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Applicability: DDSN Central Office, DDSN Regional Centers and all providers of DDSN Sponsored Services including: Adult Companion Providers, Case Management Providers, Day Service Providers (i.e., career prep, day activity, community services, support center), Early Intervention Providers, Employment Services Providers, Financial Management Providers, HASCI Rehabilitation Support Providers, ICF/IID Providers, Intake Providers, Residential Habilitation Providers and Respite Providers.

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**INTERNAL AUDITING AND THE ROLE OF INTERNAL AUDIT—Purpose and Mission**

The South Carolina Department of Disabilities and Special Needs (DDSN's) Internal Auditing (IA) is an independent, objective assurance and consulting activity designed to add value and improve ~~the agency's/Service Providers' an organization's~~ operations. It helps ~~the an organizations~~ accomplish ~~their~~ its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, governance, and the implementation of best practices.

## Standards

~~IA will govern itself by adherence to the mandatory elements to The Institute of Internal Auditors International DDSN recognizes the importance of internal auditing and bases its approach on the International Standards for the Professional Practice of Internal Auditing and the 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, as developed and maintained by the Institute of Internal Auditors.~~

## 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 State Director and the Finance/Audit Committee of 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/Audit Committee~~ Chair of the DDSN Commission.

An annual audit plan will be developed by the Director of Internal Audit and submitted for review to the State Director, reviewed and approved ~~with final review by the Finance/ Audit Committee, with final approval by the DDSN Commission~~. If adjustments are necessary due to changes in needs or priorities of DDSN, the changes will be coordinated with affected personnel.

In carrying out their responsibilities, members of the Internal Audit Division will have full, free, and unrestricted access to all DDSN and service provider organizations' activities, records (manual and electronic), property, and personnel, and to the Finance/Audit Committee of the Commission, as necessary.

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

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

- Approve the IA Division's internal audit charter;
- Approve the Internal Audit Committee Charter

- Approve the audit plan;
- Approve the internal audit budget and resource plan;
- Receive communications from the Director of Internal Audit on the internal audit division's performance relative to the 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.

### **Independence and Objectivity**

The DDSN Internal Audit Division is a staff function, and as such, does not have any responsibility or authority over areas that are being audited; therefore, any review or recommendation by Internal Audit will not in any way relieve the supervisor of the assigned responsibilities inherent with his/her position.

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 the 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.

### **PURPOSE-Scope of IA Activities**

The primary objective of the Internal Audit Division is to assist members of management in the effective discharge of their responsibilities by reviewing activities/programs and providing analyses, recommendations, and information regarding the activities/programs reviewed. The reviews are conducted to assure DDSN and its provider organizations comply with applicable State/Federal laws, standards, directives, policies, procedures and regulations. As such, the DDSN Internal Audit Division is concerned with all phases of DDSN and its provider organizations' operations. To this end, the Internal Audit Division will:

- 1) ~~1)~~—Determine the adequacy, efficiency, and effectiveness of systems of internal accounting and operating controls;
- 2) Determine the accomplishment consistency of with established goals and objectives;
- 3) Review and determine the reliability and integrity of financial information;

- 4) Determine the means of safeguarding assets and consumer funds; and
- 5) Review and determine compliance with ~~plans~~, policies, procedures, laws, and regulations.
- 6) Should Internal Audit discover a conflict of interest regarding any DDSN staff, the Audit Director will report such conflict to the Finance Audit Committee in Executive Session.

### AACTIVITActivitiesES

Specific internal audit responsibilities are as follows:

1. Perform scheduled audits of service provider organizations, DDSN Regional Centers, and DDSN Central Office for the effectiveness of operations and compliance with established standards and policies.
2. Perform special request audits in response to allegations/complaints/concerns of a financial or programmatic nature.
3. Provide consultation, technical assistance, and training to DDSN ~~District~~ DivisionsOffices, DDSN Regional Centers and the service provider organizations.
4. Review, evaluate, and follow up on internal audit findings and recommendations with appropriate management staff.
5. Coordinate internal audit efforts with ~~those of the Office of the State Auditor and other~~ external auditors/reviewers.
656. Report to the DDSN Commission as requested to outline internal audit activities and review completed reports.

### Audit Process/StepsUDIT PROCESS/STEPS

DDSN Internal audits will be conducted in accordance with this policy and with the procedures outlined in the DDSN *Audit Procedures Manual*. Generally, an audit of any activity or facility will consist of the following steps with the exception for a special audits (i.e., cash related, suspected fraud, etc.) which will be conducted on a no-notice or short notice basis.

1. When practical (i.e., time or type of audit), an engagement memo will be issued prior to a scheduled audit. The purpose of the engagement memo is to notify management of the area to be reviewed, describe the audit to be performed, and to request items needed at the onset of the review. If time does not permit, management will be notified by telephone and/or e-mail as soon as possible.
2. Preliminary planning consists of consideration being given to: any prior audit results (if

- applicable); internal controls; record keeping employed; documentary evidence required (i.e., required by policy, procedure, law, regulation, etc.); applicable policies and procedures; prior reviews by external and internal parties; and the type of report to be issued.
3. An audit program will be developed based on decisions reached during the preliminary planning. The program will be modified as dictated by discoveries made during the audit.
  4. An entrance conference will be conducted between the auditor and management of the work unit(s) to be reviewed to discuss the nature of the audit, the areas to be audited, and the support required.
  5. Fieldwork will consist of inquiry of appropriate personnel, observation of applicable activities, and examination of applicable records and documents. Fieldwork will depend on the type of audit being performed as well as the type of activity, operation, or program being reviewed.
  6. The auditor will conduct an exit conference with management at the conclusion of the fieldwork to discuss the results of the audit. The exit conference should be a summary of concerns noted during the review that were communicated to auditee management throughout the engagement.
  7. Findings will be documented after the completion of the fieldwork. These draft findings will be sent to the appropriate manager for the area being audited with a request that the findings be reviewed and corrective action plans be submitted to DDSN Internal Audit within 30 calendar days, or less, per DDSN Internal Audit's request.

### **Reporting**

A draft report will be issued upon receipt of an acceptable corrective action plan; the draft will then be forwarded to the auditee for a final review for completeness and accuracy with follow-up to Internal Audit staff regarding any corrections/concerns detailed in the draft report.

Upon receiving the auditee's corrective action plan, Internal Audit staff will review actions to ensure satisfactory disposition of the audit findings and recommendations. If a corrective action plan is considered unsatisfactory, DDSN Internal Audit staff will hold further discussions to achieve acceptable disposition. If a mutually acceptable corrective action plan cannot be attained, an auditor's comment may be noted in the final report.

Once the draft report is accepted by both parties, a final report will be issued which incorporates the findings and submitted corrective action plans.

The results of formal audits and/or investigations will be reported to appropriate management based on the entity reviewed. In almost all cases (exceptions being criminal cases where DDSN

Internal Audit staff is assisting law enforcement and is precluded from discussing the review based on the signing of non-disclosure statements), audit reports will be shared with the DDSN State Director, DDSN Commissioners, appropriate DDSN management levels, and in the case of provider organizations, the Executive Director and members of the organizations' governing board. ~~Legislative members representing the area(s) in which a DDSN Provider maintains its operational headquarters shall be notified by DDSN of reportable conditions in Internal Audit Division reports when the conditions relate to the governance of the local provider, primarily in the areas of the Board of Directors, or gross negligence on the part of the executive management. In addition, this same entity will be notified when the local provider is issued an audit report in which no reportable conditions or minimal conditions are noted.~~

### ~~FINANCIAL SANCTIONS~~ **Financial Sanctions**

A financial sanction, by way of a contract withhold, is only applicable to repeat findings as they relate to the health, safety and/or welfare of individuals being served.

The sanction will only apply when a follow-up audit is conducted and finds 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 ~~\$500~~ a minimum of \$1,000 with a potential increase based on the discretion of the Finance Audit Committee.

An appeals process will be available to any Provider who is assessed a financial sanction. 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.

### ~~STATEMENT ON FRAUD~~ **Statement on Fraud**

Auditors should be alert to situations (i.e., observations, informants) or transactions that could indicate actual or potential fraud or abuse, and consider extending audit steps and procedures, as necessary, to determine the effect of fraud on the audit results. The Audit Director should be made aware as soon as the auditor discovers potential or suspected fraud.

Auditors should exercise due professional care in pursuing indications of suspected fraudulent activity so as to avoid mistaken accusations or alerting suspected individuals and to not interfere with potential investigations or legal proceedings. If an auditor suspects fraud, embezzlement, or other possible criminal conduct, this should be discussed with the Auditor-In-Charge before proceeding further. The Auditor-In-Charge will in turn initiate a conference with the DDSN Audit Director and any other parties deemed appropriate (i.e., DDSN General Counsel). Depending on the extent and severity of the suspected fraud, appropriate reporting to the

responsible entity (i.e., local law enforcement, SLED, etc.) will take place, and fieldwork in the area may be discontinued temporarily.

If the findings from an audit give the auditor reason to believe that fraud may have occurred in the Medicaid program, under the Code of Federal Regulations, [42 CFR §455.15](#), then the case must be referred to the Medicaid Fraud Control Unit (MFCU) in the South Carolina State Attorney General’s Office.

**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 activity’s conformance with the Definition of Internal Audit and the *Standards*, and an evaluation of whether the internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

The Director of Internal Audit will communicate to senior management and the Commission on the internal audit activity’s quality assurance and improvement program, including results of ongoing internal assessments, and external assessments conducted at least every five years.

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