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**INTERNAL AUDIT CHARTER**

**INTRODUCTION**

The management of the Department of Health Services (DHS, the Department) is responsible for: the proper stewardship of funds under their control; safeguarding departmental assets; ensuring that adequate internal controls are in place and operating as intended; and managing risks to the Department that may impact its ability to accomplish its goals and objectives. Internal auditing is an important management resource and is one of the ways the Department's management maintains the integrity of its financial, operational and information systems, as well as its internal controls. Internal audit operates as an independent, yet integral part of management, conducting its duties professionally, with objectivity and independence.

**DEFINITION OF INTERNAL AUDITING**

Internal auditing is an independent and objective assurance and advisory activity that is guided by a philosophy of adding value to and improving the operations of the Department. It assists DHS in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the Department's governance, risk management, and control processes.

**ORGANIZATION & RESPONSIBILITIES**

The internal audit function within the Department resides in Internal Audit Section (IAS) of the Office of the Inspector General (OIG). The OIG, which reports directly to the DHS Office of the Secretary, conducts audits of providers who receive department funds, performs internal audits of department programs and operations, and investigates allegations of fraud, waste, or abuse of DHS resources by employees, contractors, providers, and recipients.

The Secretary may modify or rescind the internal audit function charter; approve, modify, or deny the yearly risk-based audit plan; and receive periodic communications from the OIG on the internal audit function's performance and matters related to all approved aspects of the audit plan. The Secretary will support and promote internal audit function activities approved in the charter and annual audit plan throughout DHS.

The Inspector General and Deputy Inspector General may modify or rescind the internal audit function charter. Additionally, they may approve, modify, or deny the yearly risk-based audit plan, all engagement reports, all referrals to external entities for further investigation or recommend prosecution, ad-hoc and annual summary reports, IAS' budget and resources, and other deliverables related to this charter. Additionally, the Inspector General and Deputy Inspector General will obtain available budget resources for the internal audit function, make decisions regarding the selection, removal, and remuneration of the Internal Audit Section Chief, and oversee all operational, budget, and performance activities of the internal audit function.

The Internal Audit Section Chief within OIG will have administrative oversight responsibilities for the internal audit staff and internal audit function. The Section Chief will ensure all engagements and deliverables implemented are in alignment with OIG's role within DHS and this charter, are approved through the flexible risk-based audit plan and are completed in accordance with deadlines established by the Inspector General, Deputy Inspector General, and Section Chief. The Section Chief will ensure all respective deliverables

including, but not limited to, risk assessment reports, audit reports, investigative reports, and annual summary reports are routed to the Inspector General and Deputy Inspector General for approval before finalization and distribution.

The OIG will report to the Secretary at least annually, and more frequently when requested, regarding the status of the audit plan and the results of the internal audit work performed in accordance with this charter.

## PROFESSIONALISM

The internal audit function will govern itself by adherence to The Institute of Internal Auditors' mandatory guidance, including the definition of internal auditing, the code of ethics, and the *International Standards for the Professional Practice of Internal Auditing (The Standards)* (to be replaced by the *Global Internal Audit Standards* in early 2024). This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit function's performance.

The Institute of Internal Auditors' Practice Advisories, Practice Guides and Position Papers will also be adhered to as applicable to guide operations. In addition, the internal audit function will adhere to the Department's relevant policies and procedures and the internal audit function's standard operating procedures manual.

The Inspector General and Deputy Inspector General will govern itself by adherence to the Association of Inspectors General's (AIG) principles and standards for Offices of Inspector General. The generally accepted principles and quality standards, formally approved by the Association of Inspectors General on 16 May 2001, as most recently amended in May 2014, are adopted by the OIG insofar as they do not conflict with statute, regulation, executive order, or other policy of DHS.

## AUTHORITY

As recommended by the International Professional Practices Framework Implementation Guides for the International Standards for Professional Practice of Internal Auditing (Institute of Internal Auditors, 2017), and required by the Global IIA Standards, Standard 6.2, Board Support (Institute of Internal Auditors, 2023), authority is granted by the Secretary of DHS to OIG's internal audit function for full, free, and unrestricted access to any and all Department data, records, records of contract agencies, physical properties, and personnel pertinent to carrying out responsibilities authorized through this charter with strict accountability for confidentiality and safeguarding records and information. All employees and contracting agency personnel are required to assist the internal audit function in fulfilling its roles and responsibilities. Documents and information given to internal auditing during a review will be handled in the same prudent and confidential manner as those employees who are normally accountable for them.

## INDEPENDENCE AND OBJECTIVITY

The internal audit function will remain objective and maintain its independence within the Department, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.

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

Internal auditors will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors will make a balanced assessment of all relevant circumstances and not be unduly influenced by their own interests or by others in formulating audit conclusions.

Internal auditors may not perform audits in operational areas of the Department for which they formerly had any authority or responsibility within the past year or other specified period significant enough to influence their judgment or opinion. Any audits or engagements to which there may be a perceived or actual conflict of interest between the operational area and the internal auditor will be immediately reported to the Inspector General and Deputy Inspector General for deconfliction.

## RESPONSIBILITY

The scope of the internal audit function encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the Department's governance, risk management, and internal controls, as well as the quality of performance in carrying out the assigned responsibilities to achieve the Department's stated goals and objectives. This includes:

- Evaluating risk exposures relating to achievement of the Department's strategic objectives.
- Evaluating operations or programs to ascertain whether results are consistent with established departmental goals and objectives, and whether the operations or programs are being carried out as planned.
- Evaluating the reliability and integrity of information collected in an audit and the means used to identify, measure, classify and report such information on behalf of the Department.
- Evaluating information technology systems, services, and IT controls to assess the adequacy of security and privacy protections, and compliance with those policies, plans, procedures, laws, and regulations that could have a significant impact on the Department.
- Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
- Evaluating the effectiveness and efficiency with which resources are utilized.
- Reporting significant risk exposures and control issues, including fraud risks, governance issues, and other matters, along with recommendations for improvement.
- Performing investigations of alleged employee fiscal misappropriation, determining the factors contributing to the fraud, and making recommendations to mitigate future recurrence.
- Performing consulting and advisory services related to governance, risk management, adequate security, and proper internal control as appropriate for the Department.
- Reporting periodically on the internal audit function's purpose, authority, responsibility, and performance relative to its plan.
- Assisting department managers in developing responses and action steps in response to external (to DHS) auditors' findings and recommendations.
- Reviewing specific programs or administrative functions at the request of the Secretary, Deputy Secretary, Inspector General, Deputy Inspector General, or division management as appropriate.

## FISCAL FRAUD INVESTIGATIONS

The primary responsibility for the prevention and detection of fraud rests with DHS management. Management's responsibilities include creating an environment where fraud is not tolerated, identifying the risks of fraud, and taking appropriate actions to ensure that controls are in place. Internal audit assists management by determining whether the Department has adequate internal controls, whether fraud risks are adequately managed, and by incorporating proactive fraud detection techniques into its audit programs.

The internal audit function has a coordinated responsibility with the DHS Office of Legal Counsel and Department of Administration's Bureau of Human Resources for the investigation of any alleged fiscal fraud by a Department employee, contractor, or other party. Suspected employee fiscal fraud should be immediately reported to the Inspector General and Deputy Inspector General upon discovery to which, the internal audit function will immediately report the incident to the Bureau of Human Resources and Office of Legal Counsel. All three parties will establish the coordinated approach to address these investigations.

DHS Management must refrain from conducting its own investigations. Suspected fraud may be reported anonymously to the DHS Fraud Hotline.

Internal audit fraud investigations include gathering, documenting, and preserving evidence, determining the extent of the fraud and how it was perpetrated, identifying perpetrators, determining the root cause of the fraud and recommending changes to prevent a recurrence. The OIG will refer any work-rule violations substantiated through the investigation to the Bureau of Human Resources. The OIG will refer all matters, as appropriate, for further civil, criminal or administrative action to appropriate administrative and prosecutorial authorities. The internal audit function will collaborate with law enforcement and other stakeholders for potential criminal proceedings or licensure sanctions.

## INTERNAL AUDIT PLAN

At least annually, the Internal Audit Section Chief will submit to the Inspector General and Deputy Inspector General a flexible internal audit plan for review and approval. The internal audit plan will consist of a work schedule as well as budget and resource requirements for the next calendar year. The finalized internal audit plan will be communicated to the Secretary for final approval. The approved annual internal audit plan will be posted on the OIG external website.

The internal audit plan will be developed based on a prioritization of the audit universe using a risk-based methodology, including input from DHS management, executive management, and the Secretary. The Internal Audit Section Chief will review and adjust the plan, as necessary, in response to changes in the Department's business, risks, operations, programs, systems, controls, and audit resources, and will communicate those changes through periodic activity reports. Any significant deviation from the approved internal audit plan will be communicated to the Inspector General, Deputy Inspector General, and the Secretary and additional necessary approvals or resource needs for those deviations will be determined on a case by case basis.

## REPORTING AND MONITORING

A written report will be prepared by the internal audit function and signed and issued by the Inspector General following the conclusion of each internal audit engagement. Internal audit reports will be distributed as appropriate, including to the Office of the Secretary. Internal audit reports will be published on the OIG external website on a case by case basis. The annual summary report will be published on the OIG external website.

The internal audit report may include the audited management's response and corrective action taken or to be taken regarding specific findings and recommendations. Management's response, whether included within the original audit report, or provided afterwards, should include a timetable for anticipated completion of actions to be taken and an explanation for any corrective action that will not be implemented. Management will be responsible to determine what recommended corrective actions they will implement, and the timeline to implement those actions based on their program resources and priorities. The internal audit function will be responsible for appropriate follow-up on engagement findings and recommendations. All significant findings will remain as open issues until addressed or adequately mitigated.

The Internal Audit Section Chief will provide written monthly updates to the Inspector General and Deputy Inspector General on the status of each engagement and activity approved through the annual audit plan. These

updates will provide details on the following with respect to the engagement or activity: current status, any barriers or complications, anticipated project completion deadline, and the IAS' progress in achieving the deadline.

The Internal Audit Section Chief will periodically report to the Inspector General, Deputy Inspector General, and the Secretary on the internal audit function's purpose, authority, and responsibility, as well as performance relative to its plan. Reporting will also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the Inspector General, Deputy Inspector General, and the Secretary's Office.


#### INTERNAL QUALITY ASSURANCE AND IMPROVEMENT PROGRAM


The Internal audit function will maintain a quality assurance and improvement program that covers all aspects of the internal audit function. The program will include an evaluation of the internal audit function's conformance with the definition of internal auditing and the *Standards* and an evaluation of whether internal auditors apply the code of ethics. The program also assesses the efficiency and effectiveness of the internal audit function and identifies areas for improvement.


The Internal Audit Section Chief will periodically report to the Inspector General, Deputy Inspector General on the internal audit function's quality assurance and improvement program, including the results of ongoing internal assessments and external assessments conducted at least every five years.


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This Internal Audit Charter is approved this 13 day of September, 2023.

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