

**Texas Higher Education Coordinating Board
Internal Audit Charter
January, 2013**

Introduction

Internal auditing is an independent and objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of the Texas Higher Education Coordinating Board. It assists the Texas Higher Education Coordinating Board in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organization's risk management, control, and governance processes.

Role

The Internal Audit Department is established by the Board of the Texas Higher Education Coordinating Board (hereafter referred to as the Board). The Internal Audit Department's responsibilities are defined by the Board as part of their oversight role.

Professionalism

The Internal Audit Department will govern itself by adherence to the Texas Internal Auditing Act, Government Auditing Standards promulgated by the Government Accountability Office (GAO), and The Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, the *International Standards for the Professional Practice of Internal Auditing (Standards)*. 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 department's performance.

The Institute of Internal Auditors' Practice Advisories, Practice Guides, and the Position Papers will also be adhered to as applicable to guide operations. In addition, the Internal Audit Department will adhere to Texas Higher Education Coordinating Board relevant policies and procedures and the Internal Audit Department's standard operating procedures manual.

Authority

The Internal Audit Department, with strict accountability for confidentiality and safeguarding records and information, is authorized full, free, and unrestricted access to any and all of the Texas Higher Education Coordinating Board's records, physical properties, and personnel pertinent to carrying out any engagement. All employees are requested to assist the Internal Audit Department in fulfilling its roles and responsibilities. The Internal Audit Department will also have free and unrestricted access to the Board.

Organization

The Chief Audit Executive will report functionally to the Board and administratively (i.e. day to day operations) to the Chief Executive Officer.

The Board will approve the internal audit charter, the risk-based internal audit plan, and the internal audit budget. It will also approve all decisions regarding the performance evaluation, appointment, or removal of the Chief Audit Executive as well as the Chief Audit Executive's annual compensation and salary adjustment. The Chief Audit Executive will communicate and interact directly with the Board, including in executive sessions and between Board meetings as appropriate.

Independence and Objectivity

The Internal Audit Department will remain free from interference by any element in the organization, 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 an internal auditor's judgment.

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

The Chief Audit Executive will confirm to the Board, at least annually, the organizational independence of the internal audit activity.

Responsibility

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

- Evaluating the reliability and integrity of information and the means used to identify, measure, classify, and report such information.
- Evaluating the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on the organization.
- Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
- Evaluating the effectiveness and efficiency with which resources are employed.
- 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.
- Monitoring and evaluating governance processes.

- Monitoring and evaluating the effectiveness of the organization's risk management processes.
- Evaluating the quality of performance of external auditors and the degree of coordination with the Internal Audit Department.
- Performing consulting and advisory services related to governance, risk management and control as appropriate for the organization.
- Reporting periodically on the Internal Audit Department's purpose, authority, responsibility, and performance relative to its plan.
- Reporting significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the Board.
- Evaluating specific operations at the request of the Board or management, as appropriate.

Internal Audit Plan

At least annually, the Chief Audit Executive will submit to senior management and the Board an 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 fiscal/calendar year. The Chief Audit Executive will communicate the impact of resource limitations and significant interim changes to senior management and the Board.

The internal audit plan will be developed based on a prioritization of the audit universe using a risk-based methodology, including input of senior management and the Board. Any significant deviation from the approved internal audit plan will be communicated to senior management and the Board through periodic activity reports.

Reporting and Monitoring

A written report will be prepared and issued by the Chief Audit Executive or designee following the conclusion of each internal audit engagement and will be distributed as appropriate. Internal audit results will also be communicated to the Board.

The internal audit report may include management's response and corrective action taken or to be taken in regarding to the specific findings and recommendations. Management's response, whether included within the original audit report or provided thereafter (i.e. within 30 days) by management of the audited area should include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.

The Internal Audit Department will be responsible for appropriate follow-up on engagement findings and recommendations. All significant findings will remain in an open issues file until cleared.

Periodic Assessment

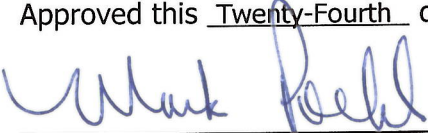
The Chief Audit Executive will periodically report to the senior management and the Board on the Internal Audit Department's purpose, authority, and responsibility, as well as performance relative to its plan. Reporting will also include significant risk exposures and control issues,

including fraud risks, governance issues, and other matters needed or requested by senior management and the Board.

In addition, the Chief Audit Executive will communicate to senior management and the Board on the Internal Audit Department's quality assurance and improvement program, including results of ongoing internal assessments, periodic self-assessments, and external assessments conducted at least every three years. The Chief Audit Executive must discuss with the Board the form of external assessments; the qualifications and independence of the external assessor or assessment team, including any potential conflicts of interest; and the need for more frequent external assessments.

Internal Audit Department Charter

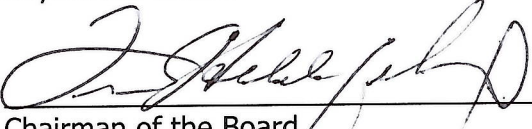
Approved this Twenty-Fourth day of January, 2013.



Chief Audit Executive (Director, Internal Audit)
Mark Poehl



Chief Executive Officer (Commissioner of Higher Education)
Raymund Paredes



Chairman of the Board
Fred Heldenfels L.V.



Chairman of the Agency Operations Committee
Munir Lalani