



**STATE OF TENNESSEE
DEPARTMENT OF TRANSPORTATION**

INTERNAL AUDIT OFFICE
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JOHN C. SCHROER
COMMISSIONER

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TDOT Office of Internal Audit

Charter, December 2012 Revision

Purpose and Role of Internal Audit

Internal Auditing is an independent and objective assurance and consulting activity guided by a philosophy of adding value to improve the financial and operational functions of the Tennessee Department of Transportation (TDOT). It assists the department in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organization's risk management, control, and governance processes.

Authority and Organization

Tennessee Code Annotated 4-3-2303 (6) states the Commissioner of TDOT (Commissioner) may "Organize the department into such units as the commissioner deems necessary to carry out the duties and functions imposed on the commissioner and the department."

Responsibility

The Office of Internal Audit and the Director of Internal Audit is subject to the administrative purview of the Chief Operating Officer, who reports directly to the Commissioner. The Office provides audit, assurance, consulting, and investigative services pertaining to instances of governmental fraud, waste, and abuse. While Internal Audit often works with various members of the TDOT management team, all reports and recommendations are presented to the Chief Operating Officer and the Commissioner for use in overseeing and managing the department.

Professional Standards

The TDOT Office of Internal Audit utilizes the guiding structure provided by the 2011 Revision of the Government Auditing Standards (Yellow Book). These standards provide a framework for performing high-quality audit work with competence, integrity, objectivity, and independence to provide accountability and to help TDOT operations and service delivery. Additional guidance provided by: The Institute of Internal Auditors' (IIA) *International Standards for the Professional Practice of Internal Auditing* (Red Book), Information Systems Audit and Control Association's (ISACA) *IS Audit and Assurance Standards*, the American Institute of Public Accountants' (AICPA) *Statement on Auditing Standards* (SAS), and The Association of Certified Fraud Examiners' (ACFE) Code of Ethics

is also utilized. All auditors abide by TDOT Policy 101-02 -Ethics, Conflicts of Interest, and Acceptance of Gifts.

Access to Records, Personnel, and Physical Properties

Authority is granted to TDOT Internal Auditors for full, free, and unrestricted access to any and all TDOT records, physical properties, and personnel relevant to any function under review. All employees are required to cooperate with and assist Internal Audit in fulfilling their staff function.

Independence

TDOT Office of Internal Audit meets the Government Accountability Office's (GAO) independence requirement because the Director of Internal Audit:

- is accountable to the head or the deputy head of the government entity charged with governance;
- reports the audit results both to the head or the deputy head of the government entity and to those charged with governance;
- is located organizationally outside the staff or line management function of the unit under audit;
- has access to those charged with governance;
- is sufficiently removed from political pressures to conduct audits and report findings opinions, and conclusions without fear of political reprisals

Scope

The scope of the internal audit activity encompasses the examination and evaluation of the adequacy and effectiveness of the department's governance, risk management process, internal control structure, and the quality of performance in carrying out assigned responsibilities to achieve stated goals and objectives. The scope of the audit activity includes:

- Reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information.
- 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 whether the organization is in compliance.
- Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
- Reviewing and appraising the effectiveness, efficiency, and economy with which resources are employed.
- Reviewing operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.
- Reviewing specific operational functions as requested by the Commissioner or the Chief Operating Officer, as appropriate.
- Serving as a liaison between the department and its external auditors.
- Performing consulting, attest, and advisory services related to departmental risk management, governance, and control.
- Monitoring and evaluating the effectiveness of the organization's risk management system.
- Identifying, detecting, and investigating instances of fraud, waste, and abuse.

Audit Planning

The Director of Internal Audit, on an annual basis, submits to the Commissioner an Audit Plan for the forthcoming fiscal year. The Annual Audit Plan is derived using a risk-based methodology using a variety of qualitative and quantitative factors. Any significant change to the formally approved Audit Plan is communicated to the Chief Operating Officer.

Reporting

A final written report is prepared and issued by the Director of Internal Audit at the conclusion of each audit and will be distributed as appropriate. A copy of each audit report will be forwarded to the Chief Operating Officer, and the Comptroller of the Treasury's Office.

The Director of Internal Audit or designee shall include in the audit report, the audited function's response and the corrective plan of action to address the recommendations presented in the report. Management's response shall include a responsible party within the function as well as a projected timetable for anticipated completion of corrective actions. Internal Audit will conduct follow-up reviews on audit issues and recommendations to verify the efficacy of the corrective actions taken. Results of these follow-ups will be reported to the Chief Operating Officer, and the Comptroller of the Treasury's Office in an abbreviated report format

Reports delineating substantiated instances of material fraud, waste, and abuse are prepared and submitted to the Chief Operating Officer, and the Comptroller of the Treasury's Office, as well as the Attorney General's Office, and any other appropriate legal and/or law enforcement agency.

Periodic Assessment

The Director of Internal Audit periodically assesses whether the purpose, authority, and responsibility, as defined in this charter, continue to be adequate to enable Internal Audit to accomplish its objectives.

Approved:



Scott Black, Chief Operating Officer

Date: 12-20-12