



October 27, 2014

FEDERAL RETIREMENT THRIFT INVESTMENT BOARD

INTERNAL AUDIT CHARTER

Introduction:

This charter provides the framework by which the Internal Audit Division (IAD) at the Federal Retirement Thrift Investment Board (FRTIB) will conduct its work. Signatures on final page indicate that this charter has been approved by the FRTIB Board Members (Board) and the Executive Director.

Role and Supervisory Structure:

Internal auditing is an objective business assurance activity which is executed free of influence from the business units which it audits. The IAD will be led by a Head of Internal Audit. Functionally, the Head of Internal Audit will report jointly to the Executive Director and the Board. Administratively, the Head of Internal Audit will report to the Chief Risk Officer (CRO).

Objective:

The objective of the IAD is to safeguard the Thrift Savings Plan's (TSP) assets and data, and to improve the TSP's operations through examination and evaluation of FRTIB's risk management, internal control and business governance processes. The IAD furthers the interests of the TSP participants and beneficiaries by bringing a systematic and disciplined approach to evaluating and improving the effectiveness of FRTIB operations.

Responsibility & Accountability:

The Head of IAD is responsible for leading a team that:

- Operates in accordance with this charter and updates this charter, with Board Member and Executive Director concurrence, every two years or more often if necessary.
- Engages in appropriate risk-based pre-audit research, to include collaborative discussions with FRTIB management and review of prior audit reports, board meeting minutes and other relevant materials, to construct a risk-based framework for consideration of future auditing activities;

- Develops and submits to the Executive Director and the Board for approval an annual internal audit plan that will propose an audit work schedule for the following fiscal year. The audit plan will demonstrate expert auditing knowledge and an awareness of available FRTIB resources, and will employ a risk-based methodology for prioritizing audit activities. The plan will include budget requirements. IAD will periodically update the Board and the Executive Director on progress toward executing the annual audit plan.
- Executes the audit plan while deploying available resources wisely and communicating and collaborating effectively with all stakeholders. Plan execution practices will be consistent with standards from Institute of Internal Audit (IIA). See additional details in the Professional Standards section.
- Produces expert quality reports for audits completed during the year. The audit reports will review (if applicable) significant issues related to processes for controlling the activities of FRTIB and TSP together with recommendations for improvements to those processes. See additional detail in the Reporting & Monitoring section.
- Provides a summary assessment of the overall adequacy and effectiveness of FRTIB's and TSP's processes for controlling and managing its operations, a summary of all recommendations for improvement, and a status of findings from prior audits.

The Board and Executive Director will hold the Head of Internal Audit accountable for executing the responsibilities listed above and will jointly provide an evaluation of the Head of Internal Audit to the CRO annually. The CRO shall consider the assessment for incorporation into the annual performance assessment for the Head of Internal Audit.

Scope:

The scope of IAD's work encompasses assurance related activities, which include:

- Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets;
- Evaluating the systems established to ensure compliance with FRTIB policies and procedures and applicable laws and regulations;
- Evaluating risk exposure relating to achievement of the organization's strategic objectives;
- Evaluating the effectiveness and efficiency with which resources, including human resources, are employed;
- Evaluating the reliability and integrity of information and the means used to identify, measure, classify, and report such information;
- 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;
- Evaluating governance processes; and
- Evaluating the effectiveness of FRTIB's risk management processes including anti-fraud processes.

Authority:

In executing the approved audit plan, the IAD is authorized to:

- With reasonable pre-notification, have free and unrestricted access to the Executive Director, and the Board
- With reasonable pre-notification, have free and unrestricted access to all FRTIB Offices and vendor activities and processes that impact FRTIB and TSP operations, information, personnel, physical property and records relevant to the performance of the audit function;
 - If unfettered access is not given, IAD will notify the Executive Director and the Board (if necessary) for appropriate resolution;
 - All information accessed is to be kept confidential in accordance with applicable laws and regulations and is to be strictly used for audit purposes only;
- Determine the scope of approved audits in consultation with the Office Directors;
- Determine the techniques required to accomplish audit objectives; and
- Determine when the assistance of specialists/subject matter experts is necessary and obtain such specialists within FRTIB or outside FRTIB within the constraints established by the budget.

IAD is not authorized to:

- Initiate or approve modifications to any policies, procedures,, projects or business rules external to IAD;
- Direct the activities of any FRTIB employee or contractor not employed by IAD, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist with internal auditors.
- Audit any activity that is not part of the approved audit plan.

Objectivity & Impartiality:

In order to to permit maintenance of an independent and objective mental attitude necessary in rendering reports, all internal audit activities will remain free of influence by any element in the organization except for explicit joint direction from the Executive Director and the Board, including matters of audit selection, scope, procedures, frequency, timing, or report content. Internal auditors will have no direct operational responsibility or authority over any of the activities they review. Accordingly, they will not implement internal controls, develop or install systems, processes or procedures, or engage in any other activity which would normally be audited.

IAD may advise management on best-practices and engage in collaborative information sharing, but can in no way take ownership of any management-directed decisions over their respective operations.

Reporting and Monitoring:

A written report will be prepared and issued by the Head of IAD following the conclusion of each internal audit engagement and will be distributed as appropriate within FRTIB. Office Directors and other staff will be given the opportunity to (i) review the draft versions of the report and correct any errors in the report, (ii) offer additional supporting documentation to corroborate the audit evidence

provided earlier, and (iii) provide responses for each audit issue, which will be incorporated in the final report. The internal audit report will include management's response and any corrective action taken or to be taken in regard to the specific findings and recommendations. When finalized, the reports will be formally communicated to the Executive Director and the Board. The Head of IAD will provide a briefing to the Board members and the Executive Director at least twice annually.

IAD will be responsible for appropriate status-tracking on findings and recommendations. All significant findings will remain open until confirmed by IAD as closed. Reporting to the Board will include status of open, closed, and upcoming internal audits

Results of internal audit engagements to internal and external stakeholders will be communicated in compliance with applicable laws and regulations (such as FERSA, Sunshine Act, Privacy Act and FOIA). The Office of External Affairs (OEA) shall remain the primary point of contact for Congressional and media inquiries concerning all internal audit activities.

Liaison with Oversight Organizations and External Auditor:

IAD will attend meetings held periodically by the Chief Risk Officer with external auditors and Department of Labor to discuss matters of mutual interest. Where possible, internal and external audit activities will be coordinated to ensure adequate audit coverage and to minimize duplication of effort and allow the external auditors and Department of Labor to rely on IAD's work products.

Professional Standards:

FERSA requires that agency's financial records be maintained in accordance with Generally Accepted Auditing Standards (GAAS). IAD will govern itself by adherence to the IIA's mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of IAD's performance.

The IIA's Practice Advisories, Practice Guide, and Position Papers will also be adhered to as applicable to guide operations. In addition, IAD will adhere to applicable laws and regulations, FRTIB's relevant policies and procedures and IAD's standard operating procedures manual.

The Head of Internal Audit will work with oversight organizations to ensure applicable Generally Accepted Government Auditing Standards (GAGAS) issued by the U.S. Government Accountability Office (GAO) – also referred to as Yellow Book Standards – are also adhered to. These standards address requirements and guidance dealing with ethics, independence, auditors' professional judgment and competence, quality control, performance of the audit, and reporting.

IAD will ensure:

-
- All internal audit assignments are undertaken with due professional care

- Audits are completed by suitably skilled, experienced and competent auditors, whether internal or external resources are used.
- Audit programs, working papers and reports are completed in accordance with the required professional standards; as well as applicable retention rules and guidelines.
- All IAD staff undertake training to maintain their professional development.

Quality Assurance and Improvement Program:

IAD will maintain a quality assurance and improvement program that covers all aspects of the internal audit activity. The program will include an evaluation by an independent professional organization (e.g., the Institute of Internal auditors) or external organization selected by joint agreement of the Executive and Board.¹ The review will assess IAD's conformance with the International Standards for the Professional Practice of Internal Auditing as promulgated by IIA and will evaluate whether the internal auditors have conformed with the Code of Ethics. The program will also assess the efficiency and effectiveness of IAD's activity and will identify opportunities for improvement.

Review of Charter:

This charter will be updated every two years or more often if necessary, to ensure an appropriate level of cost-effective, value added internal audit service to FRTIB.

Approved by Board resolution this 27th day of October, 2014

Approved by Executive Director this 27th day of October, 2014

Signature: 

¹ IIA and GAGAS standards require external reviews of the internal audit function be conducted at a minimum of every 5 years.