

**VIRGINIA DEPARTMENT OF TRANSPORTATION
ASSURANCE AND COMPLIANCE OFFICE
AUDIT CHARTER
October 20, 2022**

Introduction

This Charter serves as the basic document in the organization and administration of the Virginia Department of Transportation, Assurance and Compliance Office (“ACO”). The Charter also serves to document ACO’s authorization to access records, personnel, and the physical properties relevant to the performance of audits and investigations, and to define the scope of the activities within the Virginia Department of Transportation (“VDOT”) and will coordinate activities with the Office of the State Inspector General (“OSIG”) necessary to support compliance with Virginia Code §2.2-309 et. seq., which has been further defined by OSIG Directive Number 001 to include, but not limited to:

1. Adoption of the Institute of Internal Auditors, Inc., (“IIA”) *International Standards for the Professional Practice of Internal Auditing* (“Standards”), the Code of Ethics, and the Definition of Internal Auditing.
2. Monitoring of the Quality Assurance and Improvement Program.
 - IIA Standard 1311-Internal Assessment.
 - IIA Standard 1312 External Assessment.
3. Submission of Annual Work Plan to OSIG.
4. Submission of audit reports to OSIG.
5. Submission of the Charter to OSIG.
6. Submission of corrective action status to OSIG.
7. Provision for Internal Auditor training.

This Charter does not contain, nor is it intended to include an exhaustive list of all of the duties and responsibilities of ACO.

Purpose and Mission

The purpose of ACO is to provide independent, objective assurance and consultant services designed to add value to and improve VDOT’s operations. The mission of ACO is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight. The ACO helps VDOT accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes by promoting effective control at reasonable cost. ACO also performs evaluations, reviews, and audits of external entities (consultants, contractors, etc.) that conduct business with VDOT and cases involving allegations of fraud, waste and abuse, including those referred through the Commonwealth’s State Fraud, Waste and Abuse Hotline

Standards for the Professional Practice of Internal Auditing

The internal audit function within the ACO will govern itself by adherence to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the *International Standards for the Professional Practice of Internal Auditing*, and the Definition of Internal Auditing. The chief audit executive will report periodically to senior management and the audit committee regarding the internal audit activity's conformance to the Code of Ethics and the *Standards*.

Scope of ACO Activities

The scope of work of ACO is to determine whether VDOT's network of risk management, internal control, and governance processes as designed and represented by management, are adequate and functioning in a manner to ensure effectiveness and efficiency of operations; reliability of reporting; compliance with policies, procedures, laws and regulations, and to ensure:

- Risks related to the achievement of VDOT's strategic objectives are appropriately identified and managed.
- Interaction with the various governance groups occurs as needed.
- Significant financial, managerial, and operating information is accurate, reliable, and timely.
- Staff (including, but not limited to, temporary/permanent employees, contractors, vendors, etc.) actions are in compliance with policies, standards, procedures, applicable laws, regulations, and governance standards.
- Resources are acquired economically, used efficiently, and adequately protected.
- Programs, plans, and objectives are consistent with established goals and objectives.
- Appropriate parties are notified when there is failure to take corrective action.
- Costs charged by external parties are accurate, reasonable, and comply with applicable federal and state regulations.

The scope of ACO encompasses the examination and evaluation of the adequacy and effectiveness of the organization's governance, risk management process, system of internal control structure, and the quality of performance in carrying out assigned responsibilities to achieve the organization's stated goals and objectives. It 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 effectively and efficiently.
- Reviewing specific operations, including those within the Transportation directorate, at the request of the Secretary of Transportation or management, as appropriate.
- Monitoring and evaluating the effectiveness of the organization's risk management system.
- Reviewing costs charged by external parties to ensure they are accurate, reasonable, and comply with applicable federal and state regulations.

The chief audit executive also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed. The ACO may perform advisory and related client service activities, the nature and scope of which will be agreed with the client, provided the ACO does not assume management responsibility.

Accountability

The ACO Director, in the discharge of his/her duties, shall be accountable to the Commissioner of Highways to:

- Report significant issues related to the processes for controlling the activities of VDOT and its affiliates, including potential improvements to those processes, and provide information concerning such issues through resolution.
- Provide periodic information on the status and results of the annual audit plan and the sufficiency of audit resources.
- Provide periodic reporting on the disposition of corrective action plans.
- Coordinate reviews performed by external entities, such as, the Auditor of Public Accounts, the Federal Highway Administration, OSIG and others monitoring groups.
- Perform assignments as requested by the Commissioner of Highways or others, as appropriate.
- Provide periodic reporting on the disposition of audits and reviews of external entities.
- Confirm, at least annually, the organizational independence of the ACO.
- Disclose to the Commissioner of Highways any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating results.

Independence, Objectivity, and Reporting Relationship

The ACO Director reports administratively and functionally to the Commissioner of Highways.

In order to maintain independence and objectivity in rendering of reports, all ACO activities shall remain free from all conditions within the organization that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. If the chief audit executive determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties.

ACO staff will maintain an unbiased mental attitude that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no quality compromises are made, and that they do not subordinate their judgement on audit matters to others.

ACO staff shall have no direct operational responsibility or authority over any of the activities they review. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgement, including areas which would normally be audited.

When assisting management in establishing or improving risk management processes, ACO staff must refrain from assuming any management roles or responsibilities relating to the management of risk.

Responsibility

The ACO Director is authorized to develop and execute a broad comprehensive program of auditing within VDOT. Management of VDOT should not assume that audit reviews and appraisals either substitute for, or provide relief from their assigned responsibilities.

The ACO shall:

- Develop, maintain and be guided by a Charter which reflects ACO responsibilities, authority, and reporting relationship.
- Submit the Charter to the Commissioner of Highways for approval.
- Manage the Assurance and Compliance function and perform individual engagements in accordance with this Charter.
- Manage internal audit activities with adherence to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, and the *International Standards for the Professional Practice of Internal Auditing*.

- Develop a flexible annual audit plan using an appropriate risk-based methodology, including any risks or control concerns identified by management, and submit that plan, and any subsequent adjustments, to the Commissioner of Highways or designee for approval.
- Provide a copy of the annual audit plan, along with the total budget and resource plan, and any subsequent significant adjustments of the plan to the Commissioner of Highways.
- Implement the annual audit plan, as approved, including as appropriate any special tasks or projects requested by management or others.
- Maintain a professional staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this Charter.
- Complete reviews and/or forensic analysis of electronic and/or other data in conjunction with the Office of Attorney General Computer Crimes Unit in matters involving and/or containing sexually explicit content.
- Complete reviews and/or forensic analysis of electronic and/or other data not subject to reporting required pursuant to § 2.2-603.F of the Code of Virginia.
- Participate, as requested by the VDOT Chief Security Officer, in reviews and/or forensic analysis of electronic and/or other data subject to reporting required pursuant to § 2.2-603.F of the Code of Virginia.
- Perform consulting services, beyond Assurance and Compliance's assurance services, to assist management in meeting its objectives. Examples include education, serving on committees, participating in special studies, etc.
- Supervise subordinate staff by assigning them to jobs that match their abilities; reviewing their work; and appraising their performance.
- Ensure each engagement of the internal audit plan is executed, including the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the documentation of work programs and testing results, and the communication of engagement results with applicable conclusions and recommendations to the appropriate parties.
- Maintain current practical knowledge on trends in accounting, auditing, investigating and functions within VDOT.
- Evaluate and assess significant new or changing services, processes, operations, and control processes within the appropriate audit area when analyzing risks to develop the annual audit plan.
- Issue periodic reports to the Commissioner of Highways and VDOT senior management summarizing results of Assurance and Compliance activities.
- Update the Commissioner of Highways and senior management on emerging trends and best practices in Assurance and Compliance functions, as appropriate.
- Periodically (as needed) meet with the Commissioner of Highways and senior management to review and discuss completed assignments and the disposition of related corrective action recommendations.

- Complete reviews of allegations referred by the State Fraud, Waste and Abuse Hotline in accordance with policies and procedures established by the Office of the State Inspector General.
- Seek external assistance as needed if the scope of work is beyond the capabilities of Assurance and Compliance staff.
- Monitor the disposition of agreed upon corrective action and report periodically to the Commissioner of Highways and senior management as appropriate.
- Establish a procedure to document whether senior management has evaluated and accepted the risk of not implementing corrective action, including notification to the Commissioner of Highways of any unacceptable unresolved residual risk.
- Establish and maintain a Quality Assurance and Improvement Program, including an internal and external process to monitor and assess the overall effectiveness of the quality program.
- Evaluate the adequacy and effectiveness of controls in responding to the risks within the organization's governance, operations, and information systems regarding the reliability and integrity of financial and operational information; effectiveness and efficiency of operations; safeguarding of assets; and compliance with laws, regulations, and contracts.
- Evaluate the potential for the occurrence of fraud and how the organization manages fraud risk.
- Assess whether information technology governance of VDOT sustains and supports the organization's objectives.
- Ascertain the extent to which management has established adequate criteria to determine whether objectives and goals have been accomplished.
- Assess and make appropriate recommendations for improving the governance process to promote appropriate ethics and values within the organization; ensure effective organizational performance management and accountability; communicate risk and control information to appropriate areas of the organization; and coordinate the activities of and communicate information among Assurance and Compliance, the Commissioner of Highways, and VDOT senior management.
- Ensure adherence to VDOT's relevant policies and procedures, unless such policies and procedures conflict with the audit charter. Any such conflicts will be resolved or otherwise communicated to the Commissioner of Highways and senior management as appropriate.
- Maintain current practical knowledge on trends in accounting, auditing, investigating and functions within VDOT.
- Report information security breach incidents to the Chief Information Officer in compliance with the Code of Virginia (§ 2.2-603).
- Control access to documents and records obtained during reviews and ensure compliance with the Virginia Freedom of Information Act (§§ 2.2-3700 *et seq.*) and the provisions of the State Fraud, Waste and Abuse Hotline relating to the release of records.

Quality Assurance and Improvement Program

The ACO will maintain a quality assurance and improvement program that covers all aspects of the internal audit activities. The program will include an evaluation of the internal audit activities conformance with the *Standards* and an evaluation of whether internal auditors apply the IIAs Code of Ethics. The program will also assess the efficiency and effectiveness of the internal audit activities and identify opportunities for improvement.

The chief audit executive will communicate to the Commissioner of Highways and senior management on the audit activities, quality assurance and improvement program, including results of internal assessments (both ongoing and periodic) and external assessments conducted at least once every five years by a qualified, independent assessor or assessment team from outside VDOT.

Authority

The ACO Director will have unrestricted access to, and communicate and interact directly with, the Commissioner of Highways and senior management.

The Commissioner of Highways, authorizes the ACO to:

- Have full, free, and unrestricted access to all VDOT functions, records (manual/electronic), property, and personnel pertinent to carry out any engagement, subject to accountability for confidentiality and safeguarding of records and information.
- Allocate resources, set frequencies, select subjects, determine scope of work, apply techniques required to accomplish audit objectives, and issue reports.
- Obtain assistance from the necessary personnel of VDOT, as well as other specialized services from within or outside the VDOT, in order to complete the engagement.

Documents and information provided to ACO staff during a review will be maintained in the same prudent manner as by those employees normally accountable for them. The Assurance and Compliance Director and staff are neither authorized nor permitted to:

- Assess specific operations for which they had responsibility within the previous year.
- Perform operational duties for VDOT or its affiliates for any audited activities.
- Initiate or approve transactions external to Assurance and Compliance.
- Have executive or managerial powers, authorities, functions, or duties except those relating to the management of Assurance and Compliance.
- Be responsible for the development or implementation of new systems, but should be consulted (preferably) before and during such development to enable assessment of the adequacy of planned controls.

- Direct the activities of any VDOT employee not employed by Assurance and Compliance, except to the extent such employees have been appropriately assigned to Assurance and Compliance teams or to otherwise assist the Assurance and Compliance staff.

Where the chief audit executive has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity.

ACO Auditors will:

- Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties.
- Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.
- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgements.

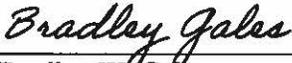
Standards of Audit Practice

ACO auditors apply the knowledge, skills, and experience needed in the performance of internal auditing services. ACO diligently maintains an independent attitude and meets or exceeds the *International Standards for the Professional Practice of Internal Auditing* of The Institute of Internal Auditors, Inc.

Links to related documents:

- [DPM 5-2](#) Fraudulent Transactions
- [DPM 5-3](#) Maintenance of Adequate Internal Controls
- VDOT Assurance and Compliance Reporting Process
- VDOT Assurance and Compliance Outstanding Recommendations Reporting Process
- VDOT Memorandum dated January 27, 2014 (Access to Sexually Explicit Material)
- Restrictions on state employee access to information infrastructure (Code of Virginia, § [2.2-2827](#))
- Financial Accounting and Control - Virginia Code § [2.2-800](#) and § [2.2-803](#)
- Commonwealth Accounting Policies and Procedures Topic No. [10305](#), Internal Controls, February 2021
- Virginia Information Technologies Agency - Information Security Standard ([SEC501-11.3](#)) (December 28, 2020)
- Virginia Information Technologies Agency - Information Technology Security Audit Standard ([SEC502-04](#)). September 15, 2021.

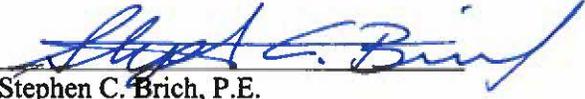
- Security Breach Reporting Requirement (§ 2.2-603)
<https://www.vita.virginia.gov/information-security/incident-reporting/>
- Office of the State Inspector General
<https://www.osig.virginia.gov/>
- Institute of Internal Auditors
<http://www.theiia.org/>
- International Standards for the Professional Practice of Internal Auditing
<https://global.theiia.org/standards-guidance/mandatory-guidance/Pages/Standards.aspx>
- Virginia Code § [2.2-310](#)
- Virginia Code § [30-138](#)



Bradley W. Gales
Director, VDOT Assurance and Compliance Office

October 20, 2022

Date



Stephen C. Brich, P.E.
Commissioner of Highways

October 20, 2022

Date