

State of Ohio

Audit Committee Charter

December 2018

PURPOSE

The State Audit Committee (“Committee”) exists to assist the Governor and Director of the Office of Budget and Management (“OBM”) in fulfilling their oversight responsibilities in the areas of financial reporting, internal controls and risk assessment, audit processes, and compliance with laws, rules, and regulations.

AUTHORITY

The Committee is created pursuant to ORC § 126.46 and shall carry out the following actions:

1. Review and comment on the OBM Office of Internal Audit’s (OIA) annual internal audit plan and ensure that OIA has an internal audit plan that identifies the scheduled internal audits of state agencies before the beginning of each fiscal year. This plan may be revised at any time the Director of OBM believes there is a reason to modify the previously submitted plan for a fiscal year.
2. Review and comment on preliminary report summaries of OIA’s observations and recommendations.
3. Determine an appropriate method for making the preliminary and final reports available for public inspection in a timely manner.
4. Review and comment on results of internal and external assessments of OIA’s audit activities and evaluate OIA’s conformance to the Institute of Internal Auditors' International Professional Practices Framework and to the Institute of Internal Auditors' Code of Ethics.
5. Review and comment on the process used by OBM to prepare the state's comprehensive annual financial report required under division (A)(9) of ORC Section 126.21.
6. Review and comment on the unaudited financial statements submitted to the Auditor of State and communicate with external auditors as required by government auditing standards.

COMPOSITION

The Committee will consist of the following five public members:

- One member appointed by the Governor who shall have the program and management expertise required to perform the duties of the Committee's chairperson;
- Two members appointed by the Speaker of the House of Representatives, one of which may be a person who is recommended by the Minority Leader of the House of Representatives; and
- Two members appointed by the President of the Senate, one of which may be a person who is recommended by the Minority Leader of the Senate.

Not more than two of the four members appointed by the Speaker of the House of Representatives and the President of the Senate shall belong to or be affiliated with the same political party. Each member of the Committee shall be external to the management structure of state government and shall serve a three-year term. Members may be reappointed to serve one additional term.

The Committee collectively shall include at least one member who is a financial expert as defined by division (C) of ORC Section 126.46; at least one member who is an active, inactive, or retired certified public accountant; at least one member who is familiar with governmental financial accounting; at least one member who is familiar with information technology systems and services; and at least one member who is a representative of the public.

Any vacancy on the Committee shall be filled in the same manner as provided under division (A)(1) of ORC 126.46, and, when applicable, the person appointed to fill a vacancy shall serve the remainder of the predecessor's term. Any member of the Committee may be recommended for removal by a majority vote of the Committee. This recommendation will be provided to the appointing authority of this Committee member.

It is the responsibility of each Committee member to disclose any conflict(s) of interest or appearance of a conflict of interest with state agencies under the purview of OIA, as defined in division (A) of ORC section 126.45. If it is determined a conflict of interest exists, the Committee member should recuse themselves from applicable discussion and voting matters.

MEMBER EXPENSES

Members of the Committee shall only receive reimbursement for actual and necessary expenses incurred in the discharge of their duties. Members may be reimbursed for the following expenses:

- **Mileage:** If requested, at the same rate, subject to the same limitations for a state agent traveling by a privately-owned automobile pursuant to Ohio Administrative Code (OAC) 126-1-02.
- **Parking:** If necessary, actual parking costs to attend meetings or necessary training.

Reimbursement for additional actual and necessary expenses, not identified herein may be requested and will be approved at the discretion of the Director of OBM or the Director's designee.

FINANCIAL DISCLOSURE

Members of the Committee shall be subject to the disclosure statement requirements of ORC Section 102.02.

MEETINGS AND COMMUNICATIONS

The Committee shall meet at least four times annually, or more frequently as deemed necessary by the Committee chair. The Committee shall determine the dates, times, and locations of all Regular Meetings at the last Regular Meeting of the Calendar Year. The Committee or the Chair may subsequently change the date, time, or location of any previously scheduled Regular Meeting provided that any such notice of a change in meeting date, time, or location is posted at the latest five (5) full business days prior to the date of any rescheduled Regular Meeting. Notice for all meetings shall be given in accordance with the Ohio Open Meetings Act and the provisions of this Charter. The Chief Audit Executive (CAE) shall ensure that notice is properly posted in accordance with the Ohio Open Meetings Act and the provisions of this Charter.

All Committee members are expected to prepare for and attend each meeting in person. The Committee may not conduct any meeting with fewer than three members present. The Committee may ask members of state agency management or others involved in the work of OIA to attend meetings and provide pertinent information as necessary. The CAE, in conjunction with the Committee chair, will assure that meeting agendas are prepared and provided in advance to

members, along with appropriate briefing materials. Meetings will be arranged and conducted in accordance with Ohio's open meeting laws.

Evidence of the discussions and actions taken by the Committee should be reflected in approved minutes of the meetings. Minutes of all Committee meetings will be prepared by OIA staff and approved by a quorum of the Committee at the subsequent meeting. Subject to open meeting laws, the Committee may hold executive sessions. Should the meeting provisions of this Charter conflict with any provision of the Ohio Open Meetings Act, the Open Meetings Act shall control.

1. Notice of Meetings

- 1.1 **Regular Meetings:** The Committee shall provide notice of all regularly scheduled meetings on the State Audit Committee website: <http://obm.ohio.gov/InternalAudit/committee.aspx>. Notice will also be posted in the OBM main office reception area currently located at the Rhodes Tower located at 30 E. Broad St., 34th floor, Columbus, Ohio 43215. The notice shall include the date, location, and start time of the Regular Meetings as determined by the Committee.
- 1.2 **Special Meetings:** The Committee shall provide notice of all Special Meetings at least 24 hours in advance of a special meeting. In accordance with Ohio's Open Meetings Act, the Special Meeting Notice shall include the date, start time, and location where the Special Meeting will be held, as well as the specific purpose for the meeting. Special Meeting Notices will be posted in the same locations as the Regular Meeting Notices and will be sent in the method agreed upon to those requesting advance notification pursuant to this Charter and the Ohio Open Meetings Act.
- 1.3 **Advance Notification:** As required by Ohio's Open Meetings Act, any person, or news media outlet upon request and payment of a reasonable fee if necessary based on the requested mode of notification, may obtain reasonable advance notification of all meetings at which any specific type of public business is to be discussed by the Committee. Interested parties should contact OBM Communications at OBM.Communications@obm.ohio.gov for placement on an advance notification distribution list.

RESPONSIBILITIES

1. Financial Reporting

- 1.1 **Financial Reporting Process:** Review, in consultation with the OBM Financial Reporting Unit, Auditor of State and the CAE, the integrity of the state agencies' financial reporting processes.
- 1.2 **Accounting Principles and Financial Disclosure Practices:** Inquire as to the Auditor of State qualitative judgment about the appropriateness, not just the acceptability, of the accounting principles and clarity of financial disclosures practices used or proposed to be adopted.
- 1.3 **Material Legal and Regulatory Matters:** Review legal and regulatory matters that, in the opinion of the State's management, may have a material impact on the financial statements and compliance with federal, state, and local laws and regulations.

2. Internal Audit

- 2.1 **OIA Plans and Processes:** Annually, review and comment on the following:
 - OIA Charter, policies, and procedures
 - Budget, staffing, and organizational structure

- Independence and objectivity of the OIA
- 2.2 **OIA Work Plan:** Annually, review and comment on the annual work plan, risk assessment process and results as prepared by the CAE.
- 2.3 **Internal Audit Reports:** Receive from the CAE, prior to each meeting, a progress report on the approved annual work plan, with explanations for any deviations from the original plan.
- 2.4 **Internal Audit Processes:** Review OIA's compliance with the *International Professional Practices Framework (IPPF)* issued by The Institute of Internal Auditors (IIA), which includes an external quality assurance review at least once every five years, and ongoing internal quality assurance reviews. Review any difficulties the internal audit team encountered during their audits, including any restrictions on the scope of their work or access to required information.
- 2.5 **Management Action Plans:** Monitor the status of management action plans for significant recommendations.
- 2.6 **Chief Audit Executive:** Provide input to the OBM Director for the annual evaluation of the CAE. Review and comment on the appointment, replacement, reassignment, or dismissal of the CAE.
- 2.7 **Other Internal Audit Functions:** Maintain awareness of internal audit functions at other state agencies, including the Ohio Lottery Commission and the Bureau of Workers' Compensation.

3. External Audit

- 3.1 **Scope and Approach:** Meet, as needed, with representatives of the Auditor of State, or their designee, regarding the proposed scope and approach of their auditing functions.
- 3.2 **Auditing Policies and Practices:** Review with representatives of the Auditor of State who perform the State of Ohio financial statement audit:
 - All critical accounting policies and practices used
 - All alternative treatments of financial information within generally accepted accounting principles that have been discussed with OBM, the ramifications of each alternative, and the treatment preferred by OBM.
- 3.3 **Significant Communications:** Review and respond when necessary to communications from the Auditor of State involving the duties of the State Audit Committee.
- 3.4 **Review of Financial Statements and Audits:** Review with OBM management and the Auditor of State:
 - The annual financial statements, related footnotes, and management's discussion and analysis;
 - The Auditor of State audit of the financial statements and their report thereon; and
 - The Auditor of State single audit of the federal awards administered by state agencies and their reports thereon
- 3.5 **Audit Processes:** Periodically review issues that relate to the process of developing the financial statements and conducting the audits including:
 - Any significant changes in the audit plan;
 - Any serious difficulties or disputes with management encountered during the audit; and

- Matters required to be discussed by Statement on Auditing Standards; U.S. Government Accountability Office's Government Auditing Standards; and the U.S. Office of Management and Budget's Circular A-133 related to the conduct of the audits

4. Reporting Responsibilities

- 4.1 **Overall Audit Scope and Plans:** Review with the Auditor of State, the OBM Director, and the CAE, the audit scope and plan of the internal auditors and the external auditors. Address the coordination of audit efforts to assure the completeness of coverage, reduction of redundant efforts, and the effective use of audit resources.
- 4.2 **Suspected Fraud and Abuse:** In accordance with the Suspected Fraud, Abuse or Reported Wrongdoing process, review any suspected fraud or other illegal activity discovered by the OIA during the conduct of an internal audit.
- 4.3 **CAE Annual Report:** Review and comment on the CAE's annual report which is submitted to the Governor, the President of the Senate, the Speaker of the House of Representatives, and the Auditor of State.
- 4.4 **Other Reports:** Report, as the Committee may deem appropriate, to the Governor and OBM Director about Committee activities, issues, and related recommendations.
- 4.5 **Other Communications:** Communicate on a regular basis with other state agency audit committees regarding audit issues that may impact the business of the Committee. Provide an open avenue of communication between the Committee, external auditors, internal auditors, state agency management, legislature, and other constituencies as needed.

5. Other Responsibilities

- 5.1 **Committee Charter and Processes:** Review and reassess the adequacy of the Committee's Charter annually and recommend any proposed changes.
- 5.2 **Changes and Updates:** Consider changes that are necessary because of new laws, regulations, or accounting and auditing standards, such as the IPPF issued by The Institute of Internal Auditors and *Government Auditing Standards* (Yellow Book) issued by the Comptroller General of the United States, or recommendations from the external quality assurance review.
- 5.3 **Performance Assessment:** Annually assess the Committee's performance of all statutory responsibilities and any additional responsibilities delineated in this Charter.

Adopted by the State Audit Committee
December 13, 2018