

# **OBM Office of Internal Audit Charter**

**December 2016**

## VISION, MISSION AND SCOPE OF WORK

The vision of the OBM Office of Internal Audit (OIA) is to be a highly regarded internal audit activity that adds value and mitigates risk by partnering with Ohio's state agencies and providing objective insights and innovative recommendations to improve agency operations.

OIA will provide independent, objective assurance and consulting activities designed to improve operations of state agencies obtaining OIA services. OIA will help state agencies accomplish their objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The scope of work of OIA is to direct internal audits to determine whether the state agency network of risk management, internal 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 various governance groups occurs as needed.
- Significant financial, managerial, and operating information is accurate, reliable, and timely.
- Employees' 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 agency control processes.
- Significant legislative or regulatory issues impacting the agencies' operations are recognized and addressed appropriately.

Additional consulting services may be provided where consistent with OIA's mission. Such consulting may relate to the following types of services: review of agency policies (informal engagements); adequate controls incorporated within new systems and processes (assessment services); and validation of actions taken by management to address prior OIA observations (remediation services).

Pursuant to Ohio Revised Code (ORC) Section 126.45(A) the following state agencies are served by OIA :

Adjutant General	Higher Education
Office of Budget and Management	Bureau of Workers' Compensation
Department of Administrative Services	Department of Aging
Department of Agriculture	Department of Commerce
Department of Developmental Disabilities	Department of Health
Department of Insurance	Department of Job & Family Services
Department of Medicaid	Department of Mental Health & Addiction Services
Department of Natural Resources	Department of Public Safety
Department of Rehabilitation & Correction	Department of Taxation
Department of Transportation	Department of Veteran Services
Department of Youth Services	Development Services Agency
Environmental Protection Agency	Lottery Commission
Opportunities for Ohioans with Disabilities	Public Utilities Commission

Additionally, pursuant to ORC Section 126.45(D), a state agency, office, or body not under the purview of OIA may request OIA to direct an internal audit of that state agency, office, or body.

## AUTHORITY

OIA is created pursuant to ORC Section 126.45. OIA has operational independence in the conduct of its duties and is authorized to:

- Have access to all functions, records, systems, property, and personnel for the performance of an internal audit.
- Consult with and be advised by the State Audit Committee.
- Allocate its resources, set frequencies, select audits, determine scopes of work, and apply the techniques required to accomplish audit objectives.
- Obtain the necessary assistance of personnel in the state agencies where they perform audits, as well as other specialized services from within or outside the organization.

## AUDIT PRACTICE PROFESSIONAL STANDARDS AND FRAMEWORKS

OIA shall conduct internal audits in a professional, impartial and unbiased manner. Audit staff shall avoid all conflicts of interest and behave in an ethical manner in accordance with Ohio Ethics Law and the *OBM Ethics Policy*. Audit staff will perform all audit work with due professional care and in accordance with the *International Professional Practices Framework (IPPF)* issued by The Institute of Internal Auditors (IIA).

The IPPF, effective in January 2017, contains two types of guidance:

1. Mandatory guidance includes the Core Principles for the Professional Practice of Internal Auditing, Definition of Internal Auditing, the Code of Ethics, and the *Standards*.
2. Recommended guidance includes Implementation Guidance (Practice Advisories) and Supplemental Guidance (Practice Guides).

OIA shall embrace state, national and international standards, guidelines, and frameworks in the financial, risk, business process and information technology (IT) areas in order to provide accurate and relevant feedback on best practices as it conducts its assurance and consulting activities. In particular, OIA may embrace several frameworks including, but not limited to:

- Committee of Sponsoring Organizations of the Treadway Commission (COSO)
- Standards for Internal Control in the Federal Government (issued September 2014)
- Control Objectives for Information and Related Technology (COBIT)
- National Institute of Standards and Technology (NIST)

## ACCOUNTABILITY

The Chief Audit Executive (“CAE”), in the discharge of his/her duties shall perform the following:

- Submit an annual risk-based audit plan to the OBM Director and State Audit Committee for review and comment before the beginning of each fiscal year.
- Issue preliminary and/or final reports related to the processes for controlling the activities of agencies, including potential improvements to processes, and provide information concerning such issues to the State Audit Committee and the director of the state agency involved.
- Periodically provide information on the status and results of the annual audit plan and the sufficiency of OIA resources to the OBM Director and the State Audit Committee.
- Coordinate with other control and monitoring functions (Auditor of State, State Highway Patrol, Attorney General, Inspector General, Bureau of Workers’ Compensation internal auditors, Lottery Commission internal auditors, and external audits for state agencies under OIA’s purview that include financial, regulatory, and SOC 1 audits).
- Report any suspected fraud or illegal activity discovered in accordance with OIA’s Suspected Fraud, Abuse and Wrongdoing Process. Since the State Audit Committee meets periodically, the CAE may need to contact the Committee Chair or OBM Chief Legal Counsel to timely discharge this responsibility.
- Report any suspected fraud or other illegal activity discovered by OIA during an internal audit immediately to the State Audit Committee, the director of the state agency in which the fraud or illegal activity is suspected to have occurred, and the Auditor of State.
- Report on other significant issues that materialize outside of planned audit initiatives.
- Establish and maintain a quality assurance and improvement program.

## INDEPENDENCE

To provide for the independence of OIA, personnel report to the CAE, who reports administratively to the OBM Director through the Senior Deputy Director of Services and Operations and in an advisory capacity to the State Audit Committee. The CAE will include as part of his/her reports to the State Audit Committee a regular report on internal audit personnel. Additionally, the CAE will confirm annually the organizational independence and the process in place to confirm independence of OIA employees to the State Audit Committee.

The OBM Director, with the Governor's approval, appoints the CAE, who serves at the Director's pleasure. The State Audit Committee is required to review and comment on OIA's annual audit plan. This organizational structure is designed to allow OIA to be independent and effectively accomplish its purpose.

## RESPONSIBILITY

The CAE and staff have responsibility to:

- Develop a flexible annual audit plan using an appropriate risk-based methodology, including the risk for fraud, waste, or abuse of public resources within an agency or division; the length of time since a process was last subject to an internal audit; the size of a process, and any risks or control concerns identified by management.
- Submit the annual audit plan to the OBM Director and State Audit Committee for review and comment as well as periodic updates.
- Implement the annual audit plan, including as appropriate, any special tasks or projects requested by management or the State Audit Committee.
- Maintain a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of the audit plan submitted to the State Audit Committee.
- Issue periodic reports to the State Audit Committee and management summarizing results of audit activities.
- Keep the OBM Director and the State Audit Committee informed of emerging trends and successful practices in internal auditing.
- Ensure that appropriate quality controls are in place and that reviews are conducted in accordance with accepted internal auditing standards and undergo a peer review at least once every five years by independent, external reviewers.
- Establish and maintain follow-up systems to determine whether effective action has been taken, following OIA's recommendations, within a reasonable time, and periodically report to the State Audit Committee situations where adequate, timely corrective action has not been implemented.

## REPORTING

The CAE shall report in the following manner:

- After the conclusion of an internal audit, submit a preliminary report of OIA's observations and recommendations to the State Audit Committee, the director of the state agency involved, and the OBM Director if deemed necessary. The state agency shall be provided an opportunity to respond within thirty days after receipt of the preliminary report. Any response appropriately received by OIA within that thirty-day period shall be included in the final report of the internal audit's observations and recommendations. The final report (assurance report) shall be issued within thirty days after the termination of the thirty-day response period. The assurance reports will focus on the design and/or effectiveness of internal controls. For those assurance audits which constitute a security record as defined by ORC Section 149.433, an assurance memo will be delivered to agency management and this memo and the related working papers will not be subject to public release.
- OIA may participate in consulting engagements in accordance with the Institute of Internal Auditors' professional standards. These engagements will not result in a final report; however, a consulting memo will be completed and the State Audit Committee will receive an executive summary of the status and results of the engagements.
- Copies of the final assurance reports shall be submitted to the State Audit Committee, the Governor, and the director of the state agency involved.

- The final assurance reports will be made available for public inspection in a timely manner, in accordance with ORC Section 126.48.
- A summary of the public assurance reports submitted to the State Audit Committee shall be provided to Legislative Leadership.
- Present, on at least an annual basis, a report to the State Audit Committee regarding management's implementation of observations made by OIA.
- Present, on at least an annual basis, a summary report to the State Audit Committee of audit activities including: compare plan to completed activities; orientation and scope of such activities; schedule of work undertaken; and any changes to the annual audit plan.
- Pursuant to ORC Section 126.47(E), prepare an annual report and submit the report to the Governor, the President of the Senate, the Speaker of the House of Representatives, and the Auditor of State. OIA shall make the report available to the public by posting it on the office's website before the first of August of each year.
- Distribute external peer review results to the State Audit Committee, Governor, the Director of OBM, the President of the Senate, the Speaker of the House of Representatives, and the Auditor of State.

**APPROVED December 15, 2016**

**Larry Long, Chair, State Audit Committee**

**Timothy Keen, Director, Office of Budget and Management**

**Cindy Klatt, Chief Audit Executive, Office of Internal Audit**