

Chicago Park District Internal Audit Charter

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Office of the Board of Commissioners
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Chicago, Illinois 606011

Purpose

This Internal Audit Charter (“Charter”) serves as a guide to the Internal Audit Department of the Chicago Park District (“District”) in the performance of its duties. It intends to provide a basis for management of and for the Audit Management Committee to use in evaluation of the operations of the Internal Audit function.

Internal Audit Definition

The Institute of Internal Auditors (IIA) defines internal auditing as:

“...an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.”

Scope

The scope of work of the internal auditing activity is to determine whether the organization’s framework 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.
- ✓ Risk and control information is effectively communicated throughout the organization.
- ✓ Interaction with the various governance groups occurs as needed.
- ✓ Significant financial, managerial, and operating information is accurate, reliable, and timely.
- ✓ Employee 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 monitored and achieved in line with the organization’s mission.
- ✓ Quality and continuous improvement are fostered in the organization’s control process.
- ✓ Significant legislative or regulatory issues impacting the organization are recognized and addressed appropriately.
- ✓ Internal controls are in place and are functioning effectively to accomplish business objectives.
- ✓ Information technology controls including systems security controls are in place and are functioning effectively.
- ✓ Specific operations, processes and programs are reviewed at the request of management, the Audit Management Committee, the Board President or the Board of Commissioners of the Chicago Park District.

Authority and Independence

The Internal Audit Function shall have no direct operational responsibility or authority over any of the activities being reviewed. The Internal Audit Function shall not prepare records, develop or install systems or procedures, and/or engage in any departmental activity which would be audited.

The members of the Chicago Park District's Office of the Board of Commissioners are not authorized to direct the activities of any Chicago Park District employee not reporting to the Office of the Board of Commissioners. The lone exception is an employee appropriately assigned by their supervisor to assist any member of the Office of Commission with the completion of the internal audit.

All internal audit activities conducted under this charter of the Chicago Park District's Office of the Board of Commissioners will remain free of any influence by any and all elements of the District's organization, including every audit matter of scope, selection, frequency, procedure, timeframe and report content to permit continuing practice of independent and objective mental attitude necessary to complete reports.

The Internal Audit Function is authorized to:

- ✓ Have unrestricted access to all agency divisions, departments, personnel, activities, confidential and non-confidential data and records, information systems, physical property, and contractors relevant to the performance of engagements, subject to applicable local, state and federal laws.
- ✓ Have access to contractor records and files in line with contract terms and specifically the 'right to audit' section.
- ✓ Have full and free access to the chair of the Audit Management Committee, Audit Management Committee members, and Board President.
- ✓ Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish assurance and consulting objectives.
- ✓ Obtain the necessary assistance of agency personnel in units of the organization where audits are performed, as well as other specialized services from within or outside the organization.
- ✓ Obtain timely reports from management on actions proposed and taken pertaining to audit recommendations.

The Internal Audit Function is not authorized to:

- ✓ Perform any operational duties for the organization, its sub-grantees or contractors. Compliance duties are not considered operational duties.
- ✓ Initiate or approve accounting transactions external to the internal auditing activity.
- ✓ Direct the activities of any organization employee external to the internal auditing activity, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.

Auditor independence is essential for the City of Chicago citizens and management of the Chicago Park District to receive an unbiased account of the results of each internal audit performed.

Responsibilities of the Internal Audit Function

The Internal Audit Function has the responsibility to:

- ✓ Develop a flexible annual audit plan using an appropriate risk-based methodology, considering any risks or control concerns identified by management, and submit that plan to the Audit Management Committee for review and approval as well as provide periodic updates.
- ✓ Implement the approved audit plan including appropriate plan amendments and special tasks or projects requested by management and the Audit Management Committee.
- ✓ Assess the adequacy and effectiveness of the organization's processes for controlling its activities and managing its risks in the areas set forth under the mission and scope of work.
- ✓ Maintain a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this Charter.
- ✓ Evaluate and assess significant new or changing functions, services, processes, operations, and internal controls concurrent with their development, implementation, and/or expansion.
- ✓ Issue periodic reports to the Audit Management Committee and management summarizing results of audit activities, including monitoring the implementation of previous audit recommendations.
- ✓ Keep management and the Audit Management Committee informed of emerging trends and successful practices in risk management, control, and governance.
- ✓ Assist in the deterrence of fraud by examining and evaluating the adequacy and the effectiveness of the system of internal controls.
- ✓ Report immediately any known incident of significant fraud to the Audit Management Committee, the Chicago Park District's General Counsel ,the Board President and Inspector General
- ✓ Assist in the investigation of significant suspected fraudulent activities within the organization and notify management, the Audit Management Committee and Inspector General 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 organization at a reasonable overall cost.
- ✓ Maintain an effective quality assurance program to include training, internal reviews, and external reviews.
- ✓ Prepare an annual report and submit the report before March 31 of each year to the Board President.

Relationship with External Auditors

The External Auditors will work directly with the Chicago Park District's Comptroller. The Internal Audit Function will work proactively with the Comptroller and External Auditor to determine areas where assistance and direct audit comfort can be provided by the Internal Audit Department. The Internal Audit Function will regularly meet with the Comptroller and External Auditor to discuss the internal and external audit plans and to share knowledge of any issues. These meetings will help ensure that the roles of the two functions are coordinated and that there is no duplication.

Accountability

The Internal Audit Function, in the discharge of its duties, shall work with the Audit Management Committee and be accountable to the Board President to:

- ✓ Provide an assessment on the adequacy and effectiveness of the organization's processes for controlling its activities and managing its risks in the areas set forth in the current year's annual audit plan.
- ✓ Report significant issues related to the processes for controlling the activities of its sub-grantees and contractors, including potential improvement 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 internal audit resources.
- ✓ Coordinate with and provide oversight of other control and monitoring functions (risk management, compliance, security, legal, ethics, environmental, external audit).

Internal Audit Program

The Internal Audit Program will:

- ✓ Review the Annual Risk Assessment and Annual Audit Plan to ensure they will accomplish the scope and objective(s) of the Internal Audit Charter.
- ✓ Review and analyze the integrity of the financial reporting process.
- ✓ Determine if effective controls are in place in audited entities and are used to safeguard Chicago Park District resources from loss, waste and abuse.
- ✓ Discuss current and potential policies with management regarding internal control risk assessment.

Individualized Audit Programs will be developed for each audit project and will be sent to the proper department head or contact along with an engagement letter detailing the purpose and scope of the project.

Internal Audit Reports are considered to be internal documents. At the discretion of the Board President and the General Superintendent, audit results may be presented to the Committee on Administration of the Board of Commissioners.

Quality Assurance

The Internal Audit Function must develop and maintain quality assurance and improvement programs that cover all aspects of the internal audit function and must continuously monitor their effectiveness.

The programs must include periodic internal and external quality assessments and ongoing internal monitoring. Each part of the program must be designed to help the internal audit activity add value and improve operations and to provide reasonable assurance that the internal audit activity is in conformity with Standards and the Code of Ethics.

Audit Management Committee

The purpose of the Audit Management Committee shall be to:

- 1) Assist the Chicago Park District's Board of Commissioners in fulfilling its responsibilities for the Chicago Park District's internal and external audit process, the financial reporting process and the system of risk assessment and internal controls over financial reporting; and
- 2) Provide an avenue of communication between management, the independent auditors, the internal auditors, and the Board of Commissioners.

It shall be the responsibility of the Audit Management Committee to:

- ✓ Appoint, compensate, and oversee the work of any public accounting firm employed by the Chicago Park District.
- ✓ Conduct or authorize investigations into any matters within its scope of responsibility.
- ✓ Seek any information it requires from Chicago Park District employees, all of whom should be directed by the board to cooperate with committee requests.
- ✓ Meet with Chicago Park District staff, independent auditors or outside consultants, as necessary.
- ✓ Retain, at the Chicago Park District's expense, such outside experts and other advisors as the Audit Management Committee may deem appropriate.

The Chicago Park District's Board will ensure that the Audit Management Committee has sufficient resources to carry out its duties.

Composition of Audit Management Committee

The Audit Management Committee shall consist of the Board President, one (1) Commissioner and six (6) Management staff: General Counsel, Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Director of Human Resources, and Comptroller. The Audit Management Committee shall be empowered to make recommendations to the Committee on Administration of the Board of Commissioners after reaching consensus on such recommendations.

Audit Management Committee Meetings

The Audit Management Committee will meet at a minimum once a month, with the expectation that additional meetings may be required to adequately fulfill all the obligations and duties outlined in the charter.

Members of the Audit Management Committee are expected to attend each committee meeting, in person or via telephone or videoconference. The Audit Management Committee may invite other individuals, such as members of management, auditors or other technical experts to attend meetings and provide pertinent information, as necessary.

The Audit Management Committee will meet with the Chicago Park District's independent auditor at least annually to discuss the financial statements of the Chicago Park District.

Meeting agendas should be prepared for every meeting and provided to the Audit Management Committee members along with briefing materials before the scheduled Audit Management Committee meeting. The Audit Management Committee will act only after reaching consensus on any contemplated actions.

Responsibilities of the Audit Management Committee

The Audit Management Committee shall have responsibilities related to:

- a) The independent auditor and annual financial statements;
- b) The Chicago Park District 's internal auditors;
- c) Oversight of management's internal controls, compliance and risk assessment practices;
- d) Special investigations and whistleblower policies; and
- e) Miscellaneous issues related to the financial practices of the Chicago Park District.

Independent Auditors and Financial Statements

The Audit Management Committee shall:

- ✓ Make recommendations to the Board of Commissioners on the appointment of independent auditors as well as generally oversee over all audit services provided to the Chicago Park District.
- ✓ Establish procedures for the engagement of the independent auditor to provide permitted audit services. The Chicago Park District's independent auditor shall be prohibited from providing non-audit services unless having received previous written approval from the Audit Management Committee. Non-audit services include tasks that directly support the Chicago Park District's operations, such as bookkeeping or other services related to the accounting records or financial statements of the Chicago Park District, financial information systems design and implementation, appraisal or valuation services, actuarial services, investment banking services, and other tasks that may involve performing management functions or making management decisions.
- ✓ Review and approve the Chicago Park District's audited financial statements, associated management letter, report on internal controls and all other auditor communications.
- ✓ Review significant accounting and reporting issues, including complex or unusual transactions and management decisions, and recent professional and regulatory pronouncements, and understand their impact on the financial statements.
- ✓ Meet with the independent audit firm on a regular basis to discuss any significant issues that may have surfaced during the course of the audit.
- ✓ Review and discuss any significant risks reported in the independent audit findings and recommendations and assess the responsiveness and timeliness of management's follow-up activities pertaining to the same.

Internal Auditors

The Audit Management Committee shall:

- ✓ Review with management and the Director of Internal Audit, the charter, activities, staffing and organizational structure of the internal audit function. The Audit Management Committee shall have authority to make recommendations to the Board President over the appointment, dismissal, compensation and performance reviews of the Director of Internal Audit.
- ✓ Ensure that the internal audit function is organizationally independent from Chicago Park District operations.
- ✓ Review the reports of internal auditors, and have authority to review and approve the annual internal audit plan.
- ✓ Review the results of internal audits and approve procedures for implementing accepted recommendations of the internal auditor.

Internal Controls, Compliance and Risk Assessment

The Audit Management Committee shall:

- ✓ Review management's assessment of the effectiveness of the Chicago Park District's internal controls and review the report on internal controls by the independent auditor as a part of the financial audit engagement.

Special Investigations

The Audit Management Committee shall:

- ✓ Ensure that the Chicago Park District has an appropriate confidential mechanism for individuals to report suspected fraudulent activities, allegations of corruption, fraud, criminal activity, conflicts of interest or abuse by the chiefs, directors, officers, or employees of the Chicago Park District or any persons having business dealings with the Chicago Park District or breaches of internal control.
- ✓ Develop procedures for the receipt, retention, investigation and/or referral of complaints concerning accounting, internal controls and auditing to the appropriate body.
- ✓ Request and oversee special investigations as needed and/or refer specific issues to the General Counsel or other appropriate body for further investigation (for example, issues may be referred to the State's Attorney's Office or, other investigatory organization.)

Other Responsibilities of the Audit Management Committee

The Audit Management Committee shall:

- ✓ Present annually to the Chicago Park District's Board of Commissioners a written report of how it has discharged its duties and met its responsibilities as outlined in the charter.
- ✓ Obtain any information and training needed to enhance the Audit Management Committee members' understanding of the role of internal audits and the independent auditor, the risk management process, internal controls and a certain level of familiarity in financial reporting standards and processes.
- ✓ Conduct an annual self-evaluation of its performance, including its effectiveness and compliance with the charter and request the board approval for proposed changes.

Professional Standards

The Chicago Park District works to serve the City of Chicago using the framework of the following organizations:

- ✓ The Standards and the Code of Ethics produced by the Institute of Internal Auditors (IIA) and published in *The Professional Practices Framework, March 2007*
- ✓ The professional and ethical standards issued by the American Institute of Certified Public Accountants (AICPA)
- ✓ The professional and ethical standards issued by the Illinois Certified Public Accountant (ICPAS) Society, as applicable

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Reporting Structure

To ensure transparency and help prevent collusion and conflicts of interests, best practice indicates that the internal audit activity should have a dual reporting relationship. The Director of Internal Audit should report to:

1. The Chief Executive Officer and other executive management for assistance in establishing direction, support, and administrative interface; and
2. The organization's most senior oversight group -- typically, the Audit Management Committee - for strategic direction, reinforcement, and accountability.

This reporting line for the internal audit activity is the ultimate source of its independence and authority.

Audit Management Committee Reporting Line:

- ✓ Implements the internal audit charter after its adoption by the Chicago Park District Board of Commissioners.
- ✓ Approves the audit team's risk assessment, audit plan, and budget.
- ✓ Receives communications from the Director of Internal Audit on the results of internal audit activities or other matters that the Director of Internal Audit determines necessary, including private meetings without management present.
- ✓ Makes recommendations on the appointment, removal, evaluation, and compensation of the Director of Internal Audit subject to approval by the Board President.
- ✓ Determines whether there are scope or budgetary limitations that impede the ability of the internal audit activity to execute its responsibilities.

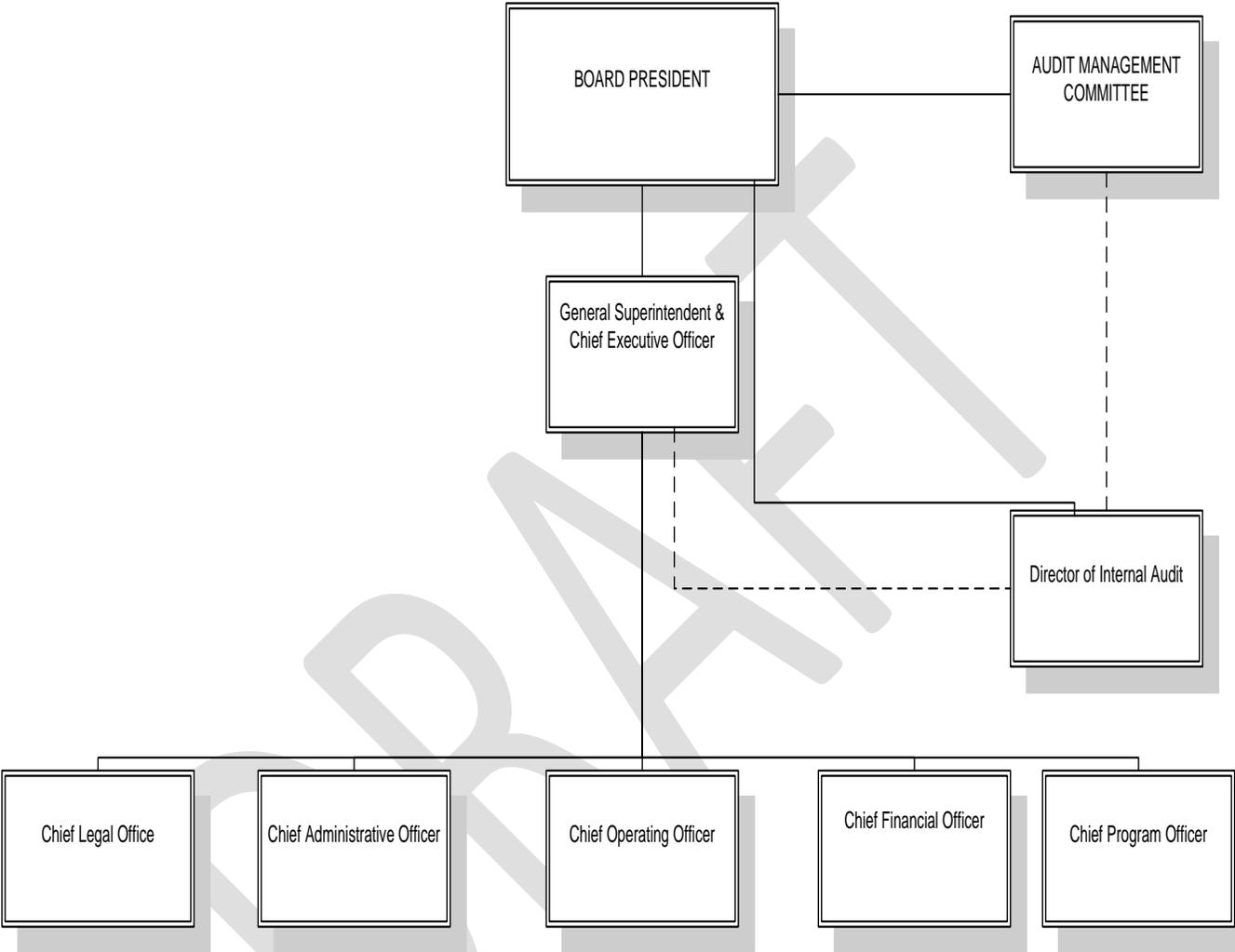
Administrative Reporting Line:

Administrative reporting is the relationship within the organization's management structure that facilitates day-to-day operations of the internal audit activity and provides appropriate interface and support for effectiveness. Administrative reporting typically includes:

- ✓ Budgeting and management accounting.
- ✓ Human resource administration.
- ✓ Internal communications and information flows.
- ✓ Administration of the organization's internal policies and procedures (expense approvals, leave approvals, floor space, etc.).

Any reporting relationship that impedes independence and effective operations of internal auditing should be viewed as a serious scope limitation, and should be brought to the attention of the Board, the Audit Management Committee, or equivalent.

The following illustrates the reporting structure of the Internal Audit Function:



General Definitions

Audit: A sample of the audit universe being reviewed.

Audit Management Committee: Oversight committee of the Internal Audit Function comprises of the following positions – Board President and one (1) Commissioner, General Counsel, Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Director of Human Resources, and Controller.

Audit, Follow-up Audit: A subsequent audit, designed to confirm prior agreements have been implemented (prior audit findings have been addressed).

Audit Sample: The actual data selected for review from the audit universe.

Audit, Special Audit: An audit that falls outside the annual Audit Plan specifications. This audit may be requested by the Audit Management Committee or Department Head.

Audit Universe: The attributes of the area under audit; as differentiated from an Audit, considers a random sample, or sub-set, of the audit universe.

Internal Auditing: An independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Internal Auditor: A position within the Internal Audit function responsible for planning, conducting and reporting Internal Audits.

Quality Assurance: Program assuring necessary standards and procedures are followed as specified in Professional Standards.

Review: Used interchangeably with "Audit".