

BUREAU OF INTERNAL AUDIT – AUDIT CHARTER

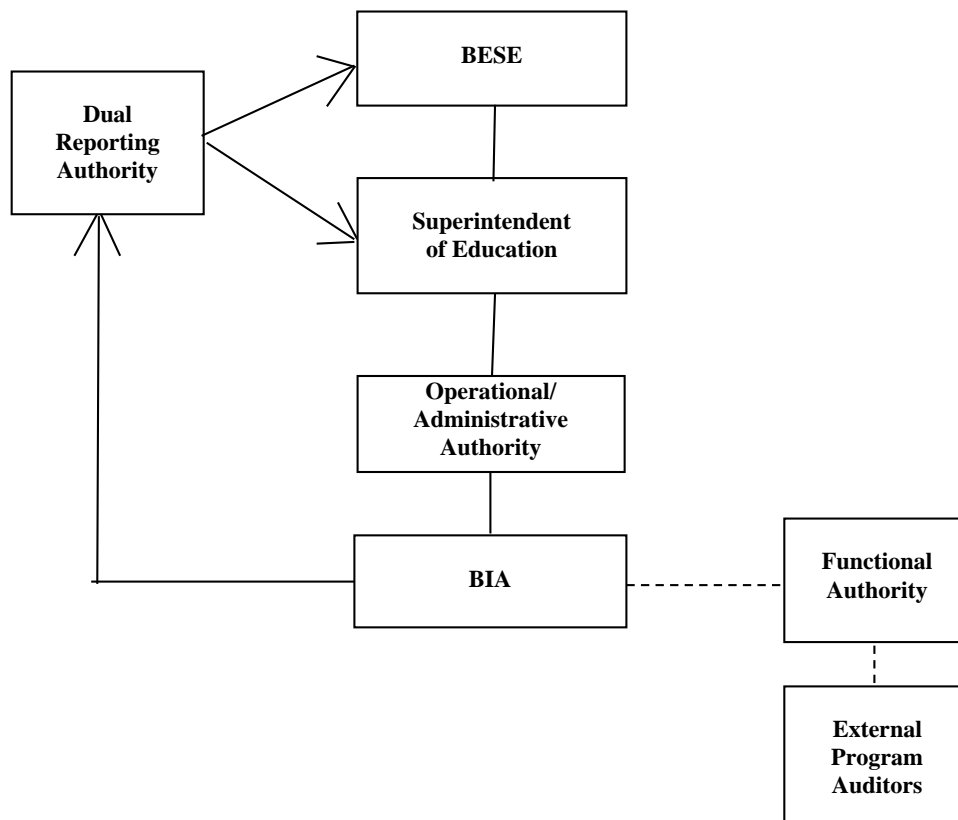
Introduction

The Board of Elementary and Secondary Education (BESE) established the Bureau of Internal Audit (BIA) in 1994 after recommendation by the Louisiana Legislative Auditor (LLA) and the State Superintendent of Education (Superintendent).

Section 100 Role and Organization

The BIA shall be located in the Office of the Superintendent. The Superintendent, through the Deputy Superintendent/Chief of Staff or other designee not subject to audit by the BIA, shall supervise the Director of Internal Audit. The Director will have dual-reporting responsibility to the BESE and Superintendent. In addition, the Director has functional responsibility for all external audit programs within the department.

The following diagram depicts the reporting and functional relationships of the BIA within the Louisiana Department of Education (LDE).



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101 Authority

BIA personnel are referred to as *internal auditors* and their work referred to as *internal audit activities*. Other personnel performing work involving review and verification of various aspects of LDE operations are not referred to as such.

All LDE activities subject to review by the BIA, including, but not limited to, state, federal and self-generated programs or activities. The BIA is granted full, free, and unrestricted access to all LDE records, physical properties, and personnel relevant to any function under review. All LDE employees will cooperate with and assist the BIA in its function. No employee of the LDE should interfere with BIA employees fulfilling their responsibilities. The BIA shall have free and unrestricted access to the BESE, the Superintendent, and all senior management members.

BIA employees will handle documents and information during an audit or review in the same prudent manner as expected for those employees from whom the documents or information were obtained. The confidential nature of such information will be maintained as required by law. The BIA will comply with pertinent sections of LDE policy related to audit protocol.

102 Scope

The BIA scope encompasses examining and evaluating the adequacy and effectiveness of LDE internal control structure as well as quality of performance in carrying out assigned responsibilities to achieve the organization's stated goals and objectives. The internal control structure is the responsibility of LDE management, whereas the BIA is responsible for evaluating its adequacy and effectiveness and recommending necessary improvements. In addition, the BIA will determine whether LDE programs have operated in compliance with applicable state and federal laws and regulations.

The Director, or designee, will attend all BESE Finance/Audit Review Committee meetings and other BESE Committee or Board meetings, as necessary or directed.

103 Cognizant Agency Responsibilities

By agreement with the U.S. Department of Education (USDOE), the LDE performs certain cognizant agency functions in the State of Louisiana for Single Audits of local school boards and charter schools. The BIA is responsible to perform the cognizant agency functions for the LDE. The BIA duties in this area will be those necessary to perform these functions.

The BIA will assist other department federal programs in meeting audit resolution requirements by performing such duties as necessary to track and ensure findings and questioned costs are resolved in accordance with federal laws and regulations.

104 Irregularities, Illegal Acts and Other Noncompliance

The BIA responsibilities for these areas are defined in the professional standards, mentioned later in this document. The professional standards, which will govern the operation of this BIA, do not expect or mandate auditors assume responsibility for detection or prevention of irregularities, illegal acts, or other noncompliance.

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BIA employees are required to adhere to the professional standards. This will provide reasonable assurance of detecting irregularities, illegal acts, or other noncompliance material to the financial statements of the department.

105 Relationship to External Auditors

External auditors perform audits of state and local government organizations, programs, activities, and functions receiving government assistance as mandated by the Federal Single Audit Act of 1984, as amended, and Office of Management and Budget (OMB) Circulars.

The Single Audit Act and OMB Circular A-133 govern the audits of institutions of higher education and other nonprofit organizations. State Legislative Act 503, Federal Regulation 7CFR, Part 226, along with Circular A-133 provide for program specific audits. The Single Audit of the department is the responsibility of the Office of the Legislative Auditor.

The BIA has functional authority and responsibility for the department's external program auditors. This will promote active and effective coordination with the external auditors while maintaining the flexibility necessary to be responsible for the overall audit needs.

106 Management Requests

The BIA is to be a constructive service engaging in activities of measurable benefit to the Department of Education. Consequently, sufficient flexibility must be maintained to be responsive to management requests for service consistent with the objectives and priorities of the BIA and the Department.

Section 200 Professional Audit Standards

The BIA is committed to achieving and maintaining a high level of audit quality by adhering to professional auditing standards. Such standards include those promulgated by the Comptroller General of the United States; *Institute of Internal Auditors (IIA)*; American Institute of Certified Public Accountants (AICPA); Louisiana State Internal Audit Law; and any other applicable regulations. ***Government Audit Standards (GAS) 3.01***

This internal audit charter defines the purpose, authority, and responsibility of the internal audit activity consistent with the *Definition of Internal Auditing: Code of Ethics, and Standards*. The Director will periodically review and update the internal audit charter, when necessary, and present it to senior management and the BESE for approval. ***IIA Standards 1000***

When *IIA Standards* are used in conjunction with standards issued by other authoritative bodies, internal audit communications may cite the use of other standards, as appropriate. If inconsistencies exist between the IIA Standards and other standards, audit activities will conform to the *IIA Standards*, and may conform with the other standards if they are more restrictive.

201 Institute of Internal Auditors - Audit Standards

The BIA will follow guidelines for internal auditing promulgated through the *Institute of Internal Auditors*. <http://www.theiia.org>.

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202 Government Auditing Standards (GAS)

Professional standards for conducting audits in government are issued by the Comptroller General of the United States in *Government Auditing Standards*, also referred to as the “Yellow Book.” These standards relate to the scope and quality of audit work and the characteristics of professional and meaningful audit reports. The BIA will adhere to the following general standards that apply to audits: **GAS 3.01**

- Organizational independence of the audit organization and its individual auditors
- Professional judgment in performing audit work and preparing related reports
- Competence of audit staff

203 IT Auditing Standards - Control Objectives for Information and Related Technology (COBIT)

The BIA will follow COBIT standards promulgated by the Information Systems Audit and Control Association (ISACA) when conducting audits of information technology systems (IT). These standards can be obtained through the Association’s web address <https://www.isaca.org>.

Independence

The internal audit activity must be independent from undue influence, both internal and external, which might restrict the ability to perform the internal audit function. Internal auditors must be objective in performing their work and not allow personal feelings or beliefs interfere with the ability to conduct an internal audit. BIA activities shall remain free of influence from any employee or element in the LDE in order to permit maintenance of an independent mental attitude necessary in rendering objective reports. The direct dual-reporting authority to the BESE and the Superintendent of Education establishes the BIA organizational independence. This independence will include matters of audit scope, procedures, frequency, timing, or report content. In all matters relating to the audit work, the audit organization and the individual auditors must be '*Independent in Mind/Fact*' and '*Independent in Appearance*' as defined in *IIA Standards 1100* and **GAS 3.02 & 3.03**.

Many circumstances, or a combination thereof, are relevant in evaluating threats to independence; therefore, *GAS* establishes a conceptual framework that auditors use to identify, evaluate, and apply safeguards to address threats to independence. **GAS 3.07**

It is impossible to identify every situation resulting in independence impairment. Some personal impairment examples to independence, however, can be found in *IIA Standards 1120, 1130 and GAS 3:14* and include, but are not limited to:

- Immediate or close family member, who is a director or officer of the audited entity or in a position to exert direct and significant influence over the entity. **GAS 3.14 d**
- Financial or other interest in an audited entity. **GAS 3.14 a**

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- Being a member of management and having responsibility for managing an entity in any decision making, supervisory, or ongoing monitoring function for the entity that could affect operations or the program audited. The BIA shall have no direct operational responsibility or authority over any of the activities it may review or audit. Additionally, it shall not develop or install systems or procedures, prepare records, or engage in any other activity normally audited. ***GAS 3.14 f, IIA Standards 1120, 1130***
- Preconceived ideas or biases. BIA employees will maintain an independent attitude and beliefs sufficient to allow them to perform their duties in an impartial and objective manner. In addition, they should remain free of any personal or external impairment to their independence. ***GAS 3.14 c***
- Seeking employment with an audited organization while conducting the audit. ***GAS 3.14***

When using the work of a specialist, BIA should consider the specialist as a member of the audit team and assess the specialist's ability to perform the work and report results impartially. In conducting this assessment, the auditor should provide the specialist with the *Government Auditing Standards* (GAS) independence requirements and obtain representations from the specialist regarding the specialist's independence from the activity or program under audit. If the specialist has impairment to independence, auditors should not use the work of the specialist. ***GAS 3.79, GAS 6.42***

The BIA will include as part of its internal quality control system requirements to identify personal impairments and assure compliance with *Government Auditing Standards* (GAS) independence requirements. A "Statement of Independence and Conflict of Interest" form will be completed for each audit or engagement conducted by BIA.

204 Audit Quality Control and Assurance

The Director will develop and maintain a quality assurance and improvement program meeting the requirements of internal and external assessments. ***IIA Standards 1300***

Internal Assessment includes: ***IIA Standards 1311***

- Ongoing monitoring of the performance of the internal audit activity; and
- Periodic review performed through self-assessment or by other persons within the organization with sufficient knowledge of internal audit practices.

A qualified independent reviewer or team from outside the organization will conduct external quality control assessments at least once every five years. ***IIA Standards 1312***

205 Professional Development

The BIA is committed to ensuring staff maintain professional proficiency and achieve growth through continuing professional education (CPE) and training. Each auditor performing work under GAS should complete a minimum of 80 hours of CPE every 2 years directly enhancing the auditor's professional proficiency to perform audits and/or attestation engagements.

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A minimum of 48 of the 80 hours of CPE is to be directly related to government auditing, government environment, or the specific or unique environment in which the audited entity operates. Auditors hired or initially assigned to GAS audits after the beginning of the 2-year CPE period should complete a prorated number of CPE hours. *GAS 3.76, IIA Standards 1230*

Section 300 Risk Assessments, Audit Selection, and Types of Audits

The risk assessment process is a documented plan for identifying, measuring, and prioritizing risk within an organization. According to the *IIA Standards 2010.A1*, internal audit's plan of engagements is based on a documented annual risk assessment. The input of senior management must be considered in this process.

The type of audit performed is based on risk factors and operations for a particular auditee. In addition, concerns of the BESE, Superintendent, and other senior management must be considered as part of the decision making process.

301 Risk Assessments

Not all operations or activities have equal risk; therefore, a risk assessment will assist the BIA in allocating resources to those areas with the most need. The BIA will conduct a documented annual risk assessment for risks relevant to LDE programs and activities. Objectives of audits and engagements must reflect the results of the risk assessment and be established for each audit. *IIA Practice Advisory 2210.A1 IIA Practice Advisory 2210-1*

302 Annual Audit Schedule

The BIA will develop an annual schedule of audits based on the risk assessment results and audit planning procedures. Other audit projects are added as the Director becomes aware of issues requiring attention from internal audit resources or as requested or directed by senior management to address certain issues or areas. Allegations of significant irregularities may be given priority over scheduled audits if immediate action is needed to protect LDE assets or for other urgent reasons. *IIA Standards 2010*

303 Types of Audits

In preparing the annual audit work schedule, the Internal Audit staff shall determine the type of audit performed for each high-risk LDE agency or section. The following is a summary of the various types of audits conducted:

Operational Audits - Operational audits evaluate procedures and controls affecting attainment of the section's goals and objectives. Operational audits also measure compliance with LDE policies and procedures as well as applicable state laws and regulations.

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Performance Audits - Performance audits provide findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audit objectives vary widely and include assessments of program effectiveness, economy, and efficiency; internal control; compliance; and prospective analyses. *GAS 2.10 & 2.11*

Financial Audits - Financial audits validate the accuracy and completeness of records and account balances.

Information Technology (IT) Audits - IT audits evaluate internal controls over IT systems within LDE agencies and sections. These audits focus on the IT control environment.

Fraud and Financial Irregularity Audits - Fraud and financial irregularity audits verify the existence and magnitude of suspected fraud and financial irregularities.

Follow-up Audits - Follow-up of internal audit recommendations is important to help ensure management has taken appropriate action to resolve identified deficiencies. In general, audit reports include recommendations providing for follow-up to determine the status of corrective actions. The purpose of a BIA audit recommendation is to identify and recommend solutions for internal control structure weaknesses, noncompliance with laws or regulations, inappropriate or inefficient operations, etc., as well as provide adequate follow-up to ensure corrective action occurred. *IIA Practice Advisory 2500.A1-1, GAS 7.05*

It is the policy of BIA to follow-up all outstanding internal audit recommendations within 24 months from the date the audit was issued. The intent is to determine the status of the recommendations made in the audit report. Occasionally an audit may not require a follow-up because the processes originally audited may have changed so significantly additional audit work is pointless. A determination of how in-depth the follow-up audit is made on a case-by-case basis.

Reporting

The BIA will prepare and issue a written report following each project, unless circumstances dictate such a report unnecessary. The report will be distributed simultaneously to the members of the BESE and the Superintendent, and other officials as required by law or appropriate.

The report will normally include management's response and the corrective action taken, or to be taken, in regard to the specific observations and recommendations cited in the report. The response should include a timetable for completion of action to be taken and an explanation for any recommendations not addressed.

For cases in which a response is not included in the report, management of the appropriate area shall respond, in writing, within thirty days of publication to the Director. The director will be responsible for disseminating management's response to those on the distribution list.

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Resolving Management Disagreement with BIA Report Observations

Differences of opinion may arise between LDE management and the BIA related to BIA audit report observations. At its September 1996 meeting, the BESE adopted the following process to address these differences of opinion/issues:

1. The audit report is prepared, issued, and distributed by the BIA as per the normal process for distributing audit reports.
2. The BESE members and the Audit Review Committee receive the audit report.
3. Upon reviewing the report, the Chairman of the Finance Audit Review Committee recommends unresolved issues are be referred to the Superintendent of Education for resolution.
4. The Superintendent meets with the management and the BIA to discuss the basis/reasons for disagreement and review any pertinent documents.
5. At the next Audit Review Committee meeting, the Superintendent submits for BESE approval a report of the recommendation(s) regarding resolution for each disputed issue(s).
6. Upon BESE approval, the Superintendent, or designee, acts to implement the approved recommendation(s) for resolution.
7. Unresolved issues are held in a pending status until resolution occurs.

Approved:

*//Signed copy on file in the Director of Internal Audit's
office.*

Ms. Sandy Holloway, President
Louisiana State Board of Elementary
and Secondary Education

*//Signed copy on file in the Director of Internal Audit's
office.*

Dr. Cade Brumley
State Superintendent of Education