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OIA Charter
Office of Internal Auditing

April 15, 2008

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STATE OF OHIO
OFFICE OF BUDGET AND MANAGEMENT
OFFICE OF INTERNAL AUDIT CHARTER

MISSION, PURPOSE AND SCOPE OF WORK

The Office of Internal Audit (“OIA”) is created to conduct internal audits within state agencies (See Appendix A) by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal controls, and governance processes. The mission of the OIA is to provide independent, objective assurance and consulting services designed to add value by providing quality auditing services that result in reduced costs, gains in operational efficiencies, strengthened internal controls, and improved practices and policies.

The purpose of the OIA is to assist state agency management and the Audit Committee 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.

The scope of work of OIA is to determine whether the state agency 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 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’ fiscal operations are recognized and addressed appropriately.
- Adequate controls, including those related to data privacy and security, are incorporated within new systems and processes.

Opportunities for improving management control and state agency image may be identified during audits. They will be communicated to the appropriate level of management and/or audit committee.

INTERNAL CONTROL FRAMEWORK

OIA embraces the Committee of Sponsoring Organization’s (COSO) *Internal Control-Integrated Framework* which broadly defines internal control as a process, affected by the Board of Directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations (including safeguarding of assets);
- Reliability of final reporting; and
- Compliance with applicable laws and regulations.

Additionally, OIA embraces COBIT as a set of concepts for evaluating Information Technology governance and controls.

ACCOUNTABILITY

The Chief Internal Auditor (“CIA”), in the discharge of his/her duties, shall be accountable to OBM management and Audit Committee members to:

- Provide annually an assessment on the adequacy and effectiveness of the state agencies processes for controlling its activities and managing its risks in the areas set forth under the mission, purpose and scope of work.
- Report significant issues related to the processes for controlling the activities of agencies, including potential improvements to those processes, and provide information concerning such issues through resolution.
- Periodically provide information on the status and results of the annual audit plan and the sufficiency of OIA resources.
- Coordinate with other control and monitoring functions (State Auditors, Highway Patrol, Attorney General, Inspector General, and external audits that include financial, regulatory, and SAS 70 audits).
- Report immediately any suspected fraud or illegal activity discovered by OIA during the conduct of an internal audit shall be reported 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.
- Notify the Attorney General, or other appropriate state investigatory groups, of any potential criminal issues identified.
- Report on other significant issues that materialize outside of planned audit initiatives.

INDEPENDENCE

To provide for the independence of the OIA, its personnel shall report to the CIA, who reports directly to the OBM Director and in an advisory capacity to the Audit Committee in a manner outlined in the above section on Accountability. It will include as part of its reports to OBM and the Audit Committee a regular report on internal audit personnel.

The Governor shall review and approve the appointment, replacement, reassignment or dismissal of the CIA. Further, the Audit Committee shall review and concur 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 CIA 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 money 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 the amount of time and resources necessary to audit it; and any risks or control concerns identified by management.
- Submit that plan to the Audit Committee for review and comment as well as periodic updates.
- Implement the annual audit plan, as approved, including as appropriate any special tasks or projects requested by management and the Audit Committee.
- Conduct periodic IT, and data privacy and security audits of each state agency's major systems and controls, including, but not limited to, those systems and controls pertaining to accounting, administration, and electronic data processing.
- 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 audit committee.
- 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 and management summarizing results of audit activities.
- Keep OBM Director and the Audit Committee informed of emerging trends and successful practices in internal auditing.
- Provide a list of significant measurement goals and results to the Audit Committee.

- Assist in the investigation of significant suspected fraudulent activities within the agencies 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 agencies at a reasonable overall cost.
- Furnish advice to management on establishing control systems and procedures, including the sharing of leading practices.
- Facilitate or provide education to agency management on control self-assessment programs.
- 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.
- Assist the Audit Committee in complying with provisions stipulated in its charter.
- Respect and keep the confidential nature of any information gathered or received that is applicable to an audit, and use such information only in so far as it is necessary for the performance of an audit.
- Establish and maintain follow-up systems to determine whether effective action has been taken, following the Internal Auditor's recommendations, within a reasonable time, and periodically report on situations where adequate, timely corrective action has not been implemented.
- Conduct annual surveys to ascertain the control environment across the state of Ohio agencies.

REPORTING

The CIA shall report in the following manner:

- After the conclusion of an internal audit, submit a preliminary report of the internal audit's findings and recommendations to 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 office's final report of the internal audit's findings and recommendations. The final report shall be issued within thirty days after the termination of the thirty-day response period.
- Copies of the final report shall be submitted to the state audit committee, the governor, 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 Audit Committee, regarding the implementation of recommendations made by OIA.
- Present, on an annual basis, a summary report to the Audit Committee of audit activities including: 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. The office of budget and management shall make the report available to the public by posting it on the office's web site before the first of July of each year.

AUTHORITY

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

- Have unrestricted access to all functions, records, systems, property, and personnel.
- Have full and free access to the Audit Committee.
- Allocate resources, set frequencies, select audits, determine scopes of work, and apply the techniques required to accomplish audit objectives.
- Participate in internal control councils within Ohio agencies.

- 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 CIA 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 Internal Audit would normally be expected to review or appraise, such as implementing policies and procedures for agency use.

STANDARDS OF AUDIT PRACTICE

The OIA shall conduct internal audits in a professional, impartial and unbiased manner; conflicts of interest should be avoided. Audit staff will perform all audit work with due professional care and in accordance with the *International Standards for the Professional Practice of Internal Auditing* of The Institute of Internal Auditors.

OBM Director

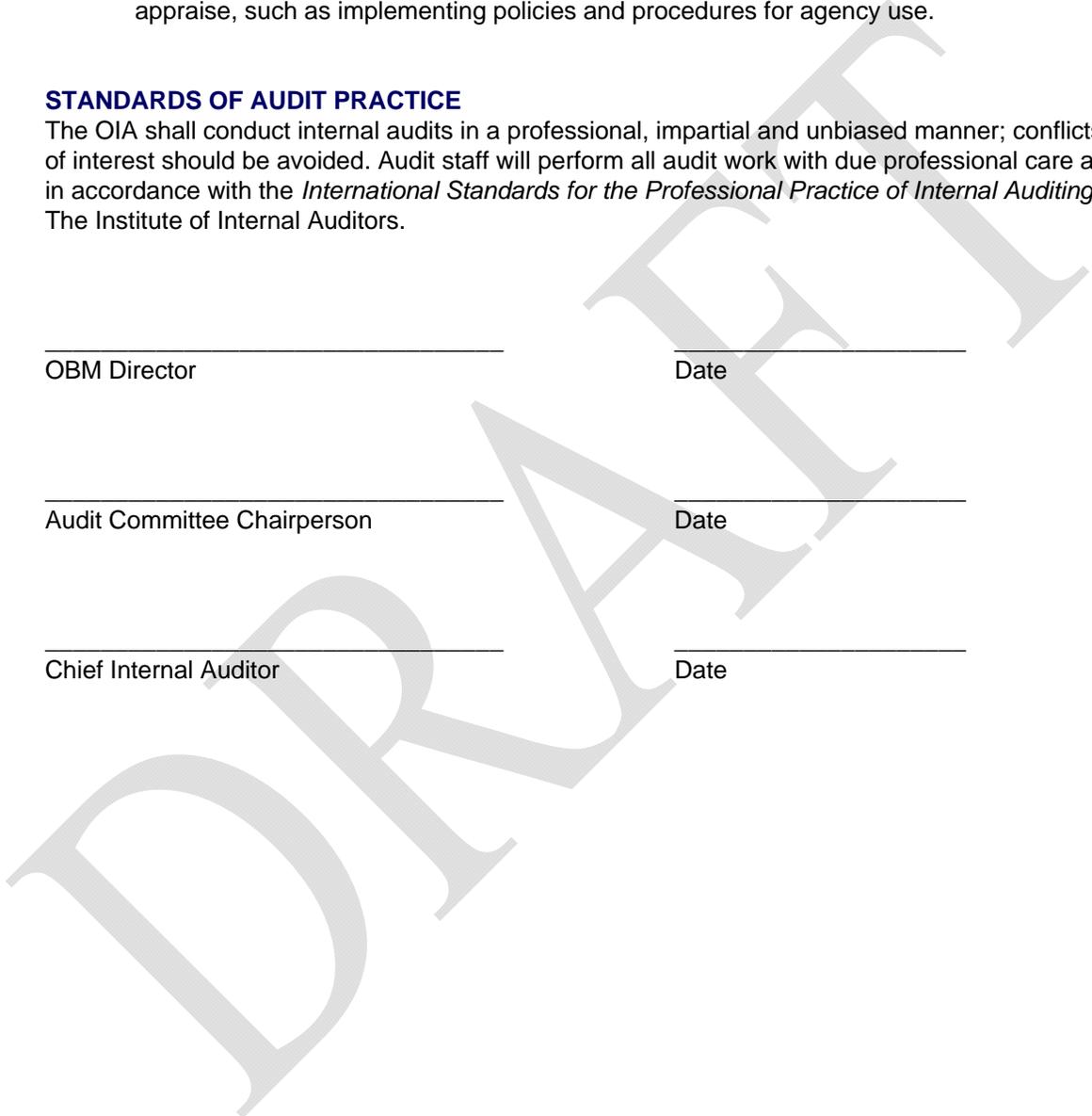
Date

Audit Committee Chairperson

Date

Chief Internal Auditor

Date



APPENDIX A: Administrative departments included in HB 166

- (A) The Office of Budget and Management
- (B) The Department of Commerce
- (C) The Department of Administrative Services
- (D) The Department of Transportation
- (E) The Department of Agriculture
- (F) The Department of Natural Resources
- (G) The Department of Health
- (H) The Department of Job and Family Services
- (I) the Department of Public Safety
- (J) The Department of Mental Health
- (K) The Department of Mental Retardation and Developmental Disabilities
- (L) The Department of Insurance
- (M) The Department of Insurance
- (N) The Department of Development
- (O) The Department of Rehabilitation and Correction
- (P) The Environmental Protection Agency
- (Q) The Department of Aging
- (R) The Department of Alcohol and Drug Addiction Services
- (S) The Department of Taxation
- (T) The Bureau of Workers' Compensation

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