Administrative Policy No. 16.01

Subject:	Internal Audit
Information Contact:	Chief Audit Executive Internal Audit and Consultation MS 45804, By Teams or Email
Authorizing Source:	Office of Financial Management *State Administrative and Accounting Manual* *Chapter 22 – Internal Audit* *Institute of Internal Auditor's Global Internal Audit Standards*
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Purpose

Internal auditing is an independent, objective audit and advisory service designed to add value and improve an organization's operations. It helps the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

This policy:

A. Authorizes the internal audit of the Department of Social and Health Services (DSHS) operations including information technology, audits of department contractors, and service providers, as carried out by Internal Audit and Consultation (IAC).

B. Establishes the duties of the audit committee for oversight of the Department's internal audit activities which include establishing the internal audit mandate as specified by the Institute of Internal Auditor's (IIA) Global Internal Audit Standards™ to IAC. The mandate specifies the authority, role and responsibility of the internal audit function.

C. Establishes procedures for DSHS's internal audit functions, including the development of annual audit plans, conducting audits and consultations and providing technical assistance.

D. Outlines the procedures for completing and monitoring corrective action plans (CAPs).

Scope

This policy applies to all DSHS operations and governs:

A. The activities of IAC, including internal audits of all DSHS programs and organizational units, as well as audits of department contractors and service providers.

B. The responsibilities of the audit committee in relation to internal audit activities.

C. Corrective actions taken as the result of DSHS internal audits conducted by IAC.

Definitions

Assurance services (commonly known as audits) – Services through which internal auditors perform objective assessments to provide assurance. Examples of assurance services include compliance, financial, operational/performance, information technology and information technology security engagements. Internal auditors may provide limited or reasonable assurance, depending on the nature, timing, and the extent of procedures performed.

Advisory services (also known as consulting services) – Services though which internal auditors provide advice to an organization's stakeholders without providing assurance or taking on management responsibilities. The nature and scope of advisory services are subject to agreement with relevant stakeholders. Examples include advising on the design and implementation of new policies, processes, systems, and products; providing forensic services and training; and facilitating discussions about risks and controls.

Audit Committee – The highest-level body charged with governance for DSHS. A committee to assist DSHS management in performing its oversight responsibilities as they relate to financial and other reporting practices, internal control, compliance with laws, regulations, ethics, economy and efficiency of operations, financial reporting process and the agency's process for monitoring compliance with laws and regulations and the code of conduct. The audit committee consists of seven members including the DSHS secretary, chief of staff – office of the secretary, and senior DSHS executives. The committee must have a quorum for decision making and voting purposes. A quorum is the minimum number of audit committee members that must be present to make the proceedings of the audit committee meeting valid. (For example, the audit committee is currently comprised of seven members therefore, a quorum would be four members).

Chief Audit Executive (CAE) – The leadership role responsible for effectively managing all aspects of the internal audit function and ensuring the quality performance of internal audit services is in accordance with the Institute of Internal Auditor's Global Internal Audit Standards™.

™Internal Audit and Consultation - IPPF Global Standards Final Copy Condensed Version 1-24-24.pdf - All Documents

Corrective Action Plan (CAP) - A plan prepared by a division director or designee and approved by their assistant secretary, which includes:

1) Specific corrective actions the division will take to correct the audit findings.
2) Specific target dates by when the division will complete the corrective actions.
3) Monthly updates sent to IAC to illustrate progression of corrective actions; and
4) The completion date for each action item.

Department - The Department of Social and Health Services (DSHS).

Engagement - An audit, advisory service (consultation), or technical assistance instance.

Governance – The combination of processes and structures implemented by the audit committee to inform, direct, manage, and monitor the activities of the organization toward the achievement of its objectives.

Internal Audit and Consultation (IAC) – The office responsible for providing internal audit, advisory services (consultations), and technical assistance services to DSHS management.

Internal audit charter – A formal document that includes the internal audit function's mandate, organizational position, reporting relationships, scope of work, types of services, and other specifications. AP 16.01 is the internal audit charter for IAC and DSHS.

Internal audit mandate – The internal audit function's authority, role, and responsibilities, which is granted by the Audit Committee, laws, or regulations, or a combination of these.

Quality Assurance and Improvement Program (QAIP) – A program established by the chief audit executive to evaluate and ensure the internal audit function conforms with the IIA Global Internal Audit Standards™, achieves performance objectives, and pursues continuous improvement. The program includes internal and external assessments.

Senior executives – (cabinet and subcabinet) – Members of senior management including the secretary, chief of staff, deputy chief of staff, chief financial officer, assistant secretaries, chief technology innovation officer, and senior directors.

Service providers – Licensed providers who provide service to DSHS clients.

Policy Requirements

A. The chief audit executive (CAE) directs internal audit and consultation and all internal audit and advisory service (consultation) functions for DSHS, evaluating such matters as:
   1. Compliance with client health and safety policies and procedures, and emergency management planning.
   2. Compliance with client fund administration, policies and procedures.

3. Accomplishment of established organization goals and objectives.
4. Compliance with laws, regulations, policies, plans, procedures, grants, and contract terms
5. Economical and efficient use of resources.
6. Safeguarding of assets.
7. Reliability and integrity of information.
8. Information technology.
9. Cybersecurity.
10. Other issues and areas as determined by the audit committee or the secretary.

B. The chief audit executive reports administratively to the deputy chief of staff – office of the secretary, and functionally to the audit committee. The audit committee is sponsored by the chief of staff.

C. Internal audit and consultation activities are conducted according to the Institute of Internal Auditor's Global Internal Audit Standards™.

D. The DSHS secretary's audit requests are the priority of IAC. All other requests are considered after the secretary's requests are met.

E. IAC staff participating in internal audit activities, with strict accountability for confidentiality and safeguarding records and information, are authorized full, free and unrestricted access to all DSHS and contractor records, physical properties and personnel necessary to carry out their assignments.

F. The audit committee reinforces independence and objectivity in the prioritization and analysis of audit related issues and provides reasonable assurance that department management is exercising due professional care.

G. Written requests for special audits, advisory services (consultations) or technical assistance may be submitted by email to the chief audit executive at any time. These requests will be taken into consideration and may be discussed with the audit committee. The CAE considers special requests based on the priorities of the annual audit plan and the availability of IAC staff. The CAE will respond to the requestor of the special request within five business days.

Roles and Responsibilities

A. Audit committee
   1. Grants the internal audit mandate to the internal audit function, which establishes the authority, roles, and responsibilities for IAC.
   2. Provides oversight into the preparation for and follow-up to internal and external audits of DSHS programs and services to help ensure the agency has a thoughtful,

proactive and coordinated approach to audits and advisory services (consultations).

3. Provides independent assurance and advice to the DSHS senior executives on the governance, risk, control and compliance framework and its financial reporting responsibilities.
4. Reviews evaluations of governance processes.
5. Requests audits and advisory services (consultations) that address risks to the members' own areas of responsibility, as needed.
6. Provides input (requested audits and advisory service - consultations) into the annual audit and consultation plan.
7. Reviews the annual audit and consultation plan before its approval by the audit committee chairperson.
8. Reviews audit and advisory service (consultation) results and ensure they are given due consideration.
9. Serves as a mediator and resolve intra-agency audit disputes and eliminate interference/impairments to the process as needed.
10. Approves the external quality assurance review (QAR) of internal audit and consultation which happens every five years.

B. Chief audit executive

1. Directs and manages the work of internal audit and consultation (IAC) according to the Institute of Internal Auditor's Global Internal Audit Standards™.
2. Meets with senior management between March and June of each year to discuss potential audit and advisory service (consultation) subjects for the annual audit plan.
3. Develops the department's annual audit and consultation plan using a risk-based methodology and the priorities set by the office of the secretary, audit committee and senior management. At a minimum the audit plan includes:
   a. The audit and advisory services (consultation) work schedule for the fiscal year.
   b. A summary of IAC's work during the previous fiscal year.
   c. Notable audit findings and recommendations, together with emerging trends (if any).
   d. Progress on the department's CAP implementation, monitoring, and completion.
   e. The impact of IAC resource limitations and significant interim changes to the audit committee.
   f. Confirmation of the organizational independence of the internal audit activities annually to the audit committee.
   g. Information regarding any incidents where independence may have been impaired and the actions or safeguards employed to address the impairment to the audit committee.
   h. Progress of the quality assurance and improvement program to the audit committee.
4. Submits the annual audit plan to the audit committee at the June quarterly meeting each year for review and approval. The plan must be approved by the audit committee and signed by the audit committee chairperson prior to implementation.

5. Manages the engagements contained in the annual audit and consultation plan.
6. Meets quarterly with the audit committee to:
   a. Provide a quarterly progress report on completing the annual audit and consultation plan.
   b. Communicate any significant deviation from the approved annual audit and consultation plan; and
   c. Provide an update on the corrective action plans audit findings.
7. Reviews and selects an independent external assessor to conduct the quality assurance review (QAR) per the Institute of Internal Auditor's Global Internal Audit Standards™ every five years.

C. IAC staff
1. Report to the chief audit executive.
2. Conduct audits, advisory services (consultations) and technical assistance per the annual audit and consultation plan, and as required.
3. Manage all IAC activities according to the following Institute of Internal Auditor's Global Internal Audit Standards™ framework:
   a. Ethics and professionalism
      i. The internal audit activity will adhere to the Institute of Internal Auditors' mandatory guidance including the definition of internal auditing, ethics and professionalism, and the Institute of Internal Auditor's Global Internal Audit Standards™. This mandatory guidance constitutes principles of the fundamental requirements and expectations for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance.

The ethics and professionalism principles and standards of the Institute of Internal Auditor's Global Internal Audit Standards™ help to enhance the following:
- Objectivity and freedom from undue influence (independence)
- Appropriately positioned and adequate resources
- Alignments with the strategies, objectives, and risks of the organization
- Demonstrates quality and continuous improvement
- Effective communication
- Risk-based assurance
- Insightful, proactive, and future focused work
- Organizational improvement

      ii. The Institute of Internal Auditors' practice guides, position papers and practice advisories will be adhered to, as applicable, to guide operations.
      iii. In addition, the internal audit activity will adhere to relevant DSHS policies and procedures and Internal Audit and Consultation's (IAC) standard operating procedures manual.
   b. Ethics and professionalism behavioral expectations
      The purpose of the Institute of Internal Auditor's ethics and professionalism behavioral expectations as outlined in the Institute of Internal Auditor's Global

Internal Audit Standards™ are to promote an ethical culture in the profession of internal auditing. Ethics and professional behavioral expectations are necessary and appropriate for the profession of internal auditing, founded as it is on the trust placed in its objective assurance about governance, risk management and control.

c. Ethics and professionalism principles are as follows:
   - *Demonstrate integrity* – Internal auditors demonstrate integrity in their work and behavior. This includes:
     - Honesty and professional courage
     - Organization's ethical expectations
     - Legal and ethical behavior
   - *Maintain objectivity* – Internal auditors maintain an impartial and unbiased attitude when performing internal audit services and making decisions. This includes:
     - Individual objectivity
     - Safeguarding objectivity
     - Disclosing impairments to objectivity
   - *Demonstrate competency* – Internal auditors apply the knowledge, skills, and abilities to fulfill their roles and responsibilities successfully. This includes:
     - Competency
     - Continuing professional development
   - *Exercise due professional care* – Internal auditors apply due professional care in planning and performing internal audit services. This includes:
     - Conformance with the Global Internal Audit Standards™
     - Due professional care
     - Professional skepticism
   - *Maintain confidentiality* – Internal auditors use and protect information appropriately. Internal auditors must respect the value and ownership of information they receive and not disclose information without appropriate authority unless there is a legal or professional obligation to do so. This includes:
     - Use of information
     - Protection of information

d. Independence and objectivity

The chief audit executive will confirm to the audit committee at least annually, the organizational independence of the internal audit activities.

i. The internal audit activity will remain free from interference by any element in DSHS including matters of audit selection, scope, procedures, frequency, timing, or report content, to permit maintenance of a necessary independent and objective mental attitude.

ii. Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records or engage in any other activity that may impair their judgment.

iii. Internal auditors will exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. Internal auditors will make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

D. Assistant Secretaries
1. Provide input into the development of the annual audit and consultation plan through annual consultation meetings with the chief audit executive.
2. May request special audits that fall outside the DSHS annual audit plan by submitting a written request to the chief audit executive.
3. Approve responses to IAC internal audit reports for their administration.
4. Approve all internal audit corrective action plans for their administration in a manner and form conformant with IAC requirements.
5. Ensure timely and thorough completion of CAPs.
6. Appoint one audit liaison for the administration to review CAPs for completion and to provide necessary staff training on the CAP process.
7. Ensure the administration's audit liaison submits to IAC a signed initial corrective action plan by the assistant secretary outlining the steps to address the audit findings and material weaknesses within 30 calendar days after the final audit report has been distributed.
8. Approve significant delayed actions (milestones) when a target date is extended beyond the expected completion date of the CAP.
9. Sign and submit to IAC, a final certificate of completion of the corrective action plan within one year of the issuance of the final audit report, certifying the final corrections of all audit findings/material weaknesses within their administration for the engagement. The administration's audit liaison will submit to IAC after signature.

E. Division Directors
1. Work with the administration's audit liaison to prepare and provide their program's response input for their internal audit findings to the assistant secretary within 20 calendar days of the issuance of the draft report.
2. Work through the administration's audit liaison to prepare and submit copies of their initial CAP to their assistant secretary within 30 calendar days of the final internal audit report.
3. Oversee and perform corrective action(s) in response to internal audits.
4. Work through each administration's audit liaison to report CAP activity, changes in action steps or due dates to IAC by the 15th of each month until completion
5. At their discretion request technical assistance from IAC that falls outside the DSHS annual audit and consultation plan.

F. DSHS employees
All DSHS employees are required, as requested, to provide assistance in the fulfilment of

internal audit activities.

Procedures

A. Assurance services (commonly known as audits)
IAC provides assurance/internal audit services and audits of department contractors and vendors.

1. Audits will be detailed in the annual audit and advisory services (consultation) plan or as requested during the year by the office of the secretary, assistant secretaries or senior management.
2. Audits follow the following process:
   a. Written engagement level audit plans are developed with the stakeholders.
   b. The engagement audit plan is approved by the assistant secretaries or their designee and other members of executive leadership deemed necessary by the chief audit executive.
   c. IAC to provide regular updates and maintain open communication on the status of the audit as agreed upon with the stakeholders.
   d. IAC will conduct an entrance and exit conference with the stakeholders.
   e. IAC will provide a draft report, final report and corrective action plan (CAP) for each engagement.

B. Advisory services (consultation services)
IAC provides and promotes organizational improvement through advisory services (consultation) to management. These are identified on the annual audit and consultation plan.

Advisory Services (consultation services) are performed.
1. As determined during the audit planning process.
2. At management's request following an audit; to recommend standards of control for systems, or to review procedures before implementation.
3. As special requests are made by executive management unrelated to a specific audit.
4. Provide regular updates and maintain open communication on the status of the advisory service as agreed upon with the stakeholders.

C. Reporting and distribution of IAC information
1. Audit reports
   a. Draft audit reports for general and information technology audits include:
      i. Audit findings for general audits and material weaknesses for IT audits.
      ii. Quality performance issues and opportunities for improvement; and
      iii. Recommendations for addressing audit findings, material weaknesses and deficiencies.
   b. Final audit reports may include:

i. The auditee's timely response to the draft report, if submitted by senior management or their designee or by a principal of an external entity having undergone an audit.
ii. The CAP developed by the audited program, if received by IAC prior to the issuance of the final audit report.
iii. Any existence of impairment from completing the audit.

c. For findings or material weaknesses of significant importance:
i. If an internal audit finding or material weakness indicates clients and the department are at serious risk, the IAC provides notification within one business day, through a management memorandum, email, teams call or in person to the DSHS secretary, chief of staff, deputy chief of staff, and the respective assistant secretary.
ii. IAC may recommend the program take immediate steps to address problem areas.

d. Final audit reports are distributed to:
- The DSHS secretary
- Audit committee members
- Relevant senior executives and the division director of the audited program
- The chief risk officer – Enterprise Risk Management Office (ERMO)
- Director, finance division (Finance, Technology, & Analytics Administration (FTAA) - if applicable)
- The chief audit executive
- Office of financial recovery (if overpayments are identified)
- Other DSHS management staff affected by or involved in the audit
- Auditee
- Administration's audit liaisons (general audits only – information technology reports will not be distributed)

All audit reports, with the exception of information technology reports, are on the Internal Audit and Consultation (IAC) Intranet SharePoint site. For information technology reports contact the chief audit executive.

2. Advisory service (consultation) reports
a. An advisory service engagement received as a request from the audit committee will have a report distribution limited to the audit committee and relevant senior executives and DSHS management team members as appropriate.
b. Advisory service (consultation) engagements listed on the approved annual audit plan will have a report distribution to the audit committee and relevant senior executives and DSHS management team members.
c. An advisory service (consultation) engagement received as a special request by management will not necessarily result in a formal report and may not be subject to the distribution described above. The report will be limited to DSHS management team members designated by the requestor.

3. Technical Assistance is offered by IAC to provide expertise input on internal controls regarding a business process, policy, or a program. The time allotted for technical assistance by IAC is usually eight hours or less. There is no report issued for technical assistance.

D. Identifying, reviewing, and tracking of internal audit CAPs, Internal audit and consultation:

1. Tracks the content and timeliness of corrective actions taken and selectively test the outcomes through follow up audits after the audit has been completed or conducts a follow up audit at the discretion of the chief audit executive.
2. Reports quarterly on the progress, exceptions, discrepancies, and departures from CAPs to the audit committee. Overdue CAPS are also discussed.
3. Collaborates with program staff and their finance division office regarding fiscal issues when requested.
4. Will only accept responses to CAPs from the administration's audit liaisons.

E. Quality assurance and improvement program
1. Is overseen by the chief audit executive who reports to the audit committee:
   a. At least annually, on the results of the ongoing internal assessments and periodic assessments; and
   b. At least every five years, on independent external assessments.
2. Is maintained by internal audit and consultation.
3. Covers all aspects of the internal audit activity as it relates to the Institute of Internal Auditor's Global Internal Audit Standards™.
4. Includes evaluations of:
   a. Internal audit activities' conformance with the definition of internal auditing, the Institute of Internal Auditor's Global Internal Audit Standards™; and
   b. Application of the ethical and behavioral expectations by internal auditors.