

INTERNAL AUDIT CHARTER



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SECTION 1 - INTERNAL AUDIT

MISSION

The mission of the Internal Auditor is to provide an independent assessment of financial, contractual, operational and environmental matters by conducting objective and professional evaluations of City operations to assist management in meeting prudent internal control standards and operational efficiencies. (Ordinance 08-25, Section 1, Article 3)

The City charter defines the mission, authority, and responsibilities of Internal Audit established by Ordinance No. 08-25 of the City of Harlingen¹, Texas by the Mayor and City Commission.

AUTHORITY

The authority for the Internal Audit function originates from an amendment to the City Charter.

"By Ordinance No. 06-14, enacted on March 1, 2006, the City Commission of the City of Harlingen submitted a charter amendment to the citizens of the City of Harlingen for their study, consideration, and vote which authorized the Mayor and City Commission of the City of Harlingen to establish by separate ordinance the procedures for the appointment and the duties of the Internal Auditor."

The citizens of Harlingen approved the changes to the Charter of the City of Harlingen requiring that the procedures for the appointment and the duties of the Internal Auditor be set out in a separate ordinance at the election held on May 13, 2006.

By Resolution No. 06R-19, approved by the City Commission on May 17, 2006, the City Commission adopted the approved revision and amendment to the Charter of the City of Harlingen.

By Ordinance 08-25, the duties and responsibilities of the Internal Auditor were enacted on April 2, 2008.

With strict accountability for confidentiality and safeguarding records and information, the Internal Auditor has authorized full, free and unrestricted access to all areas, activities, records, property, information sources and personnel of the City, reasonably necessary to carry out its activities.

No legitimate source of information is closed to Internal Audit. Documents and information provided to Internal Audit during an examination are handled in the same discreet manner as by those employees normally accountable for them. Internal Audit is obligated to protect the privacy of confidential and proprietary information accessed during the course of its activities.

¹ City of Harlingen includes the City, Harlingen Water Works System, Valley International Airport, Harlingen Economic Development Corporation and all municipal activities therein.

The Internal Auditor is not authorized to:

- Perform any operational duties for the City
- Initiate or approve accounting transactions external to the Internal Auditor's office
- Direct the activities of any department's employees not employed by the Internal Audit office

ORGANIZATION

The Internal Auditor reports functionally to the Mayor and City Commission through the Audit Committee and administratively (i.e. day to day operations) to the City Manager.

In accordance with City Ordinance 08-38, the Audit Committee shall have the following responsibilities with regard to the review of the Internal Auditor:

- Review, revise and approve the City's annual internal audit plan and recommend other special audits, review or analyses as deemed necessary;
- Evaluate the audit scope and role of internal audit;
- Review and approve the City Auditor's Charter and policy manual; and,
- Consider and review with management
 - Significant internal audit findings and management's response, including the time period for implementation to correct weaknesses
 - Any difficulties encountered in the course of the audit, including restrictions on the scope of work or access to information
 - Any changes in the planned scope of the audit plan
 - The internal audit budget

INDEPENDENCE

The Internal Auditor adheres to the general standard of independence (GAS 3.18)² which states:

In all matters relating to the GAGAS engagement, auditors and the audit organization must be independent from an audited entity. (GAS 3.18)

Auditors and audit organizations should avoid situations that could lead reasonable and informed third parties to conclude that the auditors and audit organizations are not independent and thus are not capable of exercising objective and impartial judgment on all issues associated with conducting the engagement and reporting on the work. (GAS 3.19)

Auditors should be independent from an audited entity during any period of time that falls within the period covered by the subject matter of the audit and the period of the professional engagement. (GAS 3.20 a, b)

² References made to GAGAS serve as a guide for the proper conduct of all internal audit services performed over the planning, organization and reporting activities in accordance with Government Auditing Standards (GAS).

Administratively, the Internal Auditor reports to the City manager. Functionally, the Internal Auditor reports to the Mayor and the City Commission which places the position organizationally outside the staff or line-management functions of all auditable units. Audit results are reported to the Audit Committee, the Mayor and City Commission, who are charged with governance. The Internal Auditor has access to those charged with governance and is able to conduct audits and report findings, opinions, and conclusions without fear of political reprisal (GAS 3.56)

GAGAS establishes a conceptual framework that auditors use to identify, evaluate and apply safeguards to address threats to independence. Auditors should apply the conceptual framework at the audit organization, audit and individual levels to 1) identify threats to independence, 2) evaluate the significant risks of threats and 3) apply safeguards as necessary. (GAS 3.27)

However, it is acknowledged that City senior management can provide concurrence as to the scope of work and the activities to be audited, and may request Internal Audit to perform special reviews or audits.

In performing its function, internal audit has no direct responsibility or authority over any of the activities that it reviews. Accordingly, the Internal Auditor shall not develop nor install systems, prepare records or engage in any activity which would normally be audited. Each City department is responsible for its own internal control and efficiency.

Internal audit is free from control or undue influence in the selection and application of audit techniques, procedures, and programs. Internal audit is free from control or undue influence in the determination of facts revealed by the examination or in the development of recommendations or opinions as a result of the examination. Internal audit is free from undue influence in the selection of areas, activities, personal relationships and managerial policies to be examined.

SCOPE

The scope of work of Internal Audit is to determine whether the City's risk management, control, and governance processes, as designed and represented by management is adequate. The scope can include and is limited to the following methods, activities and tasks:

- Reviewing and appraising the soundness of controls and the reliability and integrity of financial, managerial and operating data;
- Ascertaining compliance with City policies and procedures;
- Evaluating the economy and efficiency with which resources are employed;
- Reviewing operations or programs to assess whether they are being carried out as planned and whether results are consistent with the established overall objectives; and
- Facilitate self-assessments to help departments identify objectives and evaluate business risks and controls as a means of assisting departments with ongoing risk management.

SECTION 2 - ETHICS

CODE OF ETHICS

Because auditing is essential to government accountability to the public, the public expects audit organizations and auditors who perform their work in accordance with GAGAS to follow ethical principles. Management of the audit organization sets the tone for ethical behavior throughout the organization by maintaining an ethical culture, clearly communicating acceptable behavior and expectations to each employee and creating an environment that reinforces and encourages ethical behavior throughout all levels of the organization. The ethical tone maintained and demonstrated by management and personnel is an essential element of a positive ethical environment for the audit organization. (GAS 3.03)

The ethical principles that guide the work of auditors who conduct audits in accordance with Generally Accepted Government Auditing Standards (GAGAS) are the public interest, integrity, objectivity, proper use of government information, resources and position and professional behavior. (GAS 3.06)

Conducting audit work in accordance with ethical principles is a matter of personal and organizational responsibility. Ethical principles apply in preserving auditor independence, taking on only work that the auditor is competent to perform, performing high-quality work, and following the applicable standards cited in the audit report. Integrity and objectivity are maintained when auditors perform their work and make decisions that are consistent with the broader interest of those relying on the auditors' report, including the public.

The following principles from GAGAS will be followed:

1. Public Interest - The Internal Auditor will consider the collective wellbeing of the community of people and entities that the auditor serves. These standards are met when the auditor observes integrity, objectivity, and independence in discharging his professional responsibility while serving the public interest and honoring the public trust. (GAS 3.07)
2. Integrity - The integrity of the Internal Auditor establishes trust and provides a basis for reliance on their judgment. The Internal Auditor:
 - a. Shall perform their work with honesty, diligence, and responsibility;
 - b. Shall observe the law and make disclosures expected by the law and the profession;
 - c. Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organization; and,
 - d. Shall respect and contribute to the legitimate and ethical objectives of the organization. (GAS 3.09 - 3.10)

3. Objectivity - The Internal Auditor will exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined.
 - a. The Internal Auditor shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization.
 - b. The Internal Auditor shall not accept anything that may impair or be presumed to impair their professional judgment.
 - c. The Internal Auditor shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review. (GAS 3.11)

4. Proper Use of Government Information, Resources, and Positions - The Internal Auditor will respect the value and ownership of the information received and will not disclose any information without the appropriate authority unless there is a legal or professional obligation to do so. The Internal Auditor:
 - a. Shall be prudent in the use and protection of information acquired in the course of their audits; and,
 - b. Shall not use the information for any personal gain or in any manner that would be contrary to the law or detrimental to the ethical values of the organization. (GAS 3.12 - 3.15)

5. Professional Behavior- In all matters related to GAGAS engagements, the Internal Auditor's knowledge, skills and experience will be applied.
 - a. The Internal Auditor will engage only in those services for which he has the necessary knowledge, skills, and experience. (GAS 4.02-4.04)
 - b. The Internal Auditor will perform high-quality work and following the applicable standards cited in the audit report

SECTION 3 - DUTIES AND RESPONSIBILITIES

In executing the mission of Internal Audit, the following duties and responsibilities are established:

- Perform all internal audits in compliance with Government Auditing Standards.
- Develop an annual internal audit plan and internal audit objectives using risk-based analysis which considers the complexity of the activity, fiscal impact, most recent audit results, applicability of laws, rules, and regulations, changes in the organization, effects on the welfare of the public and length of time since the last audit.
- Conduct needs analysis to develop strategies and methodologies to establish long-range goals and objectives for auditing City functions by monitoring and researching trends in auditing techniques, technology, laws, rules, and City policy.
- Perform audits within the time budgeted
- Perform post-audit follow-up reviews within one year after completion of each audit
- Obtain sufficient training to maintain professional competence and satisfy GAS continuing education requirements (GAS 4.02-4.04, 4.16-4.18)
- Establish and maintain a system of quality control that is designed to provide the audit organization with reasonable assurance that the organization and its personnel comply with professional standards and applicable legal and regulatory requirements. (GAS 5.02)
- Document Internal Audit's quality control policies and procedures and communicate those policies and procedures to its personnel. (GAS 5.04)
- Submit to an external peer review at least every 3 years (GAS 5.60, 5.61)

SECTION 4 – QUALITY CONTROL AND ASSURANCE PROGRAM

In accordance with Government Auditing Standards, the Internal Audit activity will maintain a quality control and assurance program that covers all aspects of the internal audit activity.

The program will be designed to provide the Office of the Internal Auditor with reasonable assurance that the organization and personnel comply with the professional standards and applicable legal and regulatory requirements.

Key components of the internal quality control program include:

- Supervisory review of all audits and working papers;
- Internal Audit review of all completed audits;
- Monitoring quality control procedures;
- Audit Standards Form completed for each audit engagement to document compliance with GAGAS; and
- Peer review conducted every three years

Internal audit will analyze and summarize the results of its monitoring procedures at least annually, with identification of any systemic issues needing improvement, along with recommendations for corrective action.

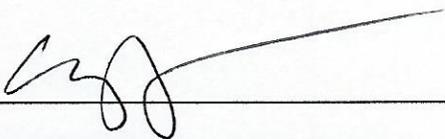
The results of Internal Audit's monitoring procedures will be communicated to the Audit Committee at least annually.

City of Harlingen

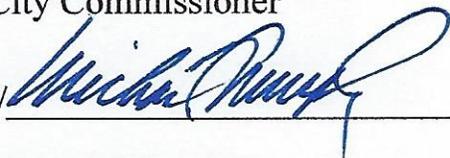
Internal Audit

CHARTER ACKNOWLEDGEMENT

Approved this 23rd day of January 2020

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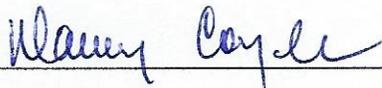
Michael Mezmar - Chairman
City Commissioner

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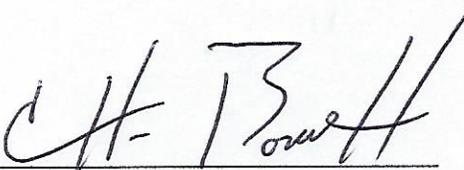
Michael Murphy
Audit Committee Member
Harlingen Water Works System

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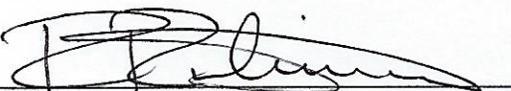
Dan Serna
City Manager

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Danny Coyle, CPA
Internal Auditor

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Chris Boswell
Honorable Mayor

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Rolando Rubiano
Audit Committee Member
Valley International Airport