



STATE OF WISCONSIN
Department of Employee Trust Funds
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CORRESPONDENCE MEMORANDUM

DATE: November 22, 2013
TO: Audit Committee Members
FROM: John Vincent, Director
Office of Internal Audit
SUBJECT: Review of Office of Internal Audit Charter

Staff recommends the Audit Committee approve proposed updates to the Office of Internal Audit Charter.

The attached Office of Internal Audit Charter is submitted for review and approval.

The charter being submitted to the Committee reflects the results of an external quality assessment (QAR) recently completed by the Office of Internal Audit (OIA). The QAR was conducted by an external audit consultant to assess how well the Department of Employee Trust Funds' (ETF) internal audit function conforms to The Institute of Internal Auditors *International Standards for the Professional Practice of internal Auditing (Standards)*.

The final report provided several opportunities, or recommendations, for improvement that will assist the OIA in more fully conforming to the *Standards* and providing enhanced services to ETF executive management and the Audit Committee. The report recommended comprehensive revisions be made to the current charter. The revisions would ensure the charter reflects important elements contained in the Institute of Internal Auditors' *International Professional Practices Framework*. In order to effectively incorporate the changes in the charter to better align with best practices, a comprehensive rewrite of the charter was necessary. The current charter, approved December 12, 2008, is attached for comparison.

I will be available at the Audit Committee meeting to answer any questions.

Attachments: A) Office of Internal Audit Charter – approved December 12, 2008
B) Office of Internal Audit Charter - Draft

Reviewed and approved by Robert J. Marchant, Deputy Secretary

Electronically Signed 11/22/13

| Board | Mtg Date | Item # |
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| AUD | 12.5.13 | 6B |

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INTERNAL AUDIT CHARTER

POLICY STATEMENT

The Department of Employee Trust Funds (ETF) Office of Internal Audit (IA) provides independent objective services and consultation designed to ETF's overall operations. It assists ETF in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control, and governance processes. The IA function is responsible for providing ETF management, the ETF Board (Board), and the Audit Committee (Committee) with information about:

1. Reliability and integrity of financial and operational information and reporting systems.
2. Adequacy and effectiveness of the internal control system.
3. Stability and cost-effectiveness of the information systems environment.
4. Safety, value, and management of assets.
5. Compliance with statutes, rules, contracts, goals, and policies.

AUTHORITY

The IA function is created through the administrative authority of the ETF Secretary under Chapters 40.03 (2), 15.04, and 15.05. The Board appoints the ETF Secretary under Wis. Stat. § 40.03 (1) (c).

REPORTING RELATIONSHIP

The IA Director reports functionally and administratively to the ETF Secretary's Office, with an indirect reporting relationship to the Committee.

INTERNAL AUDIT STANDARDS AND ETHICS

The Institute of Internal Auditors' (IIA) Code of Ethics and Standards for the Professional Practice of Internal Auditing serve as guidelines for the IA office. IA also complies with the following standards:

1. *Generally Accepted Auditing Standards* of the American Institute of Certified Public Accountants (AICPA).
2. *Generally Accepted Governmental Auditing Standards* of the General Accounting Office (GAO).
3. *Standards* of the Information Systems Audit and Control Association (ISACA).

KEY RESPONSIBILITIES

IA will have full access to all ETF records and processes (manual or electronic). This includes viewing, importing, and copying records under review and examining other records necessary to complete its work. IA will meet with appropriate personnel regarding IA subject matters under review. Special arrangements will be made to review confidential

information and hold associated discussions. IA will exercise due diligence in safeguarding and using agency resources, and will meet its assigned responsibilities as follows:

1. Recommend professional audit, advisory and consulting policies/procedures to the Secretary's Office to efficiently conduct assigned activities.
2. Prepare a flexible biennial audit plan that addresses key risk areas in cooperation with ETF administrators/office directors. The Secretary's Office will consider and finalize the plan including any desired changes for submittal to the Committee.
3. Develop, execute, and monitor an annual work plan in accordance with IA practices and standards.
4. Conduct audit engagements to ensure:
 - a. Programs/processes comply with statutes, rules, contracts, goals, and policies.
 - b. Programs/processes are appropriate and documented, and in accordance with best practices where practical, using appropriate public and private examples.
 - c. Laws, regulations, contracts, and policies pertaining to invested assets are implemented and monitored.
 - d. Key risks are appropriately identified and managed.
 - e. Employer responsibilities are fulfilled as they relate to enrolling employees, reporting accurate member earnings, and submitting other employee data on a timely and accurate basis.
 - f. Financial, managerial, and operating information systems are accurate, reliable, and timely.
 - g. Resources are managed economically and efficiently, and protected.
 - h. Internal control systems are continuously improved.
 - i. Contractors, including third-party administrators, are meeting contract objectives, and conforming with applicable laws, regulations, policies, procedures, and best practices.
 - j. Specific reviews of programs/processes requested by management, the Committee, or the Board are completed in a professional manner.
5. Provide the Secretary's Office and the Committee with advisory/consulting services as requested to add value and improve ETF's governance, risk management, and control processes. These services include, but are not limited to:
 - a. Participation in an advisory role on staff committees.
 - b. Agreed-upon engagements.
 - c. Observation memos.

These services differ from audit engagements in that audit services involve IA's objective assessment of evidence to provide independent opinions/conclusions regarding a process, system, or other matter.

6. Coordinate responsibilities/activities with external auditors engaged by ETF to assure continuity of audit efforts and avoid duplication. Conferences with external or contract auditors performing work relative to Third Party Administrator (TPA) activities shall include the IA Director or designee. The Director shall receive copies of the audit report and management letter along with management's written response.
7. Review performance quality of external financial statement auditors and other auditors engaged by ETF.

8. Report unethical and/or improper activity to the Secretary's Office and discuss with the Committee Chair and/or members, when appropriate.
9. Issue draft reports to the Secretary's Office for review and submittal to the Committee summarizing the results of audit, advisory, and consulting services, and the status of prior recommendations.
10. Ensure all reports are prepared in a manner that allows the Secretary's Office to appraise the recommendations and take appropriate action.
11. Attend Committee meetings (IA Director and/or staff) to review the results of audit activities completed, in process, and planned.
12. Apply modern audit techniques to assure an effective and useful IA function.
13. Enhance IA staff skills through on-the-job and professional training activities within budget limitations.

**CHARTER
DEPARTMENT OF EMPLOYEE TRUST FUNDS
OFFICE OF INTERNAL AUDIT**

**Adopted: December 12, 2008
Last Revised: December 5, 2013**

MISSION

The mission of the Department of Employee Trust Funds (ETF) Office of Internal Audit (OIA) is to provide independent, objective assurance and consulting services designed to add value to improve ETF's overall operations. It assists ETF in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control, and governance processes.

ROLE

The OIA is created through the administrative authority of the ETF Secretary under Chapters 40.03 (2), 15.04, and 15.05. The Board appoints the ETF Secretary under Wis. Stat. § 40.03 (1) (c).

REPORTING RELATIONSHIP

The IA Director reports functionally and administratively to the ETF Secretary, with an indirect functional reporting relationship to the Committee.

AUTHORITY

The OIA, with strict accountability for confidentiality and safeguarding records and information, is authorized full, free, and unrestricted access to all ETF divisions, offices, personnel, activities, confidential and non-confidential data and records, information systems, physical property, and contractors relevant to the performance of engagements.

PROFESSIONALISM

The internal audit activity will govern itself by adherence to The Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the *International Standards for the Professional Practice of Internal Auditing (Standards)*. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance.

INDEPENDENCE and OBJECTIVITY

- The OIA will remain free from interference by any element in ETF, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude. However, the OIA will work collaboratively with the Secretary and others within ETF while planning and performing audit functions.
- Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair internal auditor's judgment.
- Internal auditors will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors will make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.
- The Director, Office of Internal Audit, will confirm to the Audit Committee, at least annually, the organization independence of the internal audit function.

RESPONSIBILITY

The scope of the OIA encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of ETF's governance, risk management, and internal controls as well as the quality of performance in carrying out assigned responsibilities to achieve ETF's stated goals and objectives. The Director will communicate findings and action plans to the Secretary's Office and Audit Committee through periodic updates. This includes:

- Evaluating risk exposure relating to achievement of ETF's strategic objectives.
- Evaluating the reliability and integrity of information and the means used to identify, measure, classify, and report such information.
- Evaluating the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on ETF.
- Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
- Evaluating the effectiveness and efficiency with which resources are employed.

- Evaluating operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.
- Monitoring and evaluating governance processes.
- Monitoring and evaluating the effectiveness of ETFs risk management processes.
- Evaluating the quality of performance of external third-party administrator compliance auditors.
- Performing consulting and advisory services related to governance, risk management and control as appropriate for ETF.
- Reporting periodically on OIA's purpose, authority, responsibility, and performance relative to its biennial plan.
- Reporting significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the Secretary's Office or the Audit Committee.
- Evaluating specific operations at the request of the Secretary's Office, Audit Committee, or management, as appropriate.

INTERNAL AUDIT PLAN

Biennially, the OIA Director will submit to the Secretary's Office and the Audit Committee an internal audit plan for review and approval. The audit plan will be based on appropriate risk-based methodology, considering risks or control concerns identified by management and the Audit Committee, and submit the plan to the Secretary's Office and Audit Committee for review and approval as well as provide periodic updates.

The OIA Director will review and adjust the plan, as necessary, in response to changes in ETF's business, risks, operations, programs, systems, and controls. Any significant deviation from the approved internal audit plan will be communicated to the Secretary's Office and the Audit Committee through periodic activity reports.

REPORTING and MONITORING

A written report will be prepared and issued by the OIA Director, or designee, following the conclusion of each internal audit engagement and will be distributed as appropriate. Internal audit results will also be communicated to the Secretary's Office and the Audit Committee.

The internal audit report may include management's response and corrective action plans taken or to be taken in regard to the specific findings and recommendations. Management's response, whether included within the original audit report or provided thereafter, i.e., within 30 days, by management of the audited area should include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.

The OIA will be responsible for appropriate follow-up on engagement findings and recommendations. All significant findings will remain in an open issues file until cleared.

The OIA Director will periodically report to the Secretary's Office and the Audit Committee on the OIA's purpose, authority, and responsibility, as well as performance relative to its plan. Reporting will also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the Secretary's Office and the Audit Committee.

QUALITY ASSURANCE and IMPROVEMENT PROGRAM

The OIA will maintain a quality assurance and improvement program that covers all aspects of the OIA activity. The program will include an evaluation of the OIA's conformance with the Definition of Internal Auditing and the *Standards* and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of OIA's activity and identifies opportunities for improvement.

The OIA Director will communicate to the Secretary's Office and the Audit Committee on OIA's quality assurance and improvement program, including results of ongoing internal assessments and external assessments conducted at least every five years.