

This edition focuses on **functional auditing** and **advisory services**. Following the advisory services article, Internal Audit (IA) highlights its **menu of Seminars and Presentations**. Also, in this edition is the recently implemented **practicum program** which features articles regarding the work of IA's first two students.

Functional Auditing (*The Departmental Auditor*) By Joseph Reed

This article succinctly defines Functional Auditing, and emphasizes a few of its advantages. As these advantages are highlighted, distinctions should be apparent as the professional standards, corporate governance and attributes are very different. Functional Auditing, also known as *departmental auditing* verifies departmental procedures with some internal or external standard. Characteristics consist of:

- Departmental Auditor reports within the unit or line function reporting to the department head (Dean/Director/Chair)
- Both the departmental procedure and audit function reside within the same department
- Audit results are usually communicated internally and not outside of the department

The functional auditing processes assist management with its monitoring role and are usually performed by a regular full time employee. Rarely is this a dedicated function as only a percentage of the employee's time is allocated. The employee performing the audit task or validation function does so as part of their regular job duties which also increases procedural proficiency.

Functional Auditing is not essential to departmental success. However, when used appropriately, as part of the overall departmental control procedures, functional auditing is considered an excellent management monitoring tool. Conversely, having this program in place does not guarantee success as the

pitfalls contrast the characteristics discussed in the first set of bullet points. These pitfalls include:

- Employee performing task not willing or wanting to deliver bad news to supervisor or department head
- Results being ignored or disregarded
- Testing sample is not valid
- Audit frequency declines as other priorities increase

IA encourages departments to have a functional auditing program in place. If the process is properly structured and working as intended, IA can rely on test results during the audit process.

This article was written to highlight functional auditing responsibilities, authorities and limitations, and also to promulgate the valuable monitoring function it serves. In conclusion, Departmental Auditors and University Auditors (Internal Audit) both provide critical roles in the corporate governance structure, but they are distinct and different.

IA Practicum Program

IA offers University students the opportunity to attain classroom credits and actual work experience for a few hours each week. The program must be approved by the student's advisor and requires going through an interviewing process for these limited positions. The articles on page 2 describe the impact of IA's Fall semester interns.



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The next edition, scheduled for May distribution, will feature IA's array of services. This includes (1) Preventative Core Review, (2) Information Systems, (3) Investigations, (4) Advisories, and (5) Continuous Auditing. Important attributes and characteristics will be featured for each.

Meet our Fall 2008 Interns!



Shanti Nalluri
IT/IS Intern

Erin Witte is currently a Finance and Management major at UK and will graduate this May. After graduation, she will be working for Fifth Third's Internal Audit Department as a Staff Auditor at the downtown Cincinnati building. Cincinnati is also very close to her home town of Ft. Thomas, KY.

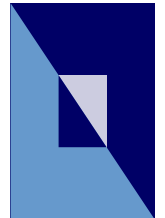
Over the course of the semester Erin has been working on several projects that have involved various aspects of the Internal Audit function. Highlights of her work this semester include assisting auditors by benchmarking fraud data, documenting the financial effect of disasters on campuses, and working on the IA Business Continuity Plan. Erin's main project this semester was working with IA's Continuous Auditing Program. She sorted and analyzed numerous travel vouchers looking for trends and red flag information.



Erin Witte
Business Intern

Shanti Nalluri is currently in her last semester of the Masters in Computer Science program at UK. Shanti is originally from India and came to UK for her Master's in Computer Science in the fall of 2007. Following graduation in January 2009, Shanti will be moving to Seattle, Washington.

Shanti has been creating a database to house Internal Audit's audit universe. The audit universe houses information on all the auditable units at the University. Shanti created various interrelated databases, forms, reports, and documentation of the universe.



Internal Audit - Advisory Services

Advisory reviews are consulting services designed to add value by providing formal or informal advice, analysis or assessments. Requested by management or selected through the annual audit work planning process, these consulting engagements focus specifically on identifying problems and/or deficiencies and making appropriate recommendations. Decisions to adopt or implement recommendations made as a result of an IA advisory service are made by management. IA's advisory reviews engage in a multiplicity of matters including:

- Management, operational or compliance practices,
- Industry/benchmark comparative analysis,
- Preventative services (review/enhance Procard, cash control, payroll or checking account processes),
- Participation on management or pre-implementation project teams.

IA is distinctively positioned to perform advisory consulting work based on its adherence to the highest standards of objectivity and knowledge of organizational processes, risks, and strategies. IA is fully engaged in providing the University of Kentucky with an ongoing line of advisory services engagements.

IA Seminars and Presentations

IA offers seminars and presentations as a service to UK's community. Please visit our website @www.uky.edu/internalaudit/ for the current listing of seminars and presentations activity to include:

- *Reconciliation Presentation* - highlights policy, trends, obstacles, and concerns.
- *Cash Handling Seminar* - collaborative effort with Office of the Treasury focusing on University Policy and Departmental Application.
- *Fraud Seminar* - collaborative effort with UK Police focusing on policy, responsibility, industry trends and departmental trends.
- *Procard Seminar* - a collaborative workshop with Office of the Treasury designed to provide instruction to Administrators, Business Officers, and Procard Supervisors on the application controls at the unit level.