



FEDERAL RETIREMENT THRIFT INVESTMENT BOARD

INTERNAL AUDIT CHARTER

Document Versions:

Date	Version	Author	Comments <i>(briefly summarize change)</i>
10/27/2014	0	Derek Richardson	- Original
10/31/2016	1	Henry Creque	- Auditor-In-Charge designation - Internal Audit acronym - Schedule change to calendar year - Authority over audit scope - Support of TSP participants and beneficiaries
10/16/2018	2	David Harvey	- Removed reference to Generally Accepted Government Auditing Standards - Updated supervisory structure and other areas - Clarified certain types of consulting may be permitted - Updated document to reflect use of CPA firms to support FRTIB Internal Audit operations
09/12/2019	3	Barbara Holmes	- Updated to reflect current supervisory structure - Updated language to reflect current responsibilities
10/30/2019	4	Barbara Holmes	- Updated section on Quality Assurance (QA)

Introduction:

This charter provides the framework by which Internal Audit (IA) 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 and the Executive Director.

Role and Objective of Internal Audit:

Internal auditing is an independent and objective business assurance activity which is executed free of influence from the business units which it audits. It is guided by a philosophy of adding value by improving the operations of the FRTIB. It assists FRTIB 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 controls.

Supervisory Structure:

IA will be led by the Chief Audit Executive (CAE). Functionally, the CAE will report jointly to the Executive Director and the Board Members. Administratively, the CAE will report to the Executive Director. The Executive Director and the Board Members will hold the CAE accountable for executing the responsibilities listed above and will jointly provide feedback regarding the performance of the CAE on an annual basis (with interim feedback permitted). The Executive Director shall consider this feedback as part of the annual performance appraisal process.

The responsibilities of the Executive Director and Board Members also include:

- Approving the internal audit charter;
- Approving the risk-based internal audit plan, including budget and resource considerations;
- Receiving communications from the CAE on the internal audit performance relative to its plan and other matters; and
- Making appropriate inquiries of management and the CAE to determine whether there is inappropriate scope or resource limitations.

Objective:

The objective of FRTIB Internal Audit (IA) 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. IA 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 CAE is responsible for leading a team that:

- Operates in accordance with this charter and updates this charter, with Board Members 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 the Board Members and FRTIB management, 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 Members for approval an internal audit plan that will propose an audit work schedule for the next two calendar years. 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 and other agreed-upon activities. The plan will include budget and resource requirements. IA will periodically update the Board Members and the Executive Director on progress made on the execution of the audit plan and any changes to such plan;
- Executes special projects at the direction of the Board and/or Executive Director as long as such projects do not affect the independence or objectivity of the IA function;
- 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 the Institute of Internal Audit (IIA). See additional details in the Professional Standards section;
- Produces expert quality reports for audits and other types of engagements 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 Reporting & Monitoring section for additional details); and
- 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.

Scope:

The scope of IA's work encompasses assurance and consulting-related activities, which may 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 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;
- Maintaining oversight over the Fraud Waste and Abuse (FWA) Hotline;
- Evaluating the effectiveness of FRTIB's risk management processes including Anti-Fraud processes to the extent such activities do not overlap with OERM's mission and
- Providing consulting services in a manner consistent with IIA independence requirements.

Authority:

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

- With reasonable pre-notification, have free and unrestricted access to the Executive Director, and the Board Members;
- With reasonable pre-notification, have free and unrestricted access to all FRTIB Offices processes and vendor activities that impact FRTIB and TSP operations, information, personnel, physical property and records relevant to the performance of the audit function;
 - 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;
- 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 consistent with budgetary approvals.

IA is not authorized to:

- Initiate or approve modifications to any policies, procedures, projects or business rules external to IA;
- Direct the activities of any FRTIB employees or contractors not employed by IA, 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.

IA is permitted to perform limited consulting services subject to a determination by the CAE that such work is consistent with the IA function and will not present independence issues in regard to performing future assurance work. Consulting services is defined as advisory and related client service activities, the nature and scope of which are agreed with the client, which are intended to add value and improve an organization's governance, risk management, and control processes without the internal auditor

assuming management responsibility. For example, IA may participate in providing training on internal control concepts or advise on best practices.

Objectivity & Impartiality:

In order to permit maintenance of an independent and objective mental attitude necessary in performance of its work; IA activities will remain free of influence by any element in the organization, including matters of audit selection, scope, procedures, frequency, timing, or report content (except for explicit joint direction from the Executive Director and the Board Members). IA 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, and take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgments.

Further, IA 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. However, in certain situations where IA may perform an audit of certain functions such as contracting or travel and IA has made use of those functions during the course of the management of internal audit function, appropriate safeguards may need to be taken (e.g., excluding internal audit personnel from samples) to ensure that the potential for any independence concerns be mitigated, and if such safeguards are not considered to be effective, then this will be communicated to the Executive Director and the Board Members and disclosed as part of any reports or other communications.

The CAE will confirm to the Board Members, at least annually, the organizational independence of the internal audit function. In addition, the CAE will disclose to the Board Members any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating results.

IA 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 or other communications will be prepared and issued by the CAE following the conclusion of each internal audit engagement. Program 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 Members with copies provided to members of Management, as appropriate.

IA will comply 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.

The CAE will provide a briefing to the Board Members and the Executive Director at least twice annually regarding conformance with applicable standards, status of open, closed, and upcoming internal audits and other work, and the status of open audit recommendations. The CAE will have the opportunity to brief Board Members without the presence of management at least twice a year, or at the request of the Board Members. IA will be responsible for appropriate status-tracking on IA findings and recommendations. All significant findings will remain open until confirmed by IA as closed.

Liaison with Oversight Organizations and External Auditor:

IA will attend meetings held by the Chief Risk Officer and/or Executive Director 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 IA's work products if they so choose.

Professional Standards:

IA will adhere to the IIA's mandatory guidance, including the Core Principles for the Professional Practice of Internal Auditing, Definition of Internal Auditing, Code of Ethics, and 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 IA's performance.

The IIA's recommended guidance included in its implementation guidance and supplemental guidance will be used to guide operations. In addition, IA will adhere to applicable laws and regulations, relevant FRTIB policies and procedures, including those relating to the IA function.

In certain situations, IA may contract with Certified Public Accountant (CPA) firms or other entities to assist in or complete its work. IA may request that such entities to support IA compliance with applicable IIA requirements or perform work under Generally Accepted Government Auditing Standards promulgated by the Government Accountability Office (GAO), or attestation, consulting, or other standards promulgated by the American Institute of Certified Public Accountants (AICPA).

Quality Assurance and Improvement Program:

The CAE is supported by qualified contract resources (CPA firms). All public accounting firms are required to have quality assurance programs that are subject to routine peer review. Therefore, the CAE will obtain representation from each firm; after the completion of each audit and/or at the end of the calendar year; that the firm abides by the IIA Quality Assessment and Improvement Program (QAIP)/AICPA Quality Control Standards.

Review of Charter:

This charter will be reviewed and confirmed every two years or more often if necessary to reflect any changes in IIA guidance and to ensure the internal audit function supports the interest of the TSP participants and beneficiaries.

Approved by Board Members resolution this _____ day of _____, _____

Approved by Executive Director This _____ day of _____, _____

Signature: _____