

The Federal Reserve Bank of Cleveland Audit Committee Charter

Purpose

This charter addresses the responsibilities and composition of the Audit Committee of the Board of Directors.

The primary purpose of the Audit Committee is to assist the Federal Reserve Bank of Cleveland Board of Directors (directors) in assessing the effectiveness and independence of the Bank's internal audit function, and fulfilling its oversight responsibilities, including requirements outlined by the Federal Reserve Administrative Manual (FRAM) Policy 1-007: Audit Committee Duties and Responsibilities. The audit committee acts on behalf of the Directors. The scope of this responsibility includes, but is not limited to, the financial reporting process, the system of internal control including the risk management program, the audit process, compliance with laws, regulations and the code of conduct. It is the responsibility of the Committee to facilitate open communication among the Board of Directors, executive leadership¹, general auditor, external auditor, and the Board of Governors.

Composition

The Audit Committee will consist of at least three members of the Board of Directors. Audit Committee members and Chairperson shall be appointed annually by the Board of Directors. The Chairman of the Board is an ex officio voting member of the Committee. Committee vacancies will be filled by the Directors within ninety days of the vacancy.

All members shall be free from any relationship that, in the opinion of the Board of Directors, would interfere with the exercise of his or her independent judgment as a member of the Audit Committee.² All members of the Audit Committee should be financially literate (e.g., understand financial statements and general finance concepts) and the Chairman should ensure that at least one member of the Committee has banking, accounting, or other relevant financial proficiency.³ The members should be particularly suited to fulfill the responsibilities set out below.

¹ Executive leadership is defined as the Bank's president and chief executive officer and/or the first vice president.

² Members of the audit committee are considered independent if they have no relationship to the Reserve Bank that may interfere with the exercise of their independence from management and the Bank. Examples of relationships include: i) a director being employed by that Reserve Bank within the past five years; ii) a director accepting compensation from that Reserve Bank other than compensation for board services; iii) a director being a member of the immediate family of an individual who has been employed by that Reserve Bank as an officer within the past five years; and iv) a director being a partner in, or controlling shareholder or an executive officer of, any for-profit business organization to which that Reserve Bank made, or from which that Reserve Bank received payments that have been significant to the Reserve Bank within the past five years. A director who is an officer or director of a depository institution or its holding company is not considered to have a relationship that interferes with his/her independence solely because the depository institution makes payments to the Reserve Bank for financial services or an extension of credit.

³ Banking, accounting or other relevant financial proficiency means significant employment experience in finance, accounting, auditing, or banking functions, professional certification in accounting, or other comparable experience or background which results in the individual's financial sophistication, including being or having been a Chief Financial Officer or other senior officer with financial oversight responsibilities.

Authority

The Audit Committee has authority to conduct or authorize investigations into any matters within its scope of responsibility. It is empowered to:

- Oversee the work of any public accounting firm employed by this Bank or by the Board of Governors on behalf of the Bank.
- Resolve any disagreements between management and the auditor regarding financial reporting.
- Retain independent counsel or advisors as necessary to carry out its duties.
- In the event the Board of Directors cannot meet its fiduciary responsibilities by relying on the services provided by the external auditor, considering its fiscal responsibility, the Committee may, except insofar as is necessary to prevent conflicts of interest that would prevent the Board of Governors-ordered audit and in consultation with the Board of Governors, engage its own external firm.
- Seek any information it requires from employees – all of whom are directed to cooperate with the Committee's requests – or external parties.
- Meet with company officers, external auditors, or outside counsel, as necessary.
- Grant approval to share Federal Reserve Bank of Cleveland audit reports with others.⁴

Audit Committee Oversight

To establish, maintain, and ensure that The Federal Reserve Bank of Cleveland's Board of Directors has sufficient authority to fulfill its duties, the directors will:

- Discuss with the general auditor and executive leadership the appropriate authority, role, responsibilities, scope, and services (assurance and/or advisory) of the internal audit function.
- Ensure the general auditor has unrestricted access to and communicates and interacts directly with the directors, including private meetings without executive leadership present.
- Discuss with the general auditor and executive leadership other topics that should be included in the internal audit charter.
- Participate in discussions with the general auditor and executive leadership about the "essential conditions," described in the Global Internal Audit Standards, which establish the foundation that enables an effective internal audit function.
- Review and approve the internal audit charter periodically with the general auditor to consider changes affecting the organization, such as the employment of a new general auditor or changes in the type, severity, and interdependencies of risks to the organization; and approve the internal audit charter annually.
- Review and approve the audit committee charter at least annually. Review the charter with the full Board of Directors when substantive changes occur.
- Review and approve the annual risk-based plan and significant changes to that plan.
- Review and approve the Internal Audit budget and resources necessary to achieve annual audit plan objectives.
- Receive communication from the general auditor on Internal Audit's performance related to the annual audit plan and other matters.
- To recommend to the Board of Directors the appointment, replacement, or reassignment of the general auditor. To assure that required communications between the chair of this

⁴ On September 13, 2012, the Audit Committee granted approval for the Cleveland Reserve Bank General Auditor to share information and findings related to Reserve Bank audits with other Reserve Bank auditors and a select group of members of the Division of Reserve Bank Operations and Payment Systems, subject to defined controls related to access and confidentiality. The Audit Committee authorizes the General Auditor to determine which information will be shared and whether access to that information should be restricted.

Reserve Bank's Board of Directors and the chair of the Board of Governors Committee on Federal Reserve Bank Affairs about changes in the general auditor position occur.

- To formally evaluate the performance of the general auditor, following guidelines set forth by the Bank for evaluating the performance of other officers. Oversee the compensation of the general auditor, including any separation payments.
- Make appropriate inquiries of management and the general auditor to determine whether there are inappropriate scope or resource limitations.
- To ensure that the Bank does not inadvertently create an arrangement that would impair the independence of an external auditor, to establish policies and procedures to obtain the approval of the Board of Directors and the Board of Governors (a) before engaging the external auditor to perform services and (b) before engaging a vendor that has indicated its intent to subcontract a portion of its responsibilities under the Reserve Bank's contract to the external auditor. At least annually, consider the independence of the external auditors and obtain and review a report from the external auditors describing all relationships between the auditor and the Bank or System. The Audit Committee shall engage in dialogue with the external auditors concerning any disclosed relationships or services that might impact the objectivity and independence of the auditors.
- Collaborate with executive leadership to determine the qualifications and competencies the organization expects in a general auditor, as described in the Global Internal Audit Standards.
- To establish policies and procedures to record the receipt, retention, and treatment of (a) complaints received by the Bank regarding accounting, internal accounting controls or auditing matters and (b) the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.⁵
- To obtain from the General Auditor reports on complaints and internal audit's handling of whistleblower information regarding questionable accounting or auditing matters and management's action plan.
- To discuss and review with management, the external auditors, and/or the general auditor:
 - a) The significant findings and recommendations related to internal controls over financial reporting and safeguarding of assets as they pertain to financial reporting, together with management's responses.
 - b) The risk of fraud and the implementation of controls to mitigate fraud risk.
 - c) Critical accounting policies and practices and any material changes in accounting principles or practices used in preparing the financial statements.
 - d) Any significant changes to the internal or external audit plan and any significant difficulties encountered, including any restrictions on the scope of work or access to required information.
 - e) The competence and performance of the external auditors.
- To review reports from the General Auditor, management, and the external auditor, as appropriate, about significant risks or exposures and to assess the controls established by management. The General Auditor shall periodically provide an independent and objective assessment of the adequacy and effectiveness of the Bank's enterprise risk management program and practices.
- Review the results of internal and external quality assessments.

⁵ The procedures are to be written in such a manner as to provide the Committee assurance that all complaints have been recorded and reported to them.

- Ensure a quality assurance and improvement program has been established and results of the program are reviewed annually.
- Oversee the accounting and financial management practices of the Bank and audits of the Bank's financial statements.
- To discuss with management and the external auditors the Bank's annual financial statements including any certification, report, opinion, and issues. Audit Committee members should be prepared to answer inquiries from the external auditors, especially concerning fraud and the mitigation of fraud risk.⁶
- To meet periodically (at least once a year) with executive leadership and external auditors in separate executive sessions to discuss any matter that the directors, executive leadership, or external auditor believes should be discussed.
- To bring before the Board of Directors any matters reported by the Board of Governors, General Auditor or external auditors that warrant the Board of Directors' attention and to ensure that audit recommendations and concerns receive proper attention by Bank management.
- To hold meetings (at least four times annually, with authority to convene additional meetings as circumstances require) to permit adequate and timely discussion of audit results, losses and irregular occurrences, and other matters of concern to the auditors and directors. The Committee will invite members of management, auditors or others to attend meetings and provide pertinent information, as necessary.
- To review annually the performance of the Audit Committee responsibilities as set forth in the bylaws and this policy (charter), report the results of that self-assessment to the full Board, and recommend changes to the Board of Directors as appropriate.

Interaction Between the Audit and Operations and Resource Committees

Risk-related information and reports reviewed by the Operations and Resource Committee, or the Audit Committee may be of mutual interest and should be provided to the other as appropriate. Joint meetings of these committees to review and discuss topics of common interest may be beneficial on occasion.

The committee shall perform such other functions as assigned by the Board of Directors.

Approved by the Audit Committee at its meeting on March 5, 2025

⁶ SAS 99, Consideration of Fraud in a Financial Statement Audit, requires the external auditors to obtain information to identify the risks of material misstatement due to fraud, including making specific inquiries of management, the general auditor, and the audit committee. Members of the audit committee should be prepared to answer the auditor's questions about the risks of fraud in the Bank and whether committee members have knowledge of fraud or suspected fraud affecting the Bank. Audit committee members should also be prepared to discuss how the audit committee exercises oversight of the assessment of the risk of fraud, and activities that mitigate those risks.