

STATE BOARD OF EDUCATION

Internal Audit Charter

Adopted: 04/12/16

A. Mission

The mission of the internal audit function is to help the State Board of Education, Oregon Department of Education, and the Early Learning and Youth Development divisions accomplish their objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. The internal audit function fulfills this purpose by engaging in independent, objective audit activities that comply with generally accepted government auditing standards. Work done in accordance with these standards can provide information that facilitates improved government operations, better decision-making and oversight, and greater transparency and accountability.

The ethical principles that guide the work of the internal audit function include the public interest, integrity, objectivity, professional behavior, and proper use of government information, resources, and position.

B. Nature of Internal Audit Activities

Using a systematic and disciplined approach, the internal audit activity evaluates and contributes to the improvement of risk management, control, and governance processes within the agencies. However, the internal audit function generally does not provide a comprehensive assessment of risk management, control, and governance processes throughout a department. Rather, it examines these processes within the context of the area(s) included in an individual audit, depending on perceived risks. The objective(s) of an audit will determine the scope of that particular audit and the extent to which any particular process is evaluated. The scope of internal auditing may include, but is not limited to, the following activities:

- Reviewing operations or programs to ascertain whether results are consistent with the established objectives and goals and whether the operations or programs are being carried out as planned.
- Assessing various aspect(s) of the internal control structure. The internal control structure includes a number of factors: the control environment; risk assessment; control activities; information and communication; and monitoring.
- Reviewing the systems established to ensure compliance with policies, plans, procedures, laws, and regulations that could have a significant impact on operations and reports, and determining whether the organization is in compliance.
- Reviewing and appraising the economy and efficiency with which resources are employed, identifying opportunities to improve operating performance, and recommending solutions to problems where appropriate.
- Reviewing processes to identify possible weaknesses and/or opportunities to streamline.
- Reviewing the reliability, integrity, and timeliness of financial and operating information, including performance measures, and the means used to identify, measure, classify, and report such information.
- Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
- Assisting with special investigations.

- Developing risk-based audit plans by conducting enterprise-wide risk assessments periodically and supplementing with targeted updates at least once every two years.

In addition to audits, the internal audit function may advise management as part of routine audit activities. Examples include analyzing design of controls without proceeding to an audit, providing perspective on potential responses to audits performed by external parties, and offering questions and/or comments on prospective actions under deliberation by management for consideration.

In all situations, the internal audit function must avoid performing agency management functions. Examples of inappropriate activities include the following: establishing policies and procedures for operations outside of the audit function, authorizing or approving agency actions, and presenting business risk considerations on behalf of management. Moreover, the internal audit function is not responsible for management's responsibilities, which include but are not limited to the following:

- Using its financial, physical, and informational resources legally, effectively, efficiently, economically, ethically, and equitably to achieve the purposes for which the resources were furnished or the program was established;
- Complying with applicable laws and regulations (including identifying the requirements with which the entity and the official are responsible for compliance);
- Implementing systems designed to achieve compliance with applicable laws and regulations;
- Establishing and maintaining effective internal control to help ensure that appropriate goals and objectives are met; following laws and regulations; and ensuring that management and financial information is reliable and properly reported;
- Providing appropriate reports to those who oversee their actions and to the public in order to demonstrate accountability for the resources and authority used to carry out government programs and the results of these programs;
- Addressing the findings and recommendations of auditors, and for establishing and maintaining a process to track the status of such findings and recommendations; and
- Taking timely and appropriate steps to remedy fraud, noncompliance with provisions of laws, regulations, contracts or grant agreements, or abuse that auditors report.

C. Auditing Standards

In the performance of audit work described above, the internal audit function will comply, to the extent feasible, with auditing standards. The Chief Audit Executive may elect to comply with either:

- Government Auditing Standards, issued by the U.S. Government Accountability Office;
- International Standards for the Professional Practice of Internal Auditing, issued by the Institute of Internal Auditors.

If warranted by objectives established for specific audit engagements, compliance with standards issued by other authoritative bodies (e.g., the American Institute of Certified Public Accountants or the Information System Audit and Control Association) may also be required.

Internal auditors will also observe the principles of serving the public interest in discharging their duties. The public interest is defined as the collective well-being of the community of people and entities the auditor serves.

Because of the resources currently available to the internal audit function, compliance with some specific provisions of generally accepted government auditing standards may be problematic. Specifically, all work papers that support the findings and conclusions in the

report will not be subject to supervisory review before the report is issued. However, the quality control system described in the Internal Audit policy and procedures manual is designed to sufficiently mitigate the lack of supervisory review. In addition, because of the size of the internal audit function and the expected volume of audit reports, internal quality monitoring will typically be limited to interactions between the chief audit executive and the Audit Committee. More extensive monitoring may ensue if any concerns emerge. Any other exceptions to generally accepted government auditing standards, if such exceptions occur, will be noted by engagement and an appropriate assessment of their impact in relation to the audit objectives will be documented in the audit work papers and steps taken to comply with all of the requirements outlined in section 2.25 of generally accepted government auditing standards (2011 Revision).

An external peer review will be conducted in accordance with generally accepted government auditing standards. The results of the peer review will be communicated to agency management, the Audit Committee, and the State Board of Education.

Likewise, the chief audit executive will develop and maintain a policies and procedures manual as supplemental guidance to generally accepted government auditing standards.

D. Authority

Subject to the independence requirements contained in auditing standards, the Internal Audit function has the authority to audit all units and functions within the Oregon Department of Education, the Early Learning Division, and the Youth Development Division. Internal auditors shall have full and complete access to all department records, physical properties, assets, and personnel. Internal auditors also have, within the authority conferred by public records law, contract terms and conditions, and any other operation of law, access to personnel, assets, and records under the administration of third parties that are also related to delivery of services paid for by funds provided by and/or through either department. The chief audit executive also has authority to obtain the necessary assistance of personnel in other units within the departments as well as services from outside the departments. The chief audit executive must follow established procedures to acquire services from outside the departments through contract or other type of formal agreement. Documents and information provided to internal auditors shall be handled with stringent accountability for confidentiality and safekeeping, in conformance with applicable laws and rules. Internal auditors will take reasonable steps to accommodate daily operational requirements in scheduling and conducting audit work.

E. Independence and Objectivity

The chief audit executive will report functionally to the Audit Committee and administratively to the Department of Education Chief of Staff. Agency management will not constrain access of the chief audit executive to the Superintendent of Public Instruction, Deputy Superintendent, members of the State Board of Education, the Oregon Audits Division, the Legislative Fiscal Office, the Department of Administrative Services, and internal audit offices in other state agencies.

Internal auditors shall have an impartial, unbiased attitude and avoid conflicts of interest. Internal auditors shall be free of all operational and management responsibilities that would impair their ability to make independent, objective evaluations of department operations. To ensure independence and objectivity, internal auditors shall have no immediate or recent (within two years) authority over, and no direct responsibility for, any activities reviewed. For areas in which an internal auditor has previously provided consultative services, the chief audit executive will verify that a threat to independence does not exist before

accepting the engagement. If prior consultative services subject to professional auditing standards were provided but determined to not impair independence or objectivity, the chief audit executive will communicate such determination to the Audit Committee and management of the unit or function being audited prior to commencing fieldwork. The chief audit executive will promptly inform the Audit Committee of any impairment to independence or objectivity once the impairment becomes known.

To further enhance the independence of the internal audit function, the chief audit executive reports to the State Board of Education; reports the results of the audits to the head or deputy head of the affected department and the State Board of Education; is located organizationally outside the staff or line management function of the unit under audit; has access to the State Board of Education; and is sufficiently removed from political pressures to conduct audits and report findings, opinions, and conclusions objectively without fear of political reprisal.

The primary users of the reports are agency management and the State Board of Education. To avoid setting the risk appetite for the agencies, in fact or appearance, issues may be raised that might not meet materiality or significance thresholds if reporting primarily to external parties. Consequently, parties external to the State Board of Education, Oregon Department of Education, the Early Learning Division, and the Youth Development Division, are encouraged to exercise caution when considering action based on the content of the reports.

F. Roles

The internal auditor, management, and the Audit Committee each play a role in the internal audit function.

- Internal Auditor: The role of the internal audit function is to provide management independent advice regarding opportunities to manage risk or improve department operations. This advice is typically based on work done according to professional auditing standards.
- Management: The role of agency operational management is the critical evaluation of the information presented during the audit process (including the audit report), provision of timely feedback to confirm agreement with the information presented, resolve points of disagreement, and/or identify points of unresolved disagreement, and the prompt development, submission and execution of a management improvement plan, when indicated.
- Management: Executive management determines, on behalf of and in consultation with the Governor and/or the State Board, as appropriate, the risk that the department is willing to bear and the propriety of proposed management improvement plans to address risks identified through the audit process.
- Audit Committee: The role of the Audit Committee is to enhance the department's risk management activities and assure the independence and quality of the internal audit function. Fulfilling those roles includes specific responsibilities that are outlined in the Audit Committee Charter.

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