



TDOT Office of Internal Audit

Charter

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 operations of the Tennessee Department of Transportation (TDOT). It assists TDOT 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 is a staff office of the Commissioner, and the Director reports directly to the Commissioner. The Office provides audit and investigation services for the department. While Internal Audit often works with various members of the TDOT management team, all reports and recommendations are presented to the Commissioner for his use in overseeing and managing the department.

Professional Standards:

The Institute of Internal Auditors' (IIA) *International Standards for the Professional Practice of Internal Auditing* govern the audit activities. Internal Auditors adhere to *The Institute of Internal Auditors' Code of Ethics*, and TDOT Policy 101-02 - *Ethics, Conflicts of Interest, and Acceptance of Gifts*. Investigators adhere to *The Association of Certified Fraud Examiners' (ACFE) Code of Ethics, and TDOT Policy 101-02 - Ethics, Conflicts of Interest, and Acceptance of Gifts*. These documents constitute an addendum to this charter.

Access to Records, Personnel, and Physical Properties

Authority is granted to TDOT Internal Auditors and Investigators 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:

The IIA requires audit activities including matters of audit selection, scope, procedures, frequency, timing, or report content to remain free of influence by any element in the organization to allow staff an independent and objective mental attitude necessary in rendering reports.

The ACFE requires investigation activities to not involve any illegal or unethical conduct, or any activity which would constitute a conflict of interest.

Internal Audit Staff shall have no direct operational responsibility or authority over any of the activities reviewed. They shall not develop nor install systems or procedures, prepare records, or engage in any other activity which would normally be audited or reviewed.

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 economy and efficiency 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 operations requested by the Commissioner or management, as appropriate.
- Monitoring and evaluating the effectiveness of the organization's risk management system.

The scope of the investigations activity encompasses obtaining evidence or other documentation to present facts. The investigators work to prevent, detect, and deter fraud. They often interact with the general public and achieve their trust and confidence through these interactions. The scope of the investigation activity includes:

- Reviewing financial and/or operational records.
- Interviewing personnel both within and outside TDOT.
- Observing TDOT personnel, department operations, and department properties.

Audit Planning:

Annually, the Director of Internal Audit submits to the Commissioner an Audit Plan for the following fiscal year. The Audit Plan is risk-based. Any significant change to the formally approved Audit Plan is communicated to the Commissioner.

Reporting:

A written report is prepared and issued by the Director of Internal Audit or designee following the conclusion of each audit and will be distributed as appropriate. A copy of each audit report will be forwarded to the Commissioner and the Comptroller's Office.

The Director of Internal Audit or designee includes in the audit report the auditee's response and corrective action plan in regard to any specific recommendations made.

Management's response includes a timetable for anticipated completion of action to be taken.

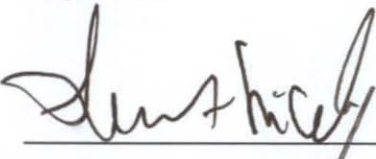
Internal Audit follows-up on audit issues and recommendations to determine whether corrective actions have been taken. Results of these follow-ups are reported to the Commissioner and the Comptroller's Office.

Investigation reports prepared are submitted to the Commissioner and whomever else he so designates. When required, they are also forwarded to the Comptroller's Office, the Attorney General's Office, and any other pertinent legal and/or law enforcement entities.

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:



Commissioner of TDOT

JUL 22 2009

Date