

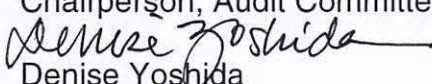


STATE OF HAWAII
DEPARTMENT OF EDUCATION
KA 'OIHANA HO'ONA'AUAO
P.O. BOX 2360
HONOLULU, HAWAII 96804

OFFICE OF THE SUPERINTENDENT

September 10, 2026

TO: The Honorable Dr. Mary Hattori
Chairperson, Audit Committee

FROM: 
Denise Yoshida
Internal Audit Director

SUBJECT: Action on updated Internal Audit Charter

1. BACKGROUND FOR UPDATE

The updates to the Internal Audit Charter are driven by two primary factors:

- Alignment with revised Institute of Internal Auditors (IIA) Standards (2024 Edition).
- Restructuring of the Internal Audit Office completed in July 2026, which integrated the newly established Performance Audit Section, alongside the existing Internal Audit Section.

2. RECOMMENDATION

We recommend that the updated Internal Audit Charter be approved by the Board of Education.

DY:dy
Attachment

c: Keith T. Hayashi, Superintendent
Internal Audit Office



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INTERNAL AUDIT CHARTER

I. Introduction and Purpose

The Hawaii State Department of Education (Department), under the Board of Education (BOE), established the Internal Audit Office. The Internal Audit Office, who reports to the Audit Committee of the BOE, is independent of all other areas in the Department and is free from undue influence in selecting and determining the scope of activities, performing examinations, and communicating the results. This Internal Audit Charter will be reviewed and updated annually, as necessary.

The Internal Audit Office is divided into two distinct sections: the ***Internal Audit Section (IAS)***, which focuses on risk management and financial controls; and the ***Performance Audit Section (PAS)***, which evaluates program efficiency and goal achievement in accordance with government auditing standards. The office ensures that public resources are used accountably and legally. Both sections work to identify operational weaknesses, prevent fraud, and provide evidence-based solutions to streamline government functions.

While both sections share the goal of promoting internal controls, their primary differences lie in their core objectives and areas of focus. The primary mission of the IAS is to provide assurance and consulting services aimed at improving the Department's internal control structures, risk management, and governance processes. It uses a systematic, disciplined approach to evaluate these areas. The primary focus of the PAS is to conduct performance audits to assess departmental efficiency, effectiveness, and economy of its programs and operations. In addition, the PAS determines if programs and management systems are achieving their intended results and identifies operational bottlenecks to streamline performance.

II. Purpose of Internal Auditing

The purpose of the internal auditing is to assist the BOE achieve its goals and its objectives by providing independent, objective, assurance, and advisory services.



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III. Adherence to Global Internal Audit Standards and Generally Accepted Government Auditing Standard Commitment

The Internal Audit Office operates in accordance with two distinct professional standards frameworks, as applicable to the services performed.

The Internal Audit Section adheres to the mandatory guidance issued by the Institute of Internal Auditors (IIA), including the Global Internal Audit Standards 2024 Edition (IIA Standards or Red Book) and the Code of Ethics. This guidance establishes the fundamental principles and requirements for the professional practice of internal auditing and serves as the basis for evaluating the effectiveness and quality of the internal audit activity.

The Performance Audit Section adheres to generally accepted government auditing standards (GAGAS) found in the Government Auditing Standards 2024 Revision, commonly referred to as the Yellow Book. These standards establish the fundamental principles and requirements for the professional practice of government auditing and support the provision of objective information for oversight, accountability, transparency, and the improvement of government programs and operations.

The Internal Audit Director determines the standards applicable to each Internal Audit staff member based on their assigned roles and responsibilities. Unless otherwise amended, and provided that the provisions of this Charter remain unchanged, all duties and responsibilities assigned under each section of this Charter shall be performed in accordance with the professional standards governing that section.

IV. Mandate

In accordance with the IIA Standards, the Internal Audit Office is required to specify a mandate and charter, which are periodically reviewed and approved by the office's oversight authority. As the oversight authority, the Audit Committee of the BOE has mandated that the Internal Audit Office:

- report on the adequacy and effectiveness of the Department's processes for controlling its activities and managing its risks in the areas set forth under the mission and scope of work;
- report significant issues related to the processes for controlling the activities of the Department, including potential improvements to those processes, and provide information concerning such issues through resolution;



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- periodically provide information on the status and results of the annual Internal Audit Plan and the sufficiency of resources; and
- coordinate with and provide oversight of other control and monitoring functions (risk management, compliance, external audit, etc.).

While the *Yellow Book* does not require a mandate statement, it does require that performance audits conducted in accordance with GAGAS, follow the requirements specified in the *Yellow Book*.

V. Authority, Scope, and Objectivity

In accordance with the IIA Standards (for the Internal Audit Section) and the Government Auditing Standards (for the Performance Audit Section), the Internal Audit Office independently reviews and evaluates all programs, activities, systems, and operations within the Department, including financial, operational, and administrative functions. Its scope includes assessing compliance, internal controls, risk management, and performance effectiveness, as well as reporting findings and recommendations to support accountability and continuous improvement.

The Internal Audit Director and staff in the Internal Audit Office are authorized to:

- have unrestricted access to all functions, records (irrespective of physical form), property, and all employees of the Department;
- have full and free access to the BOE Chair, the AC Chair, the Superintendent, Department staff, and program participants, as needed;
- allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives; and
- obtain the necessary assistance of personnel within the respective offices and schools of the Department where they perform audits, as well as other specialized services from within or outside the Department.

The Internal Audit Director and staff of the Internal Audit Office are not authorized to:

- perform any operational duties for the Department;
- initiate or approve transactions external to the Internal Audit Office; or
- direct the activities of any Department employee not employed by the Internal Audit Office.



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VI. Structure and Independence

Both standards require that the Internal Audit Office be independent and objective. To ensure the independence and objectivity of the internal audit function:

- The Internal Audit Office is independent of all other offices in the department and reports directly to the BOE through the BOE's Audit Committee and is administratively attached to the Superintendent's Office.
- Internal auditors perform their work by maintaining an impartial, unbiased attitude, and avoiding conflicts of interest.
- Internal audit activities will be free from interference in determining the scope of engagements, performing examinations, and communicating the results.
- Completed engagements are reported to the BOE via the Audit Committee and are provided to the Superintendent and other officers as deemed appropriate by the Director.

The Internal Audit Office's mandate and Charter are reviewed periodically and may be revised, as appropriate, to reflect changes in organizational, regulatory, or operational requirements. Proposed amendments shall be developed by the Internal Audit Director, in consultation with the Audit Committee and, as appropriate, other relevant stakeholders, including, but not limited to, the Board of Education and the Department. Any revisions are approved by the Audit Committee.

IV. Role and Responsibilities

Internal Audit Office

The role of the Internal Audit Office is to provide independent and objective assurance on governance, risk management, internal controls, and the performance of the Department, programs, operations, management, and functions. The Internal Audit Office's responsibilities include reviewing the effectiveness of the internal control structure and identifying opportunities for process and control improvements that would mitigate risk exposures; monitoring compliance with laws, regulations, stipulations, policies, and procedures; and recommending leading practices throughout the Department. The assurance and advisory activities of the Internal Audit Office do not, in any way, relieve the Department's staff and management of the responsibility for complying with policies and procedures as well as implementing agreed-upon action plans or recommendations.



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In carrying out its overall responsibilities, the Internal Audit Office will:

- A. Annually develop and execute a risk-based Internal Audit Plan for the evaluation of critical processes that provide oversight and controls in the Department. As necessary, update the Internal Audit Plan to adapt and provide value-added assurance or consulting services to meet the evolving needs of the Department. The Internal Audit Plan, as well as updates, shall be submitted to the Audit Committee for review and approval and to the Superintendent for informational purposes.
- B. Coordinate audit activities with the Hawaii State Department of Accounting and General Services (DAGS) Audit Division, the Office of the Auditor, and external auditors to ensure minimal disruption to the operations of Department staff and to minimize duplication of effort.
- C. Report the results of performance audits and assurance and advisory services, including recommendations for improvement and management's corrective action plan to the Audit Committee, as well as to parties who can ensure that the results are given due consideration. This may include, but is not limited to, other BOE members, and other appropriate levels of management within the Department (e.g., Assistant Superintendents (AS), Complex Area Superintendents (CAS), Complex Area Business Managers (CABM), and Principals), to be communicated through email.
- D. Review and monitor recommendations for improvement, management's corrective action plans, and the correction of reported deficiencies resulting from internal, external, or legislative audits to ensure they have been effectively implemented and addressed, and summarized in the Quarterly Report to the Audit Committee for review and forwarding to other appropriate parties. communicated through email.
- E. Conduct routine reviews of the non-appropriated student activity funds as well as selected appropriated-funded accounts at the school level.
- F. Conduct special audits, reviews, or projects requested by the AC Chair.
- G. Ensure all projects are completed in accordance with applicable Red Book and Yellow Book standards
- H. Develop and maintain a Quality Assurance and Improvement Program for the Internal Audit Section and a Quality Management Review Process for the Performance Audit Section that includes internal and external assessments in accordance with the IIA Standards (red book) and GAGAS (yellow book) as appropriate.
- I. Ensure that the Internal Audit Office undergoes required Red Book and Yellow Book periodic external peer reviews. The office has elected to undergo a combined peer review every three years.



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Internal Audit Director

The Internal Audit Director ensures that the Internal Audit Office adheres to laws, statutes, BOE policies, and relevant standards. The Internal Audit Director is responsible for the following:

- **Ethics and Professionalism:** Ensure conformance to the IIA Code of Ethics, Government Auditing Standards on Ethics, and the State's and Department's Code of Ethics requirements.
- **Objectivity:** Ensure that the Internal Audit Office remains free from any conditions or threats that could impair its independence or limit its ability to determine engagement selection, scope, procedures, frequency, timing, and communication of results. The Internal Audit Director shall ensure that internal auditors perform their duties objectively, impartially, and without compromising the quality or independence of the internal audit activity, both in fact and in appearance. Internal auditors shall not undertake any management responsibilities or activities. Examples of activities and circumstances that may impair objectivity or independence are outlined in the Objectivity section of the Internal Audit Code of Ethics and the Authority and Objectivity section of this Charter. The examples provided are illustrative only and should not be considered an exhaustive list of all potential impairments to independence and objectivity.
- **Managing the Internal Audit Function:** Ensure that both sections in the Internal Audit Office (IAS and PAS) function in a manner deemed necessary to comply with the components of this charter, relevant laws and policies, and in adherence to relevant auditing standards.
- **Audit Committee Meetings:** The Internal Audit Director shall attend the Audit Committee meetings and the Superintendent's leadership meetings, as appropriate, to stay informed of all operational changes within the Department, and to provide input where internal control considerations are involved.
- **Staffing:** The Internal Audit Director determines necessary staffing requirements for the Internal Audit Office and external resource requirements, where applicable.



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Responsibilities by Section

Internal Audit Section (IAS)

The IAS is dedicated to providing independent and objective assurance and consulting services designed to add value and improve the Department's operations and internal control structures.

- **Financial and Compliance Oversight:** Evaluates critical financial, operational, and compliance processes using risk-based methodology.
- **Corrective Action:** Monitors the implementation of recommendations and corrective action plans resulting from internal, external, or legislative audits.
- **Approach:** Utilizes a systematic, disciplined approach to evaluate the effectiveness of risk management, control, and governance processes.
- **Primary Responsibilities:** Reviews the effectiveness of internal control structures, identifies improvements to mitigate risk exposures, monitors compliance with laws and policies, and shares best practices.
- **Planning and Execution:** Develops and executes an annual risk-based audit plan to evaluate critical financial, operational, and compliance processes.
- **Monitoring and Compliance:** Monitors the implementation of corrective action plans from various audits and coordinating activities with external entities like the State Department of Accounting and General Services (DAGS).
- **Asset Oversight:** Examines the effectiveness of management's stewardship of DOE assets and conducts fiscal reviews into allegations of fund or asset improprieties.
- **Fraud and Ethics Hotline:** Administers the Department's Fraud and Ethics Hotline, a confidential, anonymous mechanism to intake allegations of fraud or unethical complaints.
- **Fiscal Reviews:** Conducts fiscal reviews of allegations concerning Department funds or asset misappropriation/misuse, subject to the AC Chair's approval.



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Performance Audit Section (PAS)

The PAS is dedicated to provide independent assessments of programs, functions, and management systems to determine their efficiency, effectiveness, and economy.

- **Program Performance Evaluations:** Evaluates DOE programs to ensure intended goals, legislative mandates, and desired outcomes are being met.
- **Resource Management and Optimization:** Assesses whether resources are used optimally to minimize costs and maximize output.
- **Waste Prevention:** Reviews management systems and operational safeguards specifically to prevent fraud, waste, and abuse.
- **Evidence-Based Solutions:** Provides constructive, evidence-based solutions to streamline and correct deficiencies in program or operational performance.
- **Focus:** Unlike traditional financial audits, performance audits focus on identifying operational bottlenecks and recommending improvement.
- **Performance and Accountability:** Evaluates organizational processes to improve performance, reduce costs, and ensure accountability.
- **Safeguards:** Reviews management systems and operational safeguards specifically to prevent fraud, waste, and abuse.
- **Legal Compliance:** Conducts audits to determine if program results meet legal requirements and statutory obligations.

[Last updated: 08/28/2026]



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Primary Clients

- Office of the Superintendent
- Board of Education
- Executive Management
 - Deputy Superintendents
 - Assistant Superintendents
 - Complex Area Superintendents
 - Principals
- Public Schools
- The General Public

Roy M. Takumi, Chairperson, Hawaii State Board of Education

Date

Mary Therese Perez Hattori, Audit Committee Chairperson,
Hawaii State Board of Education

Date

Keith T. Hayashi, Superintendent, Hawaii State Department of Education

Date

Denise Yoshida, Internal Audit Director, Hawaii State Board of Education

Date