

CFC (LOCAL)

Internal Audit Department

The District shall maintain a comprehensive program of internal auditing. Internal auditing is an independent and objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of the District. It assists the District in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organization's governance, risk management, and internal control.

Mission and Principles

The mission of the District's Internal Audit department is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight.

Core principles for the professional practice of internal auditing include the following:

- Demonstrates integrity.
- Demonstrates competence and due professional care.
- Is objective and free from undue influence (independent)
- Aligns with the strategies, objectives, and risks of the organization.
- Is appropriately positioned and adequately resourced.
- Demonstrates quality and continuous improvement.
- Communicates effectively.
- Provides risk-based assurance.
- Is insightful, proactive, and future-based.
- Promotes organizational improvement.

Organization

In accordance with law, the Internal Auditor shall report directly to the Board. The Internal Auditor shall report administratively (for day-to-day operations) to the Superintendent.

The Board shall:

1. Approve the Internal Audit charter, the risk-based Internal Audit plan, the Internal Audit budget, and the resource plan;
2. Receive periodic communications from the Internal Auditor on the performance of Internal Audit relative to the established plan and other matters;
3. Evaluate the performance of the Internal Auditor;

4. Approve decisions regarding the appointment and removal of the Internal Auditor;
5. Approve the remuneration of the Internal Auditor; and
6. Make appropriate inquiries of the Superintendent or designee and the Internal Auditor to determine whether there is appropriate scope or any resource limitations.

The Internal Auditor shall communicate directly with the Board, including in open session (or executive session when authorized under the Texas Open Meetings Act) and between Board meetings, as necessary.

An individual Board member shall have no individual authority to direct audits. There shall be an audit committee composed of three members of the Board. Audit selection shall be based on the annual risk-based Internal Audit plan as reviewed by the audit committee and approved by the Board.

For purposes of this policy, “report administratively” means the Superintendent provides appropriate structure for the internal audit function within the District, which includes, but is not limited to:

1. Budget, accounting, procurement, and information technology support;
2. Human resource administration, including support in hiring personnel and providing compensation;
3. Communication with the Internal Auditor concerning Internal Audit activities;
4. Adequate work space, furniture, and equipment;
5. Administration of the District's policies and procedures, to include enforcement of time and attendance, travel, and purchasing requirements; and
6. Recommendations regarding the appointment or removal of the Internal Auditor.

Professional Standards

The Internal Auditor shall adhere to the Institute of Internal Auditors' Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practices of Internal Auditing.

The Internal Auditor shall also adhere to the institute of Internal Auditors' Practice Advisories, practice guides, and position papers as applicable to guide operations. In addition, Internal Audit

shall adhere to the District's relevant policies and procedures and the department's standard operating procedures manual.

Authority

Internal Audit shall maintain strict accountability for confidentiality and safeguard all records and District information. The Internal Auditor shall be granted full, free, and unrestricted access to any and all District records, physical properties, and personnel pertinent to carrying out any engagement. All District employees shall cooperate with and assist Internal Audit in fulfilling its responsibilities. The Internal Auditor shall also have full, free, and unrestricted access to the Board, audit committee, and Superintendent.

Independence and Objectivity

All Internal Audit activities shall remain free of influence by any element in the District, including matters of audit selection, scope procedures, frequency, timing, or report content to permit maintenance of an independent and objective mental attitude.

The Internal auditor shall have no direct operational responsibility or authority over any of the activities audited. Accordingly, the Internal Auditor shall not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair the internal auditor's judgment.

The Internal auditor shall exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information above the activity or process being examined.

The organizational independence of Internal Audit shall be confirmed annually to the Board by the Internal Auditor.

Responsibility

The scope of an internal audit shall encompass, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the District's governance, risk management, and internal controls, as well as the quality of performance in carrying out assigned responsibilities to achieve the District's stated goals and objectives, including:

1. Evaluating risk exposure relating to achievement of the organization's strategic objectives;
2. Evaluating the reliability and integrity of information and the means used to identify, measure, classify, and report such information;
3. Evaluating the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations that could have an impact on the District;
4. Evaluating the means of safeguarding assets and verifying the

existence of such assets;

5. Evaluating the effectiveness and efficiency with which resources are employed;
6. Evaluating 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;
7. Evaluating governance processes;
8. Evaluating specific operations at the request of the Board or the District administration, subject to review by the audit committee and approval by the Board;
9. Evaluating the effectiveness of the District's risk management processes;
10. Performing consulting and advisory services related to governance, risk management, and control, as appropriate for the District, subject to review by the audit committee and approval by the Board;
11. Reporting periodically on the Internal Audit department's purpose, authority, responsibility, and performance relative to its plan; and
12. Reporting significant risk exposures and control issues, including fraud risks, governance risks, and other matters needed or requested by the Board.

Internal Audit Plan

At least annually, the Internal Auditor shall submit to the Board, audit committee, and Superintendent an Internal Audit plan for review, and for final consideration and approval by the Board. The Internal Auditor shall communicate the impact of resource limitations and significant interim changes to the Board, audit committee, and Superintendent.

The Internal Audit plan shall be developed based on a prioritization of the audit universe using a risk-based methodology, including input of the Board, audit committee, and Superintendent or designee. The Internal Auditor shall review and adjust the plan, as necessary, in response to changes in the organization's business, risks, operations, programs, systems, and controls. Any significant deviation from the approved Internal Audit plan shall be communicated to the Board, audit committee, and Superintendent.

Reporting and Monitoring

A written report shall be prepared and issued by the Internal Auditor following the conclusion of each audit and shall include the Superintendent or designee's response in regard to the specific audit results and recommendations. The report shall be distributed

as appropriate to the Board, audit committee, Superintendent, and District administrators.

The Internal Auditor shall be responsible for appropriate follow-up on engagement audit results and recommendations. All significant findings shall remain in an open-issues file until cleared.

The Internal Auditor shall periodically report to senior management, the audit committee, and the Board on Internal Audit activity's purpose, authority, and responsibility, as well as performance relative to its plan. Reporting shall also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the Board, audit committee, or Superintendent or designee. Public dissemination of any written reports, as well as responses to public information requests for information by the Internal Auditor, shall be coordinated by and between the Internal Auditor, the District's communications department, the Superintendent, and legal counsel (as necessary), except as otherwise required by law. Internal Audit shall comply with records retention requirements provided under state law.

Deliverables for consulting engagements shall be defined as a part of the consulting engagement. Consulting engagement deliverables distribution shall follow the same reporting process as audit engagements.

Resolution of Disputes

The Internal Auditor shall make all attempts to resolve at the lowest level any disputes regarding specific audit results or recommendation disagreements. In the event the Internal Auditor cannot resolve the dispute, the matter shall be referred to the Superintendent for resolution. In the event the dispute is not satisfactorily resolved or involves the Superintendent, the dispute shall be referred to the audit committee, or if appropriate the Board, for resolution.