtain the necessary assistance of personnel in units where they perform audits, as well as other specialized services from within or outside the System.

The General Auditor and staff of the Internal Audit department are not authorized to:

A. Perform any operational duties for the System or its campuses,

B. Initiate or approve accounting transactions external to the Internal Audit department, or

C. Direct the activities of any System or campus employee not employed by the Internal Audit department, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the Internal Auditors.

IV. Accountability

The General Auditor shall report administratively to the Chancellor and functionally to the Audit Committee. In the discharge of his/her duties, the General Auditor shall:
A. Report significant issues related to the processes for controlling the activities of the System, including potential improvements to those processes, and

B. Provide information periodically on the status and results of the annual audit plan and the sufficiency of department resources.

V. General Auditor Responsibilities

The General Auditor, or his/her designee, will carry out the following responsibilities:

A. Develop a flexible annual audit plan using appropriate risk-based methodology (including any risks or control concerns identified by management) and submit the plan to the Chancellor and the Audit Committee for review,

B. Implement the annual audit plan as approved, including, and as appropriate, any special tasks or projects requested by management and the Audit Committee,

C. Maintain a professional audit staff with sufficient knowledge, skills, experience, and professional certifications,

D. Establish a quality assurance program,

E. Create a culture of support and accessibility to campus management; and assist management in meeting objectives by performing consulting services in addition to assurance services,

F. Issue periodic reports to the Audit Committee and management summarizing results of audit activities,

G. Serve as liaison between the System and the external auditor,

H. Assist in the investigation of significant suspected fraudulent activities within the System,

I. Consider the scope of work of external auditors and regulators, as appropriate, for the purpose of providing optimal audit coverage to the System, and
J. Coordinate with other control and monitoring functions (risk management, compliance, security, legal, ethics, environmental, external audit), as appropriate.

VI. Campus Management Responsibilities

The President of each campus, or his or her designee, will carry out the following responsibilities:

A. Participate with Internal Audit to formulate the campus audit plan,
B. Meet routinely with Internal Audit to review the status of audit work,
C. Communicate to Internal Audit unanticipated audit needs as they arise,
D. Review with Internal Audit all audit reports and ensure all recommendations are implemented,
E. Provide requested information and assistance to external audit firm and keep General Auditor informed about status of audit requests and issues,
F. Participate with the General Auditor in presenting the audit results to the Audit Committee, when necessary, and
G. Issue an audit charter reinforcing Internal Audit access to personnel, records and other property or information necessary to conduct audits.

VII. Campus Management Acceptance of Risks

When a difference of opinion exists between Internal Audit and management, the General Auditor will exercise the following process until the difference is resolved.

A. The General Auditor and Campus President will meet to discuss the matter.
B. The General Auditor and Campus President will meet with the Chancellor to discuss the matter.

C. When the General Auditor believes that management has accepted a level of residual risk that may be unacceptable to the System, the General Auditor will discuss the matter with the Audit Committee.

VIII. Standards of Audit Practice

Internal Audit will operate under standards that the Board has approved. Current standards are the *International Standards for the Professional Practice of Internal Auditing* of The Institute of Internal Auditors and will disclose areas of noncompliance to the Audit Committee. On occasion, other standards such as the *Government Auditing Standards* will apply.

Internal auditors will uphold the principles of integrity, objectivity, confidentiality, and competency as defined in The Institute of Internal Auditors *Code of Ethics*.

(Adopted May 12, 1979 as Rule 431; completely revised April 10, 1992; amended April 21, 1995; amended and renumbered December 5, 1997; amended June 17, 2011.)