

State of Ohio Audit Committee Charter

December 2008

PURPOSE

The 127th General Assembly of Ohio House Bill Number 166 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 comes 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 standards for the professional practice of internal auditing and to the institute of internal auditors' code of ethics;
2. Review and comment on the process used by OBM to prepare its annual budgetary financial report and 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 unaudited financial statements submitted to 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 findings 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 associated with the preparation of financial statements of state government shall have the program and management expertise required to perform the duties of the Committee's chairperson and shall serve a three-year term.
- 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, the first member appointed by the Speaker of the House of Representatives shall serve a one-year term, the second member appointed by the Speaker of the House of Representatives shall serve a three-year term; and
- Two public 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 the initial members appointed by the President of the Senate shall serve two-year terms.

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 serve a three-year term, except for the initial members. 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.

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.

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

Review, in consultation with the Auditor of State and the CAE, the integrity of the state agencies' budgeting and financial reporting processes.

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.

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

Annually, review and comment on the OIA Charter, Policies & Procedures, audit plans, budget, audit activities, staffing, and organizational structure of the OIA, as well as, evaluate the independence and objectivity of the OIA.

Annually, review and comment on the annual work plan, risk assessment process and results as prepared by the CAE. Determine that the plan was based, at a minimum, on the following factors:

1. The risk for fraud, waste, or abuse of public money within an agency or division;
2. The length of time since an agency or division was last subject to an internal audit;
3. The size of an agency or division, and the amount of time and resources necessary to audit it;
4. Any other factors the Committee determines to be relevant.

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.

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.

Monitor the status of management action plans for significant recommendations.

Determine that all internal auditing is conducted only by employees or designees of the OIA.

Review OIA's compliance with applicable standards, which includes a quality assurance review every fifth year.

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

Meet, as needed, with representatives of the Auditor of State, or their designee, regarding the proposed scope and approach of their auditing functions and subsequently the results of their audits of state agencies.

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.

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

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;
- The Auditor of State single audit of the federal awards administered by state agencies and their reports thereon;
- 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

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.

Review any suspected fraud or other illegal activity discovered by the OIA during the conduct of an internal audit.

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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.

Report, as the Committee may deem appropriate, to the Governor and OBM Director about Committee activities, issues, and related recommendations.

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.

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

5. Other Responsibilities

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

Annually assess the Committee's performance of the responsibilities delineated in this charter.

State Audit Committee Chairperson

Date

Approved & signed by:
William Shkurti, Chair
December 2, 2008

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