

State of Ohio Audit Committee Charter

| ~~June-September 2013~~2

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. Review and comment on the OBM Office of Internal Audit’s (OIA) 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.
2. 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.
- ~~4-3.~~ Review and comment on results of internal and external assessments of ~~Ensure that internal audits directed conducted by the OBM Office of Internal Auditing (“OIA’s audit activities focused on”)-~~ conformance to the institute of internal auditors' international professional practices framework and to the institute of internal auditors' code of ethics;
- ~~2-4.~~ 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;
- ~~3-5.~~ 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;

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 at least one member who is a financial expert; 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; and at least one member who is a representative of the public. In addition, the Committee will include at least one member who is familiar with ~~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 (~~March 2012~~~~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
~~September 23~~~~June 24~~, 2013~~2~~