

Michelle G. Fry, J.D., Ph.D.
State Director
Janet Brock Priest
Associate State Director
Operations
Lori Manos
Associate State Director
Policy
Constance Holloway
General Counsel
Harley T. Davis, Ph.D.
Chief Administrative Officer
Quincy Swygert
Chief Financial Officer
Greg Meetze
Chief Information Officer



**South Carolina
Department of Disabilities
and Special Needs**

3440 Harden Street Extension
Columbia, South Carolina 29203
(803) 898-9600
Toll Free: 888/DSN-INFO
Home Page: ddsn.sc.gov

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Chairman
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Applicability: DDSN Central Office, DDSN Regional Centers DDSN-Operated Community Settings, DSN Boards and Contracted Service Providers of all Service Programs

Purpose and Mission

The purpose of the South Carolina Department of Disabilities and Special Needs (DDSN's) Internal Audit Division (IA) is to provide independent, objective assurance and consulting services designed to add value and improve the agency's operations. The mission of internal audit is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight. IA helps DDSN accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

Standards for the Professional Practice of Internal Auditing

IA will govern itself by adherence to the mandatory elements of The Institute of Internal Auditors' (IIA) 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 Internal Audit Director will report periodically to senior management and the Finance and Audit Committee regarding the Internal Audit Division's conformance to the Code of Ethics and the *Standards*.

Authority

It is the policy of DDSN to establish and support an Internal Audit Division as an independent appraisal function to examine and evaluate DDSN and provider activities as a service to Executive Management and the DDSN Commission.

The State Director shall appoint the Director of Internal Audit, subject to the approval of the full DDSN Commission. The Director of Internal Audit shall be responsible for the day-to-day administration and operation of the Internal Audit Division, subject to policies, rules and regulations adopted by the DDSN Commission.

Subject to the approval of the State Director, the Director of Internal Audit shall prescribe the organizational structure and the personnel necessary to carry out the Internal Audit function.

The Director of Internal Audit reports administratively to the State Director and functionally to the Finance and Audit Committee Chair of the DDSN Commission.

The Director of Internal Audit will have unrestricted access to, and communicate and interact directly with, the Finance and Audit Committee and DDSN Commission, as necessary, including in private meetings without management present.

To establish, maintain, and assure that DDSN IA has sufficient authority to fulfill its duties, the Finance and Audit Committee will:

- Approve the IA Division's charter;
 - Approve the risk-based internal audit plan;
 - Approve the Internal Audit Division's budget and resource plan;
 - Receive communications from the Director of Internal Audit on the Internal Audit Division's performance relative to its plan and other matters;
 - Approve decisions regarding the appointment and removal of the Director of Internal Audit;
 - Approve the remuneration of the Director of Internal Audit; and
 - Make appropriate inquiries of management and the Director of Internal Audit to determine whether there is inappropriate scope or resource limitations.

IA is authorized to:

- Have full, free, and unrestricted access to all functions, records, property, and personnel pertinent to carrying out any DDSN engagement, subject to accountability for confidentiality and safeguarding of records and information.
- Have full, free and unrestricted access to all functions, records, property, and personnel within the scope of DDSN services pertinent to carrying out any DSN Board or Contracted Service Provider engagement, subject to accountability for confidentiality and safeguarding of records and information.
- Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports.
- Obtain assistance from the necessary personnel of DDSN, as well as other specialized services from within or outside DDSN, in order to complete the engagement.

Independence and Objectivity

The Director of Internal Audit will ensure that the IA Division remains free from all conditions 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 Director of Internal Audit determines that independence or objectivity may be impaired in fact or appearance, the details of the impairment will be disclosed to appropriate parties.

Internal auditors 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 judgment on audit matters to others.

Internal Auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, Internal Auditors will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment, including:

- Assessing specific operations for which they had responsibility within the previous year.
- Performing any operational duties for DDSN or its contracted service providers.
- Initiating or approving transactions external to the Internal Audit Division.
- Directing the activities of any DDSN employee not employed by the Internal Audit Division, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist internal auditors.

Where the Internal Audit Director 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.

Internal 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 judgments.

The Director of Internal Audit will confirm to the Finance and Audit Committee, at least annually, the organizational independence of the Internal Audit Division.

The Director of Internal Audit will disclose to the Finance and Audit Committee any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating results.

Scope of Internal Audit Activities

The scope of internal audit activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments to the DDSN Commission and management on the adequacy and effectiveness of governance, risk management, and control processes for DDSN. Internal audit assessments include evaluating whether:

- Risks relating to the achievement of DDSN's strategic objectives are appropriately identified and managed.
- The actions of DDSN's commissioners, executive management, employees and contractors are in compliance with DDSN's directives, standards, policies, procedures and applicable laws and regulations.
- The results of operations or programs are consistent with established goals and objectives.
- Operations or programs are being carried out effectively and efficiently.
- Established processes and systems enable compliance with the directives, standards, policies, procedures, laws and regulations that could significantly impact DDSN.
- Information and the means used to identify, measure, analyze, classify and report such information are reliable and have integrity.
- Resources and assets are acquired economically, used efficiently, and protected adequately.

The Director of Internal Audit will report periodically to senior management and the Finance and Audit Committee regarding:

- The Internal Audit Division's purpose, authority, and responsibility.
- The Internal Audit Division's plan and performance relative to its plan.
- The Internal Audit Division's conformance with the IIA's Code of Ethics and *Standards*, and action plans to address any significant conformance issues.
- Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or request by, the Finance and Audit Committee.
- Results of audit engagements or other activities.
- Resource requirements.
- Any response to risk by management that may be unacceptable to DDSN.

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

Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during engagements. These opportunities will be communicated to the appropriate level of management.

Responsibility

The Internal Audit Director has the responsibility to:

- Submit an annual risk-based internal audit plan to the State Director, Finance and Audit Committee, and DDSN Commission for review and approval.
- Communicate to the State Director and the Finance and Audit Committee the impact of resource limitations on the internal audit plan.
- Review and adjust the internal audit plan, as necessary, in response to changes in DDSN's priorities, risks, operations, programs, systems and controls.
- Communicate to the State Director and the Finance and Audit Committee any significant interim changes to the internal audit plan.
- 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 appropriate parties.
- Follow up on engagement findings/observations and corrective actions, and report periodically to senior management and the Finance and Audit Committee any corrective actions not effectively implemented.
- Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
- Maintain a professional audit staff that collectively possesses or obtains the knowledge, skills, experience, professional certifications, and other competencies needed to meet the requirements of the internal audit charter.
- Ensure emerging trends and successful practices in internal auditing are considered.
- Establish and ensure adherence to policies and procedures designed to guide the Internal Audit Division.
- Ensure adherence to DDSN's relevant policies and procedures, unless such policies and procedures conflict with the internal audit charter. Any such conflicts will be resolved or otherwise communicated to senior management and the Finance and Audit Committee.
- Ensure conformance of the Internal Audit Division with the *Standards*, with the following qualification:
 - If the Internal Audit Division is prohibited by law or regulation from conformance with certain parts of the *Standards*, the Internal Audit Director will ensure appropriate disclosures and will ensure conformance with all other parts of the *Standards*.

Financial Sanctions

A financial sanction is only applicable to repeat internal audit findings/observations as they relate to the health, safety and/or welfare of individuals being served.

The sanction will only apply when follow-up procedures are conducted and the accepted corrective action from the initial audit was not implemented. The Provider will then be given notice and be allowed 90 days to implement the agreed upon corrective action. If in the subsequent visit (i.e., the third visit), the corrective action plan was not implemented, the Provider will receive a financial sanction in the amount of a minimum of \$1,000 with a potential increase based on the discretion of the Finance and Audit Committee.

An appeals process will be available to any Provider who is assessed a financial sanction for repeat internal audit findings/observations as they relate to the health, safety, and/or welfare of individuals being served. The appeal shall be requested within 30 days of notice of the sanction. The Appeals Committee membership will include: two (2) DDSN staff members; two (2) community provider members from each provider association; and one (1) consumer or family member. Once appointed, the Appeals Committee shall decide among the membership who shall be named as chair. Once appointed, the members shall serve for two (2) years.

Internal Audit is responsible for monitoring compliance with reporting deadlines established in DDSN directive 275-04-DD: Procedures for Implementation of DDSN Audit Policy for DSN Boards, and 275-06-DD: Procedures for Implementation of DDSN Audit Policy for Contracted Service Providers, and reporting the results of monitoring to the Finance Division for invoicing of financial sanctions, where required by policy.

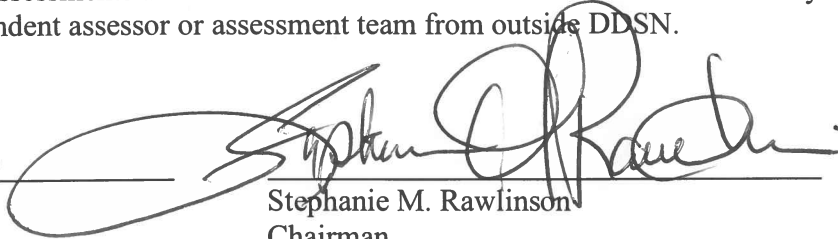
Quality Assurance and Improvement Program

IA will maintain a quality assurance and improvement program that covers all aspects of the internal audit activity. The program will include an evaluation of the Internal Audit Division's conformance with the *Standards* and an evaluation of whether Internal Auditors apply the IIA's Code of Ethics. The program will also assess the efficiency and effectiveness of the internal audit activity and identify opportunities for improvement.

The Director of Internal Audit will communicate to senior management and the Finance and Audit Committee on the internal audit activity's quality assurance and improvement program, including results of ongoing internal assessments and external assessments conducted at least once every five years by a qualified, independent assessor or assessment team from outside DDSN.



Barry D. Malphrus
Vice Chairman



Stephanie M. Rawlinson
Chairman