

Federal Reserve Bank of Dallas

Board of Directors

Audit Committee Charter

PURPOSE

Consistent with the bylaws of the Federal Reserve Bank of Dallas there shall be a committee of the Board of Directors known as the Audit Committee. The Audit Committee shall provide assistance to the Board of Directors in fulfilling their responsibility to ensure that management maintains an effective system of internal control. The scope of this effort includes, but is not limited to, oversight of the audit process focused on internal and external financial reporting, the effectiveness and efficiency of operations, compliance with applicable laws, regulations and procedures, the safeguarding of assets, and the risk management and governance processes. It is the responsibility of the Committee to maintain open communication between the Directors, senior management, the General Auditor, the external auditor, and the Board of Governors. Annually, the Audit Committee will review its performance in meeting the responsibilities identified in this Charter and report that to the Board of Directors.

COMMITTEE MEMBERSHIP

The Audit Committee will consist of three or more members of the Board of Directors. The Board of Directors will appoint the Committee members and the Committee chair. The Chairman of the Board is an ex officio-voting member of the Committee. Any other member or members of the Board may attend meetings of the Audit Committee. A majority of the members of the Audit Committee shall constitute a quorum.

Each member should be free from any relationship that, in the opinion of the Board of Directors, would interfere with the exercise of his or her judgment as a member of the Audit Committee. All members of the Audit Committee should be financially literate by having a working familiarity with basic finance and accounting practices and at least one member should have banking, accounting, or other relevant financial proficiency.

MEETINGS

The Audit Committee will hold at least six meetings per year to permit adequate and timely discussion of audit results, losses, irregular occurrences, and other matters of concern to auditors and Directors, and hold executive sessions with the General Auditor whenever such meetings are attended by other officers of the Bank. The committee will invite members of management or others to attend 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 for each meeting.

COMMITTEE AUTHORITY AND RESPONSIBILITIES

- a. Maintain the independence of the internal audit activity
 - Review and approve the annual audit budget based on reasonable assurances that the budget is sufficient to carry out an effective audit program and that significant

variances, if any, from existing System and Bank guidelines are justified and review performance against the approved budget.

- Formally appraise the performance of the General Auditor, following guidelines set forth by the Reserve Bank for evaluating the performance of other officers.
 - Initiate for Board of Directors approval all actions affecting the salary or classification of the General Auditor.
 - Recommend to the Board of Directors the appointment and termination (including separation payments) of the General Auditor, and to concur with any reassignment of the General Auditor to another position in the Reserve Bank
- b. Review and approve the annual audit program based on reasonable assurances that the proposed scope and frequency of audits provide an appropriate level of audit attention.
 - c. Obtain from the General Auditor an independent and objective assessment of the adequacy and effectiveness of controls over financial reporting, effectiveness and efficiency of operations, compliance with laws and regulations, and effectiveness of risk management and governance processes.
 - d. Bring before the Board of Directors any matters reported by the General Auditor or the external auditor that warrant the Board's attention, and ensure that audit recommendations and concerns receive proper attention by Bank management.
 - e. Establish procedures for the confidential, anonymous submission by employees of complaints and concerns regarding questionable accounting, internal accounting control, or auditing matters; and the receipt, retention, and treatment of such complaints and concerns.
 - f. Review reports of quality assurance reviews of the internal audit activity to determine compliance with *The Institute of Internal Auditors Standards for the Professional Practice of Internal Auditing* and that recommendations are addressed.
 - g. Review all audit and operation reports issued by the Board of Governors and others to assess significant risks and that recommendations receive proper attention by Bank management.
 - h. Review the engagement plan of the external auditor for the Bank's annual financial statements audit and the results of that audit including any difficulties encountered and review management's assertion and the external auditor's attestation as to the adequacy of financial reporting controls.
 - i. Provide sufficient opportunities for the internal auditor and external auditor to meet with the Audit Committee without members of management present to discuss matters of mutual interest and benefit to the organization. At least annually, meet with the external auditor in executive session without management or the General Auditor present.

- j. Review the Bank's policies and approach with respect to risk assessment and risk management.
- k. Ensure the independence of the external auditor
 - Approve any arrangements to perform services for the Bank by the external auditor ensuring that such arrangements would not impair the independence of the external auditor.
 - Review and approve any employment in a management position of any individual who provided external audit services to the Bank within the past year noting that this also requires the Board of Governors approval.
 - Review the annual list of all contractual arrangements with the external auditor that is included in the Bank's annual report.
- l. Inform the Board of Governors of any material concerns regarding the independence of the external auditor or the quality of the external audit.
- m. Provide any requested information for the Board of Governors on the selection process of the external auditor including contract scope and the recommendation of the selected audit firm.
- n. Obtain updates from the Bank's General Counsel on any legal matters that could have a significant impact on the financial statements or compliance matters.
- o. Authorize special investigations and reviews, and engage independent counsel and other advisors as it determines necessary to carry out its duties and responsibilities.
- p. Periodically review the Audit Committee Charter and recommend changes as appropriate.
- q. Review and approve the Audit Department Charter.

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

January 26, 2012 - Approved by the Board of Directors of the Federal Reserve Bank of Dallas