

CDHS INTERNAL AUDIT UNIT CHARTER

INTRODUCTION

The Internal Audit Unit is an independent appraisal function established within the Colorado Department of Human Services (CDHS), Office of Employment and Regulatory Affairs, Audit Division, to examine and evaluate CDHS activities as a service to the organization.

CDHS Vision: The Colorado Department of Human Services, the nation's leader in helping individuals, families, and communities to be safe and independent.

Audit Division Mission: The mission of the CDHS Audit Division is to assist CDHS staff of all levels, county departments of human services, and related agencies to efficiently and effectively serve clients, and detect and prevent waste, fraud, and abuse of CDHS resources and taxpayer monies by researching, monitoring, and reviewing compliance with governing Federal, State, and local standards.

Audit Division Core Values: The core values of the CDHS Audit Division are accountability, integrity, professionalism, investment in people, transparency and honesty, focus, and equality.

Internal Audit Unit Goals: The Internal Audit Unit's primary goals are to assist in the attainment of the CDHS Vision and Audit Division Mission by helping Executive Management:

- Account for the responsible use of public dollars by maximizing efficient use of resources, while adhering to applicable laws, policies, and other criteria.
 - Promote client and community safety.
 - Identify best practices pertaining to management of financial resources, physical assets, client welfare, program performance, and decision-making processes.
 - Test the efficiency and effectiveness of human services product design and delivery.
 - Increase staff understanding of CDHS policies, processes, and achievements through effective internal communication and audit reports.
 - Increase staff knowledge and use of process improvement and performance management tools.
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PRODUCTS & SERVICES

CDHS internal auditors are a resource that adds value to CDHS by providing professional management services, analysis, and recommendations delivered by a Division that knows the overall business of CDHS. Products and services are designed as tools to aid CDHS management in the efficient and informed execution of its duties. The Internal Audit Unit can achieve its goals and help CDHS achieve its vision by offering the following products and services to CDHS Executive Management.

Financial Audits include financial statement and financial related audits. Designed to provide reasonable assurance about whether the financial statements of an audited entity are fairly presented in conformity with generally accepted accounting principles.

Compliance Audits test an audited entity for compliance with policies, plans, procedures, laws, regulations, and contracts. Designed to evaluate the control systems established to ensure compliance and determines whether the audited entity is in compliance.

Performance Audits evaluate an audited entity for economy and efficiency. Designed to review operations of the audited entity to ascertain whether they consistently meet established objectives and goals, and evaluate operations to help reveal any further efficiency.

Internal Control Reviews evaluate major business activities, such as payroll and benefits, cash handling, inventory and equipment, physical security, grants and contracts, and financial reporting. Designed to determine if an audited entity has controls in place to ensure protection of resources and adherence to proper business procedures.

Risk Analyses identify, assess, and classify operational risk across the organization. Designed to allow Executive Management to direct resources appropriately and potentially mitigate potential losses in an ever-changing economic, political, and competitive climate.

Safeguarding of Personnel, Property, and Space verifies the existence of assets and reviews the means of safeguarding assets.

Non-Audit/Consulting Services support the organization's operations by assisting in the development of accounting systems; assisting in the development of internal control systems; providing analysis or evaluation of information or data; investigating, researching, and advising on CDHS operations containing risk for waste, fraud, or abuse; and investigating internal fraud.

AUTHORITY

The CDHS Internal Audit Unit is granted authority through this Charter. The Internal Audit Unit is authorized full and unrestricted access to all personnel, records, properties, plans, policies, procedures, and other information sources required to carry out audits. The Internal Audit Unit is free to evaluate all CDHS drafts, plans, policies, procedures, and activities.

The Internal Audit Unit has no direct responsibility or authority over any activities it reviews, nor does it have responsibility or authority to mandate that CDHS employees implement its recommendations. These tasks are the responsibility of the CDHS Executive Director and Executive Management Team. Therefore, the Internal Audit Unit's reviews and appraisals do not relieve other persons in CDHS of the responsibilities assigned to them.

The Internal Audit Unit has authority to require a written response to any findings and recommendations contained in its audits. All personnel of the audited entity shall cooperate with internal auditors in the performance of their work to enable the completion of audits in a fair and timely manner, and to allow for appropriate outcomes to audit concerns and recommendations.

INDEPENDENCE & REPORTING

The Director of the CDHS Audit Division is the appointing authority for Internal Audit Unit staff and provides direct supervision of this Unit. The Internal Audit Unit reports directly to the appointing authority. The State Board of Human Services, CDHS Executive Director and members of the Executive Management Team, and the Internal Audit Unit may receive requests for internal audits. Outside of the Audit Division, only staff at the Executive Management level may formally request an internal audit. The Audit Division Director prioritizes project selection with guidance from Internal Audit Unit staff and a formal risk assessment. The Executive Director and appropriate Deputy Executive Directors and Division Directors will be informed of upcoming internal audits. See Appendix A for a project selection flowchart.

The Internal Audit Unit follows the Code of Ethics of the Institute of Internal Auditors and operates in accordance with its own Policies and Procedures.

Internal audit reports are issued to the Executive Director and the Deputy Executive Directors and Division Directors responsible for the audited area. To maintain efficiency and independence in the report writing process, the Executive Director and the Deputy Executive Directors and Division Directors responsible for the audited area have the opportunity to pre-screen drafts of the reports to ensure all material is factually presented prior to the issuance of a final report. Content changes in the report are made at the discretion of the Internal Audit Unit staff and the Audit Division Director, and may be made based on feedback from draft reviews. See Appendix B for a flowchart of the audit process.

INTERNAL AUDIT UNIT CHARTER APPENDIX A:

Project Selection

The Audit Division Director has final authority in the project selection process. The selection process is designed to avoid conflict of interest, in fact or appearance, which may occur if members of the Executive Management Team were to exercise authority in the selection or veto of proposed Internal Audit Unit projects.

To this end, the integrity of the Audit Division and the Internal Audit Unit is relied upon to provide objective judgment in the formulation of an audit plan and the selection of Internal Audit Unit projects. This objectivity is dependent on the Audit Division Director and the Internal Audit Unit staff to select projects by making a balanced assessment of all relevant circumstances, while not being unduly influenced by their own interests or by others. The risk assessment is also considered when selecting projects.

Below is a list of steps describing how the audit plan is formulated, projects are selected, and audit requests are handled.

STEP 1. PROJECT IDEAS OR SPECIAL REQUESTS

A “project idea” is something that merits attention but does not qualify as urgent. A “special request” is a project idea that typically comes in during the middle of the year, after an audit plan is in place; these may include more urgent items that merit immediate attention or project ideas that did not make it into the audit plan. The Audit Division Director, Internal Audit Unit staff, Executive Director, or Deputy Executive Directors may submit project ideas or special requests. Project ideas are considered for the upcoming year’s audit plan or prioritized as a special request in the current year. All project ideas or special requests must be submitted to the Internal Audit Unit for consideration.

STEP 2. CREATION OF AUDIT PLAN

Using input gathered from Step 1, the Internal Audit Unit staff creates an audit plan for the upcoming year based on available resources and the risk assessment. The plan is created by the Internal Audit Unit and approved by the Audit Division Director. The plan prioritizes project ideas for the next year, while allocating some time for special requests.

STEP 3. SPECIAL REQUESTS

Project ideas (see Step 1) that do not become part of the audit plan (see Step 2) are considered for next year’s audit plan or, depending on the urgency of the project, added to the current year audit plan as a special request. Special requests are considered and prioritized by the Internal Audit Unit staff and decided upon by the Audit Division Director. The Internal Audit Unit should try to limit the time they spend on special requests to the allocation designated in the audit plan.

STEP 4. WRAP UP

Work completed during the planning year is presented to the Audit Division Director. Projects from the prior year’s audit plan that have not been started are considered along with new project ideas and special requests to be part of the upcoming audit plan.

INTERNAL AUDIT UNIT CHARTER APPENDIX B:

Lifecycle of an Audit

1. SURVEY

Once the Internal Audit Unit staff decides to audit a particular area, a meeting is arranged with the appropriate Deputy Executive Director and any other staff members with significant oversight responsibilities. The purpose of this meeting is to notify them of the upcoming audit, discuss the reasons for the audit, solicit ideas for the scope of the audit (if they would like anything in particular reviewed), decide who should be the main contacts for the audit, and discuss a time frame for the audit. At least two weeks notice is required before beginning fieldwork on the audit.

2. SCOPE

Next, preliminary interviews are scheduled and document and/or data requests are made. Based on the results of the interviews and a preliminary review of the documentation and/or data, an audit scope is developed to guide the audit work. Scopes generally concentrate on areas that auditors believe may present weaknesses or require some form of review.

The scope is provided to the Deputy Executive Director, any other staff members with significant oversight responsibilities, and the audit contact. At this time, revisions to the scope may be discussed at the Internal Audit Unit staff's discretion. The Internal Audit Unit hears suggestions for alteration to the scope and the Audit Division Director decides if such changes will be made (and documents the reason for the decision). The scope is then finalized.

3. FIELDWORK

Now, audit fieldwork begins. If "exceptions" (items that appear inappropriate or outside of expected activity) are found, the Internal Audit Unit staff will initiate a "clearing process," in which the audit contact is provided with a list of exceptions. The audit contact is asked to "clear" the exceptions (review them for validity) and respond in writing to the internal auditors by a specific date (usually in one to two weeks, depending on the volume of exceptions and the auditee's schedule). If the audit contact prefers, the Internal Audit Unit staff may also schedule a meeting with the audit contact and other appropriate staff to discuss and clear the exceptions, review documentary evidence, and discuss possible solutions.

The clearing process may involve many exchanges of information; however, these exchanges must be uniformed and documented so as to demonstrate a fair approach to conducting the audit and determining the status of exceptions. For instance, the Internal Audit Unit staff will organize the exceptions and submit them all at once to keep the process organized, and if sufficient discourse (as determined by the Internal Audit Unit staff, but usually involving two or more attempts to clear the exceptions) has transpired and the parties do not agree, the Internal Audit Unit staff may choose to end the clearing process so as to move on with the audit.

Next, the Internal Audit Unit staff will generate a list of recommendations to address any findings. These recommendations are given to the audit contact for review and discussion. The goal is to arrive at mutually agreeable recommendations that reasonably address the findings, while being attainable and relevant to the work of the auditee.

4. REPORT WRITING & DISTRIBUTION

Once the Internal Audit Unit has wrapped up fieldwork, report writing begins. Report drafts are passed back and forth between the Internal Audit Unit staff and the audit contact to ensure material is presented factually. At times, the Internal Audit Unit will report on findings the auditee may wish to keep private. Therefore, to keep the best interests of the Department in mind, the Internal Audit Unit uses tact, wherever possible, when selecting the language to describe findings. However, the use of tact does not preclude the Internal Audit Unit from presenting less desirable findings; this would interfere with the Internal Audit Unit's values and desire to provide an objective assessment of Department activities.

Internal Audit Unit staff then edits and revises the preliminary draft (if necessary) before submitting it for review by upper management. At this point, the draft is provided to the appropriate Deputy Executive Director and any other staff members with significant oversight responsibilities. Once the same exchange has occurred with the upper management, the last draft is then submitted to the Executive Director for review and comment.

After the Executive Director's review, final edits and revisions are made (if necessary) and the report is re-submitted to the Executive Director. Pending acceptance by the Executive Director, the final report will be printed and issued to those parties involved in or possessing oversight for the audited area and is forthwith considered public record.

AUDIT LIFECYCLE FLOWCHART:

