



STATE OF WISCONSIN
Employee Trust Funds Board
Wayne Koessl
CHAIR

Direct correspondence to:
ETF Board
c/o Board Liaison
PO Box 7931
Madison WI 53707-7931

608-266-0301
1-877-533-5020 (toll free)
etf.wi.gov

2018 ETF Board

Wayne Koessl, Chair
John David, Vice Chair
Robert Niendorf, Secretary

William Ford
Michael Langyel
Leilani Paul
Roberta Rasmus
Stacey Rolston
Mary Von Ruden
David Wiltgen
Bob Ziegelbauer

Audit Committee

William Ford, Chair
Leilani Paul
Vacant

Date: November 8, 2018
To: Employee Trust Funds Board
From: Bill Ford, Audit Committee Chairperson
Subject: ETF Board Approval of Revisions to Audit Committee Charter

This is an action item that requires Employee Trust Funds Board approval.

Annually, the Audit Committee (Committee) is required to review the Committee Charter and propose any recommended changes to the Employee Trust Funds Board (Board) for approval. The Committee Charter governs the operations of the Committee, defines the scope of the Committee's role and formalizes the responsibilities of the Committee to the Board.

Attached to this memo is a copy of the current Committee Charter with the proposed changes highlighted. A copy of the Committee Charter as it would read if the proposed changes are adopted is also attached.

The proposed changes were approved by the Committee at its September 20, 2018, meeting. These changes were discussed at the September 20, 2018, Board meeting in conjunction with the presentation from IIA Quality Services, LLC, an outside firm hired to assess the Department of Employee Trust Funds (ETF)'s internal audit function against the International Standards for the Professional Practice of Internal Auditing.

Substantial changes are being proposed to the Committee Charter. Primarily, the changes incorporate suggestions from IIA Quality Services, LLC that would promote the independence of and improve the internal audit function at ETF. The more significant changes include:

- The Committee would have independent authority to direct the Internal Audit Director to conduct an audit or investigation.

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- The Committee would have authority to approve the appointment or dismissal of the Internal Audit Director and to recommend the annual salary adjustment for the Director.
- The Committee would have an enhanced role in establishing the biennial internal audit plan.

Other changes to the Charter would clarify and better define the scope of responsibilities of the Committee.

Attachment A: Original Charter; Revised Charter with changes marked
B: Revised Charter with changes incorporated

CHARTER
EMPLOYEE TRUST FUNDS BOARD
AUDIT COMMITTEE
Adopted: December 12, 2008
Last Revised: December ~~10~~14, 2017~~5~~

Purpose

The Employee Trust Funds Board (Board) has established the Audit Committee (Committee) to assist the Board in fulfilling its fiduciary and oversight responsibilities, including the financial reporting process, the system of internal controls, and the Department's process for monitoring compliance with laws and regulations. ~~of the Institute of Internal Auditors code of conduct.~~

Membership

The Committee shall be ~~composed~~ comprised of three Board members selected by the Board chair.

At the first Committee meeting in each calendar year, the Committee shall elect a chair, vice chair and a secretary, each will serve for a term of one year or until a successor is duly elected and qualified, whichever is less. In the event of a vacancy in the office of chair, the vice chair shall immediately assume the office of chair for the remainder of the term. In the event of a vacancy in the office of vice chair or secretary, the Committee shall, at its next regular meeting, elect one of its members to fill such vacancy for the remainder of the term.

Authority and Responsibilities

~~In consultation with the Secretary and the Internal Audit Director, T~~the Committee has the authority to direct the Internal Audit Director, external auditors, or consultants to conduct an audit, review, and/or investigation into any matters within the Committee's scope of responsibility. The Committee will carry out the following responsibilities~~shall:~~

Financial Reporting

- Review the Comprehensive Annual Financial Report and other communications related to the financial statement audits conducted by the external auditors.
- Review with management and the external auditors all matters required to be communicated to the Committee under Generally Accepted Auditing Standards or Government Auditing Standards.
- Review with management and the General Counsel the status of legal matters that may have an effect on the financial statements.
- Review the responsiveness and timeliness of management's follow-up activities

pertaining to any reported findings and recommendations that resulted from the financial statement audit.

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Internal Audit

- Review and approve the Office of Internal Audit charter.
- Approve the appointment, replacement, or dismissal of the Internal Audit Director.
- Assess the performance of the Internal Audit Director with management input and recommend, consistent with the State Compensation Plan, the annual compensation and salary adjustment of the Internal Audit Director.
- RReview all internal audit reports and bring to the attention of the Board any audit issues the Committee determines significant for consideration by the Board.
- Review the responsiveness and timeliness of management's follow-up activities pertaining to all reported findings and recommendations. audit findings together with management's responses and inform the Board of all internal audit reports prepared by the Internal Audit Director.
~~Review and approve the Office of Internal Audit charter.~~
- Establish audit frequency guidelines with input from management to reflect the amount and type of risk that ETF is willing to take in order to achieve its operational and strategic objectives.
- Review and approve the biennial audit plan and all major changes to the plan.
- Review and approve the Office of Internal Audit's staffing plan and budget.
- May delegate to the Internal Audit Director the authority to do, within the scope of the approved audit plan, the following:
 - hire external auditors/consultants whenever it is determined a specialist is needed to review particular areas of ETF, to augment the resources available within the OIA or for any other practical purpose;
 - approve the scope of services to be performed by the external auditors/consultants; and
 - exercise final approval on the appointment, retention or discharge of the external audit/consulting firm based on assessment of work performed.
- Ensure and maintain, through organizational structure, and other means, the independence of the internal audit process.
- Ensure that the internal auditors have full, free and unrestricted access to all functions, documents, information, systems, contractors, consultants, and personnel in the ETF that is relevant to their performance of internal audit

engagements.

- Review the performance of the internal audit function periodically and provide for an external quality assessment every five years.

Controls and Compliance

- Review the effectiveness of ETF's internal control system, including information technology security and control.
- Ensure that ETF has a comprehensive policy on internal control and compliance.
- Ensure ETF maintains an appropriate mechanism for reporting any fraud, noncompliance, and/or inappropriate activities.
- Review the findings of any examinations by regulatory/oversight entities, any external and internal audit observations, including investigations of misconduct and unethical/improper activity such as fraud, and the results of management's follow-up activities.

Other Responsibilities

- Institute and oversee special investigations as needed.
- Retain independent counsel, accountants, or other specialists to advise the Committee or assist in conducting an investigation, as needed and in accordance with statutory authority, if any.
- Review and assess the adequacy of the ~~Audit Committee Charter~~ Charter of the Audit Committee annually and request Board approval of proposed changes.
- Ensure an open avenue of communication between the internal auditors, the external auditors, management, and the Board.

- ~~Provide recommendations for periodic assessment of the system of internal controls, including information technology security and control.~~

~~Review and approve the biennial audit plan and all major changes to the plan, and the Office of Internal Audit's performance relative to its plan.~~

~~Review audit findings together with management's responses and inform the Board of all internal audit reports prepared by the Internal Audit Director.~~

~~Review and make recommendations to the Board regarding any audit reports prepared by the Legislative Audit Bureau.~~

~~Review the Comprehensive Annual Financial Report.~~

~~Review the effectiveness of the internal audit function and make recommendations to the Board, the Secretary, and the Internal Audit Director on methods to improve the function.~~

~~Review and confirm the independence of the internal audit function annually.
Review with the Secretary, the Legislative Audit Bureau, and, as necessary, appropriate legal counsel, any claim or contingency that could have a significant effect on the financial condition of the Trust Fund and how that claim or contingency is being managed.
Bring to the attention of the Board any audit issue it deems significant or otherwise appropriate for the Board's consideration.~~

- Keep minutes of Committee meetings and ensure that minutes are made available to Board members.

~~The Committee shall also participate in the selection and evaluation of the Internal Audit Director.~~

Meetings

The Committee shall meet at least two (2) times per calendar year, with authority to convene ~~more~~ additional meetings as circumstances require. The Committee may subject to the state Open Meeting Laws, meet separately with the Internal Audit Director and management to discuss any matters the Committee believes should be discussed privately. ~~(Note: subject to open meeting laws)~~

The Committee may invite members of management, auditors or others to attend the meetings and provide pertinent information, as necessary. Meeting agendas will be prepared and provided in advance to members, along with appropriate briefing materials. Minutes will be prepared and approved by the Committee. The Committee chair, or designee, will provide a Committee report and submit applicable recommendations to the Board.

History of Changes to Audit Committee Charter

- The Board adopted charter on December 12, 2008. The Board reviewed and approved charter (no changes), on September 15, 2011.
- The Board reviewed and approved an updated charter to provide clarification on the Committee's roles and responsibilities, on December 5, 2013.
- The Board reviewed and approved ~~this~~ charter (no change) on December 11, 2014.
- The Board reviewed and approved an updated charter to establish a clear working relationship between the Audit Committee and the Internal Auditor, on December 10, 2015.
- The Board reviewed and approved charter (no change) on December 15, 2016.
- The Board reviewed and approved an updated charter to clarify the frequency and attendees of the Committee meeting, and to formalize the review of the independence of the internal audit function on December 14, 2017.

CHARTER
EMPLOYEE TRUST FUNDS BOARD
AUDIT COMMITTEE
Adopted: December 12, 2008
Last Revised: December 14, 2017

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Authority and Responsibilities

The Committee has the authority to direct the Internal Audit Director, external auditors, or consultants to conduct an audit, review, and/or investigation into any matters within the Committee's scope of responsibility. The Committee will carry out the following responsibilities:

Financial Reporting

- Review the Comprehensive Annual Financial Report and other communications related to the financial statement audits conducted by the external auditors.
- Review with management and the external auditors all matters required to be communicated to the Committee under Generally Accepted Auditing Standards or Government Auditing Standards.
- Review with management and the General Counsel the status of legal matters that may have an effect on the financial statements.
- Review the responsiveness and timeliness of management's follow-up activities pertaining to any reported findings and recommendations that resulted from the financial statement audit.

Internal Audit

- Review and approve the Office of Internal Audit charter.
- Approve the appointment, replacement, or dismissal of the Internal Audit Director.
- Assess the performance of the Internal Audit Director with management input and recommend, consistent with the State Compensation Plan, the annual compensation and salary adjustment of the Internal Audit Director.
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- May delegate to the Internal Audit Director the authority to do, within the scope of the approved audit plan, the following:
 - hire external auditors/consultants whenever it is determined a specialist is needed to review particular areas of ETF, to augment the resources available within the OIA or for any other practical purpose;
 - approve the scope of services to be performed by the external auditors/consultants; and
 - exercise final approval on the appointment, retention or discharge of the external audit/consulting firm based on assessment of work performed.
- Ensure and maintain, through organizational structure, and other means, the independence of the internal audit process.
- Ensure that the internal auditors have full, free and unrestricted access to all functions, documents, information, systems, contractors, consultants, and personnel in the ETF that is relevant to their performance of internal audit engagements.
- Review the performance of the internal audit function periodically and provide for an external quality assessment every five years.

Controls and Compliance

- Review the effectiveness of ETF's internal control system, including information technology security and control.
- Ensure that ETF has a comprehensive policy on internal control and compliance.
- Ensure ETF maintains an appropriate mechanism for reporting any fraud, noncompliance, and/or inappropriate activities.
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- Institute and oversee special investigations as needed.
- Retain independent counsel, accountants, or other specialists to advise the Committee or assist in conducting an investigation, as needed and in accordance with statutory authority, if any.
- Review and assess the adequacy of the Charter of the Audit Committee annually and request Board approval of proposed changes.
- Ensure an open avenue of communication between the internal auditors, the external auditors, management, and the Board.
- Keep minutes of Committee meetings and ensure that minutes are made available to Board members.

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