

LOUISVILLE & JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT INTERNAL AUDIT CHARTER

INTRODUCTION

As defined by the Institute of Internal Auditors, internal auditing is an independent, objective assurance and consulting activity designed to add value and improve the organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. The objectives of internal auditing are to assist members of the organization in the effective discharge of their responsibilities by furnishing them with analyses, appraisals, recommendations, counsel, and information concerning the activities reviewed and by promoting effective control at a reasonable cost.

INDEPENDENCE AND OBJECTIVITY

The Internal Audit Director reports functionally to the Audit Committee of the MSD Board and administratively (i.e., day-to-day operations) to the Executive Director and has full and independent access to the Executive Director, the Audit Committee, and any member of the MSD Board.

The Internal Audit Director's performance evaluations will be performed by the Executive Director with direct input from the Audit Committee.

The Internal Audit Department will remain free of influence by any element in the organization, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of an independent and objective mental attitude necessary in rendering engagement conclusions.

The Internal Audit Director will have no direct operational responsibility or authority over any of the activities audited. Accordingly, the Internal Audit Department will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that would generally be audited.

The Internal Audit Department must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. The Internal Audit Department 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.

SCOPE OF WORK

The scope of work of the internal audit department is to determine whether the organization's network of risk management, control, and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:

- Risks are appropriately identified and managed.
- Interaction with the various governance groups occurs as needed.
- Significant financial, managerial, and operating information is accurate, reliable, and timely.

- Employee's actions are in compliance with policies, standards, procedures, and applicable laws and regulations.
- Resources are acquired economically, used efficiently, and adequately protected.
- Programs, plans, and objectives are achieved.
- Quality and continuous improvement are fostered in the organization's control processes.
- Significant legislative or regulatory issues impacting the organization are recognized and addressed properly.

Opportunities for improving internal control, productivity, efficiency, and effectiveness may be identified during audits. These opportunities will be communicated to the appropriate level of management, the Audit Committee, and MSD Board.

ACCOUNTABILITY

The Internal Audit Director, in the discharge of their duties, shall be accountable to management and the Audit Committee to:

- Provide an assessment of the adequacy and effectiveness of the organization's processes for controlling its activities and managing its risks in the areas set forth under the scope of work.
- Report significant issues related to the processes for controlling the activities of the organization and its affiliates, including potential improvements to those processes, and provide information concerning such issues through resolution.
- Provide information periodically on the status and results of the annual audit plan and the sufficiency of department resources.
- Coordinate with and provide oversight of other control and monitoring functions (risk management, compliance, security, legal, ethics, environmental, external audit).

RESPONSIBILITY

- Develop a flexible annual audit plan using the appropriate risk-based methodology, including any risks or control concerns identified by management, and submit that plan to the Audit Committee for review and approval.
- Develop an annual budget for the internal audit department, and request the funds estimated as necessary to fulfill the annual audit plan to the Audit Committee. The annual internal audit budget shall then be included in the MSD budget by the Budget and Finance Director and approved by the MSD Board.
- Implement the annual audit plan, as approved, and as appropriate, any special tasks or projects requested by the Executive Director, Audit Committee, or MSD management. Notify the Audit Committee of any audit requests not included in the annual audit plan that need approval. If the nature of the request is confidential (e.g. potential fraud, code of ethics violation), the Internal Audit Director shall notify the Chair of the Audit Committee, in writing, to request approval of the audit engagement.
- Provide internal audit engagement documentation for review to any member of the MSD Board upon request. Documentation shall be provided as-is at any point in the audit process, whether a working draft document associated with an internal audit engagement in progress or a final document associated with an internal audit report that has been approved by the MSD Board.

- Maintain a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this charter.
- Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives.
- Evaluate and assess significant merging/consolidating functions and new or changing services, processes, operations, and control processes coincident with their development, implementation, and/or expansion.
- Issue periodic reports to the Audit Committee, at least quarterly, to provide status updates or summarize results of audit activities.
- Keep the Audit Committee informed of emerging trends and successful practices in internal auditing.
- Provide a list of significant Internal Audit measurement goals and results to the Audit Committee. The list shall include audit plan accomplishments and necessary revisions.
- Perform or assist in the investigation of significant suspected fraudulent activities within the organization and notify management and the Audit Committee of the results.
- Consider the scope of work of the external auditors and regulators, as appropriate, for the purpose of providing optimal audit coverage to the organization at a reasonable overall cost.
- Maintain confidentiality in all matters as appropriate.

AUDIT REPORTS

Audit reports will contain relevant background information, observations, conclusions, and recommendations (if necessary).

A draft audit report will be forwarded to the management of the audited area for review and comment regarding factual content before it is presented to the Audit Committee for review. Management must respond in writing and specify agreement with audit conclusions and recommendations, or reasons for disagreement, along with an action plan for implementing solutions to issues identified and a timetable to complete such activities. The response must be forwarded to the Internal Audit Director within fifteen (15) days of the exit interview, or no longer than thirty (30) days of receipt of the draft report.

The response will be included in the report. If no response is received within the stated timeframe, the Internal Audit Director may note that fact in the transmittal letter and submit the draft report to the Audit Committee for approval. The Audit Committee, after review and approval of the draft audit report, shall ensure the report is presented to the MSD Board for approval.

Final audit reports shall be distributed to the Executive Director, the Audit Committee, the MSD Board, and the management of the audited area. The report shall also be available for public examination, at the discretion of the Internal Audit Director. The Internal Audit Director shall retain a copy as a permanent record.

AUDIT FOLLOW-UP

The Internal Audit Director shall follow up on significant audit recommendations to determine if corrective actions have been implemented and are effective. The Internal

Audit Director may request periodic status reports from the management of audited areas regarding actions taken to address audit recommendations.

AUDIT RECORDS

The Internal Audit Director shall retain a complete file of each audit report and each report of other examinations, investigations, surveys, and reviews performed. The file should include audit work papers and other supportive material directly pertaining to the audit report. The file should be retained in accordance with MSD record retention requirements.

CONSULTANTS AND EXPERTS

The Internal Audit Director may obtain the services of external consultants, auditors, or other professional experts necessary to perform its duties through the procurement process. The Internal Audit Director may assist in the selection of the MSD external auditors. The Internal Audit Director may assist in coordinating and/or monitoring audit work performed by other organizations under contract by MSD.

QUALITY ASSURANCE REVIEW

The audit activities of the internal audit department shall be subject to quality assurance reviews in accordance with compliance with the *International Standards for the Professional Practice of Internal Auditing*. A professional, non-partisan objective group shall perform the review. The quality control review shall determine compliance with standards and be performed within the timetable prescribed by applicable standards. A copy of the written report of this review shall be furnished to the Executive Director and Audit Committee.

ACCESS TO EMPLOYEES, RECORDS, AND PROPERTY

Management and employees of MSD shall cooperate with and furnish the Internal Audit department unrestricted access to employees and information regarding powers, duties, activities, organization, assets, financial transactions, contracts, and methods of business.

The Internal Audit Department shall have access to, and authority to examine any and all records (including automated data) including but not limited to books, accounts, internal memoranda, writings and tapes, reports, vouchers, correspondence files and other records, bank accounts, money and other property of any MSD division, department, program, or activity. This access will supersede any other MSD policies, charters, or authority. This includes access for the Internal Audit department to inspect all assets, property, equipment, and facilities.

All contracts with outside contractors and subcontractors shall provide for the Internal Audit department to have access to all financial and performance-related records, property, and equipment related to MSD contracts.

The Internal Audit Director shall not publicly disclose any information received during an audit that is considered proprietary (confidential) in nature by any local, state, or federal law or regulation.

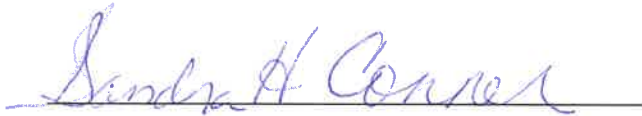
The Internal Audit Director shall report to the Executive Director and Chair of the Audit Committee, in writing, of any failure by any member of management or employee to cooperate with the Internal Audit Director's requests.

STANDARDS OF AUDIT PRACTICE

Internal Audit will meet or exceed 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*. This mandatory guidance constitutes statements of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance and constitute an addendum to this charter.

PERIODIC ASSESSMENT

The Internal Audit Director should at least annually assess whether the purpose, authority, and responsibility, as defined in this charter, continue to be adequate to enable the internal audit department to accomplish its objectives. The result of this annual assessment should be communicated to the Executive Director and the Audit Committee.



Sandra H. Conner
Internal Audit Director, MSD



James A. Parrott
Executive Director, MSD

JT Sims
Chair, MSD Board Audit Committee

Date

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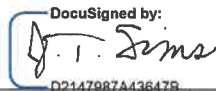
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Sandra H. Conner
Internal Audit Director, MSD



James A. Parrott
Executive Director, MSD

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JT Sims
Chair, MSD Board Audit Committee

1/25/2022

Date

Certificate Of Completion

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| Subject: Please DocuSign: Audit Charters | |
| Source Envelope: | |
| Document Pages: 9 | Signatures: 2 |
| Certificate Pages: 1 | Initials: 0 |
| AutoNav: Enabled | Envelope Originator: |
| Envelope Stamping: Enabled | Kacy Thompson |
| Time Zone: (UTC-05:00) Eastern Time (US & Canada) | 700 W. Main St. |
| | Louisville, KY 40203 |
| | Kacy.Thompson@louisvillemd.org |
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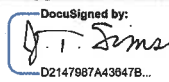
Record Tracking

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| Status: Original | Holder: Kacy Thompson | Location: DocuSign |
| 1/24/2022 03:52 PM | Kacy.Thompson@louisvillemd.org | |

Signer Events

JT Sims
 JT.Sims@louisvillemd.org
 Louisville & Jefferson County Metropolitan Sewer District
 Security Level: Email, Account Authentication (Optional)

Signature



Signature Adoption: Drawn on Device
 Using IP Address: 174.74.188.65
 Signed using mobile

Timestamp

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Electronic Record and Signature Disclosure:
 Not Offered via DocuSign

In Person Signer Events

Signature

Timestamp

Editor Delivery Events

Status

Timestamp

Agent Delivery Events

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Intermediary Delivery Events

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Certified Delivery Events

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Carbon Copy Events

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Witness Events

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Payment Events

Status

Timestamps