Virginia State University
Internal Audit Charter

Reaffirmed and Approved
by The Board of Visitors

Reaffirmation September 16, 2016
INTERNAL AUDIT CHARTER
Reaffirmed and Approved September 16, 2016

INTRODUCTION

Internal Auditing, as defined by the Institute of Internal Auditors (IIA), 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.

The Virginia State University Internal Audit Department has prepared this charter to serve as a guide in the performance of its duties. The charter does not include, nor is it intended to include, all of the Department's duties and/or responsibilities as they may exist from time to time. As defined by the IIA, the charter of the internal audit activity is a formal written document that defines the activity's purpose, authority, and responsibility. The charter

1. Establishes the internal audit activity's position within the organization;
2. Authorizes access to records, personnel, and physical properties relevant to the performance of engagements;
3. Defines the scope of internal audit activities, and
4. Includes guidelines and directives received from the Office of Inspector General, as appropriate.

The Chief Audit Executive shall annually assess whether this charter continues to be adequate to enable the internal auditing activity to accomplish its objectives. The result of this periodic assessment shall be communicated to the Board of Visitors, the University President, and senior management.

OBJECTIVE AND SCOPE

The Virginia State University Department of Internal Audit is an independent function established by the VSU Board of Visitors (BOV) with the objective to assist the University's President, Management and Board of Visitors in the effective performance of their responsibilities. The mission of the Internal Audit Department is to provide an independent, objective assurance and consulting activity designed to add value and improve the University's operations. These services help the University to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. Internal Audit's primary purpose is to enhance and protect the University's value by providing stakeholders with risk-based, objective and reliable assurance, advice and insight.

The scope of internal auditing encompasses the examination, evaluation and contribution to the improvement of the adequacy and effectiveness of the University's systems of
internal control and risk management, governance, and the quality of performance in carrying out assigned responsibilities. The scope of internal audit includes:

1. Reviewing internal control and assessing its effectiveness under the Committee of Sponsoring Organizations (COSO) Internal Control – Integrated Framework comprised of: Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring Activities and other principles;

2. Monitoring and evaluating the adequacy and effectiveness of controls in responding to risks within the University’s governance, operations, and information systems regarding the: reliability and integrity of financial and operations information; effectiveness and efficiency of operations; safeguarding assets; compliance with laws, regulations, and contracts; and risk management system;

3. Reviewing the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on operations and reports, and determining whether the University is in compliance;

4. Reviewing operations or programs, to include technology governance, to ascertain whether results are consistent with the University’s established objectives and goals and whether the operations or programs are being carried out as planned;

5. Reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information;

6. Evaluating the potential for the occurrence of fraud, investigating such instances, and how the University manages fraud risk or the deterrence of fraud;

7. Reviewing the economy and efficiency with which resources are employed;

8. Reviewing or consulting on specific operations or activities at the request of the Facilities, Finance, and Audit Committee, the University President, or senior management; and

9. Coordinating audit efforts with the Auditor of Public Accounts and other external auditors.

**PROFESSIONAL STANDARDS**

The Internal Audit Department of Virginia State University endorses and hereby adopts the following auditing standards as an integral part of its internal audit function.

**International Standards for the Professional Practice of Internal Auditing**

The Institute of Internal Auditors (IIA), an international organization dedicated solely to the advancement of the internal auditing profession, has adopted the International
Professional Practices Framework (IPPF) which includes the following mandatory guidance elements: *Definition of Internal Auditing, Code of Ethics, International Standards for the Professional Practice of Internal Auditing* (Standards), and the following strongly recommended guidance elements: *Position Papers, Practice Advisories, and Practice Guides*. The Statements and Interpretations delineate the basic requirements for performing a broad range of internal audit activities and for evaluating internal audit performance.

**Generally Accepted Auditing Standards**

The American Institute of Certified Public Accountants has promulgated *Generally Accepted Auditing Standards* (GAAS) through statements of auditing standards, industry audit guides, and other professional releases.

**Government Audit Standards**

The United States General Accounting Office (GAO) recommends *Governmental Audit Standards* ("Yellow Book" or "GAGAS", Generally Accepted Governmental Auditing Standards) for use by auditors who audit government organizations, programs, activities and functions.

**Information Systems Audit and Control Association Standards, Guidelines and Procedures**

The Information Systems Audit and Control Association (ISACA) require standards that apply specifically to Information Systems (IS) auditing. ISACA defines, develops and promulgates IS auditing standards and their associated guidelines and procedures. Standards define mandatory requirements for IS auditing and reporting; Guidelines provide guidance in applying IS Auditing Standards; and, Procedures provide examples of procedures an IS auditor might follow in an audit engagement. A source of best practice guidance which provides a detailed set of controls and control techniques for the information systems management environment is *Control Objectives for Information and related Technology* (COBIT®), an IT governance framework and supporting toolset that allows managers to bridge the gap between control requirements, technical issues and business risks published by the Information Technology Governance Institute (ITGI) with the support of ISACA.

**INFORMATION SYSTEMS (IS) AUDITING**

The Internal Audit Department will participate in an audit or advisory capacity only in the systems development life cycle. The objective is to assist management by providing assurance that the computerized systems function as management intended with an appropriate level of internal control. These audits and advisories will be completed in accordance with Virginia Information Technology Agency (VITA), COBIT, and/or other applicable standards.
INTERNAL AUDIT STAFF CODE OF ETHICS

Internal Audit staff has a responsibility to conduct themselves so that their good faith and integrity should not be open to question. While having due regard for the limit of their technical skills, they will promote the highest possible internal auditing standards to the end of advancing the interest of the University. The ultimate quality of the Internal Audit Department's performance is directly related to the quality of the people employed. Internal Audit should be directed by and staffed with qualified and competent personnel. Minimum qualifications for each position within the audit function have been established. However, additional experience, training, specialized skills, as well as intelligence, adaptability, promotability, and analytical ability should be considered in the employment process.

Standards of professional behavior and conduct are based upon the Code of Ethics issued by the Institute of Internal Auditors. Internal Audit staff shall realize that individual judgment is required in the application of these standards. Internal auditors are expected to apply and uphold the following principles and rules of conduct:

1. **Integrity**

   Internal auditors:

   a. Must perform their work with honesty, diligence, and responsibility.
   b. Must observe the law and make disclosures expected by the law and the profession.
   c. Must not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the University.
   d. Must respect and contribute to the legitimate and ethical objectives of the University.

2. **Independence and Objectivity**

   Internal auditors:

   a. Must be objective in performing their work, and the internal audit activity must be independent. Internal auditors must not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the University or which would prejudice their ability to carry out objectively their duties and responsibilities. To achieve individual objectivity, internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest.

   b. Must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities (organizational independence). The Chief Audit Executive must confirm to the Board, at least annually, the organizational independence of the internal audit activity.
c. Must not accept anything that may impair or be presumed to impair their professional judgment.

d. Must disclose to appropriate parties, the details of impairment if independence or objectivity is impaired in fact or appearance.

e. Must disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

3. Confidentiality

Internal auditors:

a. Must be prudent in the use and protection of information acquired in the course of their duties.

b. Must not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the University.

4. Proficiency, Due Professional Care and Competency

Internal auditors:

a. Must perform engagements with proficiency and due professional care and engage only in those services for which they possess the necessary knowledge, skills, and experience. The Chief Audit Executive must obtain competent advice and assistance when other expertise is required to perform an engagement.

b. Must perform internal auditing services in accordance with the *International Standards for the Professional Practice of Internal Auditing*, to include the use of technology-based auditing and other data analysis techniques.

c. Must continually improve their proficiency and the effectiveness and quality of their services.

Internal auditors are responsible for continuing their education in order to maintain their proficiency. They should keep informed about improvements and current developments in internal auditing standards, procedures, and techniques. The Internal Audit Department recognizes the need for continuing education through membership and participation in professional societies, attendance at conferences, seminars, college courses, and in-house training programs, and participation in research projects.
Members of the Internal Audit staff will be required to obtain at least forty (40) hours of continuing education credits annually.

The Chief Audit Executive will report to the Board of Visitors annually when the audit plan is considered, as to the effectiveness of the present staff, in fulfilling the stated objectives of the Internal Audit Department and during such times of interim and annual performance evaluations in concert with the University's administration of performance management.

**QUALITY ASSURANCE AND IMPROVEMENT PROGRAM**

The Chief Audit Executive must develop and maintain a quality assurance and improvement program. The Chief Audit Executive is accountable for implementing processes designed to provide reasonable assurance to senior management, the President, and the Board of Visitors that the internal audit activity:

1. Performs in accordance with the internal audit charter, which is consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards;

2. Operates in an effective and efficient manner; and

3. Adds value and a provision for improving University operations.

These processes include appropriate supervision, periodic internal assessments, and ongoing monitoring of quality assurance. The results of ongoing monitoring must be communicated at least annually.

The Chief Audit Executive shall obtain external assessments at least once every five years and shall communicate the results of the external assessments to the Board of Visitors, University President, senior management, and the State Inspector General.

**ORGANIZATIONAL INDEPENDENCE AND REPORTING RESPONSIBILITIES**

The Chief Audit Executive shall report directly to the Board of Visitors (Facilities, Finance and Audit Committee) and administratively to the University President for day-to-day direction.

The Chief Audit Executive shall have direct access and communication to the Board of Visitors when the Chief Audit Executive believes that such access is needed to fulfill the stated objectives of the Department. At all times, the Chief Audit Executive should have open and direct access to the Rector, Chair of the Facilities, Finance and Audit Committee, or full Board if appropriate.

The Chief Audit Executive should meet privately with the Board of Visitors, without management present, to reinforce independence and the nature of this reporting relationship, at least annually.
The Administrative reporting line should enable adequate communications and information flow such that the Chief Audit Executive and the internal audit function have adequate and timely flow of information concerning the activities, plans, and business initiatives of the University, to include open and direct communications with executive and line management. The Chief Audit Executive should be able to communicate directly with any level of management, including the University President.

The Chief Audit Executive shall, at a minimum, meet with the Board of Visitors and the University President on a quarterly basis to discuss:

1. Audit reports issued;
2. Status of the audit plan;
3. Internal audit operational activities;
4. The propriety of any limitations on the scope of internal audits that may be imposed by management.

AUTHORITY

In order to fulfill its responsibilities, the Internal Audit Department has unrestricted access to all personnel, facilities, records, reports, data bases, documents, or other University information or material that is needed to accomplish its audit objectives. No legitimate source of information is to be closed to the internal auditor.

The Internal Audit Department shall be free from control or undue influence in the selection and application of audit techniques, procedures, and programs.

It is understood that certain items are confidential in nature and special arrangements will be made by the Internal Audit Department when examining and reporting upon such items.

1. **Access to Personnel, Documents, and Records:** The Internal Audit Department's access to personnel, documents, and records will be unrestricted and unfettered by burdensome administrative requirements or screening procedures. The Internal Audit Department shall be free from undue influence in the selection of areas, activities, personal relationships and managerial policies to be examined.

2. **Access to Information Systems and Automated Data Processing Equipment:** Access to information systems and related infrastructure, automated data processing equipment (including microcomputers and/or on-line workstations) and programming personnel shall be made readily available to the Internal Audit Department auditors to permit auditing of automated information. Necessary access to, and related training on, existing data retrieval and report generating capabilities shall also be provided to Internal Audit Department auditors.

3. **Access to Protected Health Information, Personally Identifiable Information:** In accordance with the Health Insurance Portability and Accountability Act of 1996 (HIPAA) (45 CFR Parts 160, 162, and 164), the Family Educational Rights and
Privacy Act (FERPA) (34 CFR § 99.31), and the Privacy Act of 1974, the University is permitted to disclose records with sensitive information (Protected Health Information, Personally Identifiable Information) without an individual’s authorization for the purpose of an audit, fraud and abuse detection, compliance evaluation, or administrative review.

Internal Audit has access to all records covered by the aforementioned regulations when discharging their official duties and we will be prudent in the use and protection of the confidential and sensitive information acquired.

RESPONSIBILITIES FOR THE DETECTION OF ERRORS OR IRREGULARITIES

The Chief Audit Executive and the internal audit staff have a professional responsibility to conduct reviews with an attitude of professional skepticism (an auditor’s attitude of a questioning mind and critical assessment of audit evidence; no assumption that management is either honest or dishonest). The Chief Audit Executive must recognize that the application of internal auditing procedures may produce evidential matter indicating the possibility of errors or irregularities.

The Chief Audit Executive will discuss the potential errors or irregularities and their disposition with the University’s President as appropriate. The detection and prevention of errors and irregularities, which may occur, is a responsibility shared by all members of the management team.

INVESTIGATIONS

The Internal Audit Department shall be notified in all cases where assets have been lost (or suspected lost) or there is reasonable suspicion of fraud through defalcation or security breaches in financial and operating systems. Immediately upon such notification, the Chief Audit Executive will notify proper authorities within the University of the potential loss and to the Virginia State Police, Auditor of Public Accounts, and State Inspector General as appropriate.

Pursuant to the anonymous State Fraud, Waste, and Abuse Hotline established by the Governor of Virginia and administered by the Office of State Inspector General, for cases referred to the Internal Audit Department, the internal audit program over these cases must maintain the confidentiality and integrity of the hotline referral. All working papers must be clearly marked as “Confidential Commonwealth Hotline Documents” to provide confidentiality over hotline documents and the integrity of the hotline program and must not be shared with anyone except those individuals who are directly involved in conducting the investigation and have a need to know. Those provided this information also must understand the confidentiality requirements and may be required to sign a confidentiality statement. Information must be received upon request in order to afford us the opportunity to complete the hotline investigation in sixty days as required by the OSIG.

Internal Audit will conduct an investigation based on the facts submitted to determine if a loss, fraud, waste or abuse has in fact occurred. Tests will be performed of the financial and operating procedures to identify weaknesses which permitted the irregularity (if any)
to occur. Improvements will be recommended to correct such weaknesses.

MANAGING THE INTERNAL AUDIT ACTIVITY

The Chief Audit Executive should effectively manage the internal audit activity to ensure it adds value to the organization, to include establishing policies and procedures to guide the internal audit activity.

The Chief Audit Executive must establish a risk-based plan and determine the priorities of the internal audit activity, consistent with the University’s goals. The internal audit activity’s plan of engagements will be based on a documented risk assessment, undertaken at least annually. The input of senior management, the President, and the Board shall be considered in the process.

The Chief Audit Executive should consider accepting proposed consulting and advisory engagements based on the engagement’s potential to improve risk management, add value, and improve the University’s operations of which the nature and scope is to be agreed by management, without the internal auditor assuming management’s responsibility. Those engagements that have been accepted should be included in the plan. Internal auditors generally should not agree to conduct a consulting engagement simply to circumvent, or to allow others to circumvent requirements that would apply to an assurance or audit engagement, if the service in question is more appropriately conducted as an assurance or audit engagement.

Each year, the Chief Audit Executive shall communicate the internal audit activity’s plan for the next fiscal year and resource requirements, including significant interim changes, to the President and to the Board of Visitors for review and approval and the resulting impact of resource limitations. The Chief Audit Executive will initiate audits pursuant to the plan.

COOPERATION WITH EXTERNAL AUDITORS

The Chief Audit Executive is responsible for coordinating the audit efforts of the Internal Audit Department with those of the Auditor of Public Accounts and other external auditors as applicable.

The coordination of audit efforts should be planned and defined as part of the scope for proposed audits to ensure effectiveness. This coordination will provide reasonable assurance that the work of all auditing groups is complementary, providing proper coverage, and minimizing duplication of effort.
ASSURANCE AND CONSULTING SERVICES

Assurance services include objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organization. Examples may include financial, performance, compliance, system security, and due diligence engagements.

Consulting and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organization's governance, risk management, and control processes without the internal auditor assuming management responsibility. The Internal Audit Department will perform consulting services, beyond internal audit's assurance services, to assist management in meeting its objectives. Examples may include counsel, facilitation, process design, training, and advisory services.

Consulting services objectives shall be consistent with University values and goals; focus on managing risk, adding value, and enhancing operations; and be understood by the client. Also, in the course of providing consulting services, Internal Audit will be alert to significant risks and control matters, incorporate knowledge gained into future engagements, and communicate issues to higher levels. These services will be provided at the discretion of the Chief Audit Executive where they do not represent a conflict of interest or detract from Internal Audit's obligation to the Board of Visitors or the President.

AUDIT REPORTS

At the conclusion of each audit, the department or activity audited will be provided an opportunity to respond in writing to the findings, conclusions, and recommendations of the Internal Audit Department. An exit conference will be held with responsible management of the department or activity reviewed. All findings, conclusions, and recommendations will be discussed and any differences of opinion will be noted.

A formal audit report will be issued after the exit conference. This report will contain a summary of the department or area reviewed, the objectives of performing the audit, methods used, detailed explanations of findings, and recommendations for improvement. A section of the report will also include management's response to Internal Audit's findings and recommendations when received within a reasonable timeframe.

Management's written corrective action plan shall include the individual responsible for implementing the recommendation, the timetable for anticipated completion of action to be taken and an explanation for any recommendations not addressed or agreed upon. In addition, management shall be given 10 business days from the date of the exit conference to provide written responses to the Chief Audit Executive.

Audit reports will be addressed to the responsible Cabinet member or Executive and senior manager of the department or activity reviewed. Copies will be forwarded to the Board of Visitors, the University President, the State Inspector General, the Auditor of Public Accounts, and other persons deemed necessary.
The Internal Audit Department will conduct follow-up reviews on audits performed to ensure that recommendations to address the most significant risks have been considered and acted upon. Distribution of the follow-up report will be the same as the original report.

APPROVED THIS 16th DAY OF SEPTEMBER 2016.

[Signature]
Rector, Virginia State University Board of Visitors

[Signature]
Chair, Facilities, Finance and Audit Committee

[Signature]
President, Virginia State University