



THE UNIVERSITY OF CHICAGO

INTERNAL AUDIT CHARTER

FEBRUARY 28, 2018

The purpose of the Internal Audit function at the University is to provide the Board of Trustees and senior University administration with an independent assessment of the University's system of internal controls. The Audit Committee of the Board of Trustees first approved a Charter for Internal Audit at its meeting on October 19, 1995 and revised it at its June 10, 2005 meeting and again at its November 5, 2009 meeting. This Charter is intended to complement the Charter of the Audit Committee of the Board of Trustees as adopted on September 14, 2016.

Administration has the primary responsibility for establishing and maintaining a sufficient system of internal controls. The University's Office of Internal Audit ("Internal Audit") has responsibility for the University's Internal Audit function with most internal audit services provided by an independent accounting firm approved by the Audit Committee. Internal Audit will evaluate internal controls adequacy, operating environment, and related accounting, financial and operational policies, and report the results accordingly.

In addition, the Office of the Executive Vice President and Chief Financial Officer of the University of Chicago Medicine (UCM) has responsibility for providing internal audit services related to the evaluation of internal controls, processes and policies within the control of the University of Chicago Medicine.

Roles and Responsibilities

Meaningful internal auditing requires cooperation among Internal Audit, University administration, and the auditee. Each party's responsibilities in this regard include the following:

Internal Audit

- Examines and evaluates the controls, policies and procedures, and systems in place to safeguard University assets.
- Evaluates the reliability and integrity of information, and the efficient and effective use of resources.
- Reviews compliance with policies, procedures, laws, and regulations.
- Reports results and makes recommendations to administration and the Audit Committee.

Administration

Supports Internal Audit and communicates this support within their units.

- Participates in the audit process.
- Provides appropriate, clear and consistent direction to the University community through written policies and procedures.

Auditee

- Cooperates with the audit process by providing timely unrestricted access to facilities, books and records, information, and personnel.
- Responds in writing, in a timely manner, to all audit recommendations.
- Develops an acceptable response to each recommendation including designating a person responsible for implementing the response and setting a target completion date. If Internal Audit and the auditee are unable to resolve disagreements over audit findings, the auditee may appeal to the Vice President and Chief Financial Officer. Unresolved issues will be reported promptly to the Chair of the Audit Committee.
- Implements agreed-upon corrective action programs.

Authorization and Organization

The Executive Director for Compliance and Internal Audit or the accounting firm partner responsible for its services are responsible to, and have direct access to, both the Audit Committee and the University President. For day-to-day operations, Internal Audit reports to the Vice President and Chief Financial Officer. At a minimum, Internal Audit should have the following schedule of private meetings: at each meeting of the Audit Committee and monthly with the Vice President and Chief Financial Officer. Additional meetings may be scheduled as appropriate.

In the course of its work, Internal Audit has direct access to all University books, electronic systems, records, property and personnel relevant to the subject of review. All documents and information provided to internal auditors during their work will be handled in the same prudent manner that the University expects of the employees normally accountable for them.

Internal Audit has no direct responsibility for, or authority over, any of the activities, functions, remediation activities, or tasks they review. Accordingly, Internal Audit does not develop or write policies or procedures that they may later be called upon to evaluate. They may review draft materials, developed by management, for propriety and/or completeness. However, ownership of, and responsibility for these matters remains with management not Internal Audit.

Audit Standards and Ethics

All audit work meets the auditing, professional standards, and codes of ethics promulgated by the Institute of Internal Auditors, the National Association of Certified Fraud Examiners, and the American Institute of Certified Public Accountants. Everyone connected with Internal Audit is expected to consistently demonstrate high standards of conduct and ethics as well as appropriate judgement, independence, and discretion. Members maintain a professional image and protect auditee confidences and confidential information.

Selecting and Scheduling Audits

The Executive Director for Compliance and Internal Audit ensures that an annual Internal Audit Plan is submitted for approval by the University's Vice President and Chief Financial Officer and then the Audit Committee at its spring meeting. Candidate projects come from periodic risk assessments, recommendations by senior administration, regular coverage of large functional operations (such as accounts payable, payroll, purchasing), the Compliance Committee, and special requests. The University's Office of Internal Audit will collaborate with the Office of the Executive Vice President and Chief Financial Officer of UCM to ensure appropriate internal audit coverage of the University's Biological Sciences Division on the annual Internal Audit Plans for the University and UCM, respectively. All proposed additions, deferrals, or deletions to the Internal Audit Plan are discussed in advance with the Vice President and Chief Financial Officer, and reported regularly to the Chair of the Audit Committee.

Reporting

All audit work is summarized in timely written reports distributed to an appropriate list of recipients. In general, reports are distributed to the President, the Vice President and Chief Financial Officer, and the University's external auditor, as well as the auditee, their immediate supervisor, and other unit heads affected by audit findings. Reports from "special request" audits may have more limited distribution. The Executive Director for Compliance and Internal Audit and the independent accounting firm partner attend and present a written report to the Audit Committee at its meetings. At a minimum, the report includes:

- A short synopsis of each audit completed since the last meeting including all high rated findings and recommendations and moderate or low rated observations as determined by Internal Audit.
- A short synopsis of follow-up activities conducted by Internal Audit.
- An update for each project listed on the annual Audit Plan, with appropriate explanation for changes.

The Executive Director for Compliance and Internal Audit will refer to the Executive Vice President and Chief Financial Officer of UCM audit findings pertaining to the Biological Sciences Division of the University or UCM for reporting consideration to management impacted by UCM-related audit

findings and the University of Chicago Medical Center Audit Committee. The Executive Vice President and Chief Financial Officer of UCM will also refer University-related audit findings to the Executive Director for Compliance and Internal Audit for reporting consideration to University management and the Audit Committee.

Follow-up Activities

Internal Audit ascertains the implementation status of management action plans to address high risk, moderate and low issues from previous Internal Audit reports and periodically reports these to the Audit Committee.

Adjudication

In the event there are unresolved differences related to access, the Executive Director for Compliance and Internal Audit or the independent accounting firm partner may appeal to the University President. Cases in which the President does not grant access will be reported promptly by the President, the Vice President and Chief Financial Officer, the Executive Director for Compliance and Internal Audit or the accounting firm partner to the Chair of the Audit Committee.

Relationship with External Auditor

While Internal Audit has a close working relationship with the University's independent public accounting firm/external auditor, the objectives of the two groups are different. External auditors certify the University's financial statements; internal auditors evaluate internal controls and compliance with policies, procedures, and regulatory requirements. Internal Audit will make every effort to coordinate its work with the external auditor so as to optimize audit coverage while minimizing cost.

Approved by Audit Committee

Date: February 28, 2018