

RECREATION CENTERS OF SUN CITY WEST, INC.

POLICY STATEMENT - Fi21

Office of Internal Audit

Reference: Article 4B.2a, of the Amended and Restated Bylaws of the Recreation Centers of Sun City West, Inc., dated 6-27-02.

1.0 General:

- 1.1 Internal auditing is an independent, objective assurance and consulting activity 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 risk management, control, and governance processes.
- 1.2 Internal Auditors perform compliance, operational, performance, and financial audits. Internal Auditors measure the degree to which various functions of their organization adhere to established policies and procedures, as well as laws and regulations.

2.0 Origin:

As the complexity of the Recreation Centers of Sun City West, Inc., hereafter referred to as the Association, continues to increase, so do the overall responsibilities of management. As a result, the Office of Internal Audit is established to assist management with the effective discharge of its responsibilities by furnishing it with objective analyses, observations, recommendations, and information concerning the activities reviewed. Although this office is a part of the Association, it will function independently, in the same manner as an outside audit firm.

3.0 Purpose:

The Office of Internal Audit is an internal control, which strives to promote the most economical and efficient use of resources; to ensure the compliance with Association Bylaws, Policy Statements and approved procedures, as well as federal and state laws; to protect the Association's assets and to promote the reliability and integrity of the Association.

4.0 Authority:

- 4.1 The Office of the Internal Audit, hereinafter referred to as OIA, reports to the Association's Governing Board, but works under the general direction of the President of the Governing Board and the General Manager. To ensure autonomy as to the performance of the responsibilities of this office, all matters relating to employment and compensation of the Internal Auditor, as well as the job description and the operational budget for the OIA, shall require the approval of the Governing Board.
- 4.2 The OIA shall have the authority to review and audit all policies, plans, procedures and operations, and to recommend corrective actions believed necessary to promote efficiency and to protect the Association's assets. The OIA has no authority or responsibility for the activities it audits, but works independently, so that its work is carried out freely and objectively with impartial and unbiased judgments, all of which are essential to the proper conduct of an audit.

- 4.3 The OIA shall have full, free, and unrestricted access to all Association systems, functions, operations, records, including personnel records (with the consent of the General Manager), activities, properties and personnel. In the performance of audits and giving full consideration as to safekeeping and confidentiality, the OIA will make the needed arrangements when examining and reporting on confidential matters.
- 4.4 Although a common courtesy, the OIA is not required to give notice prior to performing an audit.
- 4.5 In compliance with the standards set forth by the Institute of Internal Auditors, the OIA does not possess the authority to implement or to insist upon the implementation of its recommendations. Implementation is the responsibility of the General Manager and ultimately the decision of the Governing Board.

5.0 Independence:

The OIA shall be independent of the activities that are reviewed. In performing the audit function, the OIA shall not have direct responsibility for or authority over any of the activities reviewed. Independence of the OIA function requires that it carry out its responsibilities and tasks freely and objectively. The OIA shall not subordinate its judgment on audit matters to the opinions or judgments of others.

6.0 Responsibility:

- 6.1 It is the responsibility of the OIA to develop and execute a comprehensive audit program for the Association. All audits conducted by the OIA will be performed with proficiency and due care, in a professional manner and in compliance with the highest ethical standards of honesty, objectivity, diligence and loyalty, as outlined by the Institute of Internal Auditors. The integrity of the OIA and the audits it performs shall not be compromised.
- 6.2 One of the primary responsibilities of the OIA is to evaluate the adequacy of the systems of internal control to ensure that the systems established provide reasonable assurance that the Association's objectives and goals will be met efficiently and economically. The OIA will identify those activities subject to audit coverage, based on their significance and the degree of risk inherent in the activity in terms of cost, special requests by the Governing Board or management, and areas where non-compliance with guidelines could result in penalties to the Association. The OIA will review departmental procedures and records for their adequacy to accomplish intended objectives, and appraise policies and plans relating to the activity or function under audit review.
- 6.3 The OIA shall produce final reports of the results of audit examinations, including recommendations for improvement and a professional opinion as to whether the corrective action proposed by the department or General Manager will correct the deficient conditions. Further, the OIA may advise management and the Governing Board in the development of systems, policies and plans.
- 6.4 The OIA shall also have the responsibility of facilitating internal and external audit efforts. This is done to ensure adequate audit coverage and to minimize duplicate efforts.

- 6.5 Within the confines of the authority and responsibilities assigned to the OIA, the office will perform audit procedures and make recommendations on the basis of (1) sound business practices, (2) technical knowledge acquired through on the job training and continuing education, (3) standards, ethics, accounting requirements, and studies of professional internal auditing groups and (4) requirements imposed by external regulatory groups.

7.0 Types of Audit Services and Authority to Conduct:

- 7.1 The OIA shall be charged with performing regular audits, follow up audits and consultation reviews, which are selected on the basis of the annual audit schedule or at the direction of the Governing Board or the President, Treasurer or General Manager. Information provided by the OIA or others, confidential or not, may be used by any of the authorities cited to initiate an audit.
- 7.2 Annually, the OIA, with the guidance of the Governing Board, the General Manager and the Budget & Finance Committee, determines the following year's audit schedule. The schedule is planned in detail, based upon the number of available working hours in the audit year and the anticipated hours required for the performance of each scheduled audit.
- 7.3 In prioritizing simultaneous or overlapping audits, the OIA will assess the internal and external risks associated with each of the audits, as well as take into consideration when an audit of the areas in question were last performed.

8.0 Conducting a Routine Audit:

- 8.1 **Audit Scheduling**
Although a common courtesy, the OIA is not required to give notice prior to performing an audit. In cases where notice will be given, the OIA will advise the General Manager of the area to be audited and will negotiate a beginning date for the audit. Prior to the audit date, the OIA will schedule an entrance conference with the manager of the area to be audited and whomever else the manager or auditor considers appropriate. Should scheduling problems arise, the OIA must be notified immediately.
- 8.2 **Audit Planning**
- 8.2.1 The auditor assigned to conduct the examination will review the files of prior audits, applicable professional literature, research any applicable Association Bylaws and Policy Statements, management policies or applicable statutes, and prepare an Audit Program.
- 8.2.2 The program will detail the tests and procedures required for each step of the audit. Audit work papers and reports will provide evidence of the completion of all specific audit program steps and support the audit findings.
- 8.3 **Entrance Conference**
At this meeting, the managers and other personnel of the area to be audited and the OIA will discuss the purpose and scope of the audit, the Audit Program, and the audit reporting procedures. Any special concerns of the department or the OIA will also be discussed at this time.

- 8.4 **Audit Program**
Based upon the information obtained during the Entrance Conference, the Audit Program may be adjusted. It is also possible that the Audit Program may be modified if it is determined that information gathered during the Entrance Conference was not or cannot be substantiated.
- 8.5 **Conducting the Audit**
- 8.5.1 The audit will include, but is not limited to, testing (compliance, analytical, etc.) of various documents and departmental reports. Interviews may be held with employees within a department to inquire about their duties. Flowcharts of processes may be prepared to better understand the controls in place. Portions of the audit may be physically performed in the department being audited, if space permits.
- 8.5.2 During periods when the OIA is working in the area under review, the OIA will minimize the demand on the time of personnel, so that normal activities can be performed with minimal delays.
- 8.6 **Report Writing**
- 8.6.1 Once the preliminary work has been accomplished, the OIA will complete a preliminary report detailing the audit program performed, findings, and recommendations for improvement or corrective action.
A copy of the preliminary report will be forwarded to the manager of the department or function being audited, for review of the accuracy of the OIA findings and the propriety of its recommendations.
- 8.6.2 The OIA will amend the preliminary report to correct inaccuracies. However, objective opinions stated in the report and believed to be based upon accurate facts, shall not be compromised. Management is entitled to an independent opinion and when there is a disagreement on the interpretation of the facts, the preliminary report will be amended by the OIA to express the positions of both the OIA and the manager of the department under review.
- 8.7 **Exit Conference**
- 8.71 The manager of the audited department or function will contact the OIA within five (5) business days of the date the preliminary report was received, for the purpose of conducting an Exit Conference. If contact is not made or a continuation was not requested and agreed to, the OIA shall proceed to the Departmental Response.
- 8.72 If possible, the same people who were present during the Entrance Conference should also be present during the Exit Conference. The purpose of this meeting is to discuss the audit findings, recommendations and the need for corrective action as documented in the preliminary report.
- 8.8 **Departmental Response**
- 8.8.1 Within ten (10) business days of the Exit Conference, the manager of the department or function under review shall forward a written response to the OIA. The response shall outline the actions taken or to be taken to correct the deficiencies reported. In the event the manager rejects portions of the audit findings, the required response shall include the reasoning on which that rejection is based. The manager's responses shall be included in the OIA final report.

- 8.8.2 An adequate response to the OIA report is: (1) the implementation of the OIA recommendations as stated in its preliminary report; (2) the implementation of alternative procedures that provide the same degree of control as procedures recommended by the OIA; (3) a statement explaining that management has assumed the risk of not taking corrective action on the reported findings, or (4) management provides the reasoning on which it bases its rejection.
- 8.8.3 If the manager of the department does not respond within the appropriate time frame and a continuation was not requested and agreed to, the preliminary report of the audit will be amended to reflect that no response was received and the amended report will be forwarded to the General Manager.
- 8.9 **General Manager's Review and Response**
The General Manager shall, within five (5) business days of receipt, review the preliminary report of the audit and the response of the manager of the department or function under review and forward a written response to the OIA. In the event that the General Manager does not respond within the appropriate time frame and a continuation was not requested and agreed to, the preliminary report of the audit will advance to the final stage.
- 8.10 **Final Report and Dissemination**
The audit report, including all responses received, is finalized and distributed to the President of the Governing Board for dissemination to all Directors. Dissemination shall also include the Treasurer, General Manager, the manager of the department or function audited, and the Budget & Finance Committee.
- 8.11 **Audit Follow-up**
If deemed necessary, the OIA will conduct follow-up reviews of the audited departments or functions. The OIA shall also determine if the corrective action taken is achieving the desired results and report that finding to the Governing Board and the General Manager.

9.0 Confidentiality:

An audit in progress is confidential and information shall only be disseminated on a need to know basis. Upon request, the convening authority will be verbally appraised, unless by doing so, the integrity of the audit is likely to be compromised or possible evidence of a criminal nature may be prematurely revealed. In such an event the final report shall be disseminated in accordance with this policy, but it shall remain a confidential document until reviewed by the Association Attorney. No provision of this policy shall require the OIA to release audit information to one suspected of committing a criminal violation.

Adopted: 1-22-04
Approved: 2-26-04

RECREATION CENTERS OF SUN CITY WEST, INC.

TITLE: Internal Auditor

REPORTS TO: Governing Board

GRADE: 43

DEPARTMENT: Office of Internal Audit

JOB SPECIFICATION DATE: September 30, 2003

JOB SUMMARY:

Plans and directs the Recreation Center's, hereinafter referred to as the Association, audit functions including financial, operational, compliance and efficiency of all Association functions as described in the Policy Statement Fi21 (Office of Internal Audit). Reports to the Governing Board, but works under the general direction of the President of the Governing Board and the General Manager. All matters relating to employment and compensation of the Internal Auditor, as well as the job description and an operational budget for the Office of Internal Audit, shall be by decision of the Governing Board.

ESSENTIAL FUNCTIONS:

1. Plans and directs the activities of the Association's internal audit function; develops the internal audit work plan for the Association; analyzes needs and develops short and long-range audit plans.
2. Determines records or activities to analyze; the extent of tests to apply and the working papers to prepare. Defines audit objectives, prepares audit report and determines follow-up procedures to be performed.
3. Advises the General Manager on matters relating to internal control, financial matters or operational efficiency and effectiveness.
4. Advises and assists the Association's Governing Board regarding internal control, financial, operational and procedural concerns and issues.
5. Performs special internal audit investigations as requested by the President of the Governing Board, the Treasurer or the General Manager.
6. Makes presentations and responds to questions of the Governing Board, President, Treasurer, General Manager, Standing Committees, and annual or special Owner Member meetings.
7. Audits financial, operational, compliance and efficiency of Association departments, divisions, functions or activities.
8. Recommends solutions to correct any control weakness, operational problems or inefficiencies noted during the performance of audits or investigations and presents these recommendations for consideration.
9. Reports audit findings in formal written audit reports; makes recommendations for the correction of deficiencies, improvements in operations and reductions in cost to the Governing Board and General Manager.
10. Appraises the adequacy of the corrective action taken to improve deficient conditions.
11. Prepares work papers to document audit work performed and substantiate audit conclusions and recommendations.
12. Reviews contracts and agreements with outside parties to confirm compliance with contract provisions and Association Bylaws and Policies. Reviews reporting and performance provisions and terms of the contracts or agreements.

SECONDARY FUNCTIONS:

1. Participates in Association task forces to provide financial, general business, control and audit expertise.
2. Performs other related duties as assigned.

KNOWLEDGE, SKILLS, ABILITIES:**Knowledge of:**

The generally accepted principles of accounting and auditing standards and their application to non-profit corporations.

The principles and practices of business systems and management.

Fund accounting, financial and operational controls.

Effective management and supervisory practices.

Computerized data management systems and related software.

Ability to:

Plan, organize, and conduct in-depth audits.

Recommend solutions for technical and complex issues and problems for all Association departments' functions and activities.

Operate personal computers and related software applications.

Communicate findings clearly and concisely, both orally and in writing.

Tactfully handle confidential information and controversial problems.

Establish and maintain effective working relationships.

Apply creative thinking and sound reasoning.

WORKING CONDITIONS:

Office setting.

MINIMUM QUALIFICATIONS:

Bachelor's Degree in Accounting and five (5) years audit experience in public accounting or internal auditing.

A Bachelor's Degree in Accounting along with a combination of training, expertise and experience, even though less than the five (5) year minimum required, may be considered as meeting the minimum qualifications.

SPECIAL REQUIREMENTS:

Certification: Certified Public Accountant or Certification by the Institute of Internal Auditors as a Certified Internal Auditor.