

State of Ohio Audit Committee Charter

June 2012

PURPOSE

Ohio Revised Code Section 126.46 authorizes the establishment of a State Audit Committee (“Committee”). The 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's authority is from the legislature. The Committee shall be authorized for the following:

1. Ensure that internal audits conducted by the OBM Office of Internal Auditing (“OIA”) conform to the institute of internal auditors' international professional practices framework and to the institute of internal auditors' code of ethics;
2. Review and comment on the process used by OBM to prepare the state's comprehensive annual financial report required under division (A)(9) of section 126.21 of the Revised Code;
3. Review and comment on the timing of financial statements audited by the Auditor of State and communicate with external auditors as required by government auditing standards;
4. Ensure the OIA has submitted an annual internal audit plan before the beginning of each fiscal year that identifies the scheduled internal audits of state agencies. 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.
5. Review all preliminary reports of OIA's observations and recommendations and the ensuing final reports. Determine an appropriate method for making the preliminary and final reports available for public inspection in a timely manner.

COMPOSITION

The Committee will consist of the following five members:

- One public member appointed by the Governor who is external to the management structure of state government shall have the program and management expertise required to perform the duties of the Committee's chairperson; two public 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. Pursuant to ORC 126.46, each member of the Committee shall serve a three-year term. Members may be reappointed to serve one additional term. The Committee collectively shall include one member who is a financial expert; one member who is an active, inactive, or retired certified public accountant; one member who is familiar with governmental financial accounting; and one member who is a representative of the public. In addition, the Committee will include a member who possesses a focus on information technology systems and services.

Any vacancy on the Committee shall be filled in the same manner as provided in this division, 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.

COMPENSATION

Members of the Committee shall only receive reimbursement for actual and necessary expenses incurred in the discharge of their duties.

FINANCIAL DISCLOSURE

Members of the Committee shall be subject to the disclosure statement requirements of section 102.02 of the Ohio Revised Code.

MEETINGS AND COMMUNICATIONS

The Committee shall meet at least four times annually, or more frequent as deemed necessary by the Committee chair. All Committee members are expected to attend each meeting in person. The Committee may not conduct any meeting with fewer than three members present. The Committee may ask members of agency management or others to attend meetings and provide pertinent information as necessary. The Chief Audit Executive (“CAE”), in conjunction with the Committee chair, will determine 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 recorded minutes of the meetings. Minutes of all Committee meetings will be prepared and approved. Subject to open meeting laws, the Committee may hold executive sessions with the independent auditors or the OIA.

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 & procedures,
- audit plans and audit activities,
- budget, staffing, and organizational structure, and
- 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, each final internal audit report and a progress report on the approved annual work plan, with explanations from any deviations from the original plan.

2.4 Internal Audit Processes: Review OIA's compliance with applicable standards, which includes a quality assurance review every fifth year. Determine that all internal auditing is conducted only by employees or designees of the OIA. Review any difficulties the internal audit team encountered in the course of 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.

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 the Auditor of State that performs 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 all significant written communications between the Auditor of State and OBM, such as any management letter or schedule of unadjusted differences.

3.4 Review of Financial Statements and Audits: Review with OBM management and the Auditor of State:

- a. The annual financial statements, related footnotes, and management's discussion and analysis;
- b. The Auditor of State audit of the financial statements and their report thereon; and
- c. 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 the conduct of 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 (September 2009), 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. Ensure that OBM makes available the report to the public by posting it on the office's web site before the first of July of each year.

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 the Committee's charter annually, reassess the adequacy of this charter, and recommend any proposed changes.

5.2 Changes and Updates: Consider changes that are necessary as a result of new laws, regulations, or accounting and auditing standards, including *Government Auditing Standards* (Yellow Book) issued by the Comptroller General of the United States.

5.3 Performance Assessment: Annually assess the Committee's performance of the responsibilities delineated in this charter.

State Audit Committee Chairperson

Date

Approved & signed by:
Paolo DeMaria, Chair
June 21, 2012

OBM Office of Internal Audit Charter

December 2012

MISSION AND SCOPE OF WORK

The OBM Office of Internal Audit (OIA) will provide independent, objective assurance and consulting activities designed to improve management practices, identify operational improvement, and reduce agency risk exposure.

The scope of work of OIA is 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 ORC Section 126.45 (A) the following state agencies are served by OIA as of December 2012:

Department of Administrative Services	Department of Aging
Department of Agriculture	Department of Alcohol and Drug Addiction Services
Office of Budget and Management	Department of Commerce
Department of Developmental Disabilities	Development Services Agency
Environmental Protection Agency	Department of Health
Department of Insurance	Department of Job & Family Services
Department of Mental Health	Department of Natural Resources
Department of Public Safety	Board of Regents
Department of Rehabilitation and Correction	Department of Taxation
Department of Transportation	Department of Veterans Services
Bureau of Workers' Compensation	Department of Youth Services

AUTHORITY

OIA is created by legislation enacted in section 126.45 of the Ohio Revised Code. OIA has operational independence in the conduct of its duties and has the authority to initiate, carry out and report on any action considered necessary to fulfill its responsibilities. The OIA is authorized to:

- Have unrestricted access to all functions, records, systems, property, and personnel.
- Have full and free access to 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.

The Chief Audit Executive and staff are not authorized to:

- Perform any operational duties for the agencies or its affiliates.

- Initiate or approve accounting transactions external to the OIA.
- Direct the activities of any State employee not employed by OIA, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.
- Engage in any activities that OIA would normally be expected to review or appraise, such as implementing policies and procedures for agency use.

AUDIT PRACTICE PROFESSIONAL STANDARDS AND FRAMEWORKS

The 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 the *Ethics Policy* as outlined by the Office of Budget and Management. 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) in 2011.

The IPPF contains two types of guidance:

1. Mandatory guidance includes the Definition of Internal Auditing, the Code of Ethics, and the *Standards*
2. Strongly recommended guidance includes Practice Advisories, Position Papers, and 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)
- 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 of significant issues 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.
- 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, 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 the OIA’s Suspected Fraud, Abuse and Wrongdoing Process. Since the State Audit Committee meets periodically, the CAE may need to contact the Committee Chair to timely discharge this responsibility.
- 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 the OIA, its personnel shall 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 in a manner outlined in the above section on Accountability. It will include as part of its reports to the State Audit Committee a regular report on internal audit personnel. Additionally, the CAE will confirm annually the organizational independence and the independence process in place for OIA employees to the State Audit Committee.

The OBM Director, with the Governor's approval, shall appoint, replace, reassign or dismiss the CAE. The State Audit Committee shall review and comment with the OIA's annual audit plan and budget. 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 that 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 and the State Audit Committee.
- Maintain a professional audit staff with sufficient knowledge, skills, experience, and professional certifications, or contract for similar resources, 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 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 the OIA's observations and recommendations to the OBM Director, the State Audit Committee and to the director of the state agency involved. The state agency shall be provided an opportunity to respond within thirty days after receipt of the preliminary report. Responses received 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 documentation 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 our status and results.
- Copies of the final report shall be submitted to the State Audit Committee, the Governor, Legislative Leadership and the director of the state agency involved.
- The final reports will be made available for public inspection in a timely manner, in accordance with Revised Code Section 126.48.
- Present, on an annual basis, a report to the State Audit Committee, regarding management's implementation of observations made by OIA.
- Present, on 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 progress on implementation of prioritized recommendations contained in audit reports.

- 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 as defined in ORC Section 126.47
€Distribute external peer review results to the State Audit Committee, Governor, the President of the Senate, the Speaker of the House of Representatives, and the Auditor of State.

APPROVED December 20, 2012

Paolo DeMaria, Chair, State Audit Committee

Timothy Keen, Director, Office of Budget and Management

Joe Bell, Chief Audit Executive, Office of Internal Audit