

**AUDIT COMMITTEE
JUNE 19-20, 2008**

TAB	DESCRIPTION	ACTION
1	AUDIT COMMITTEE UPDATE	Information item

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**AUDIT COMMITTEE
JUNE 19-20, 2008**

SUBJECT

Audit Committee meeting update for Board of Education

APPLICABLE STATUTE, RULE OR POLICY

Idaho State Board of Education Governing Policies & Procedures, Section V.H.

BACKGROUND

The Audit Committee met May 21, 2008 to work on the audit committee charter, review the 2008 audit fees and review a request for non-audit procedures by Moss Adams. In addition, the Committee met with institution representatives to review the revised policy section V.E., effective July 1, 2008, review implementation plans for foundation operating agreements and set the timeline for bringing the operating agreements into compliance with the Board's policies.

DISCUSSION

The Committee is continuing to work on the charter and will work with Committee members to address specific issues of concern. The Committee will bring the charter to the Board for approval at the August meeting.

The Committee unanimously approved the 2008 audit fees including a 2.05% inflation factor and a 13% increase for a suite of new Statement on Auditing Standards (SAS) issued by the American Institute of Certified Public Accountants (AICPA). The new auditing standards include the following:

SAS 104	Expands definition of reasonable assurance
SAS 105	Expands audit work required to provide a reasonable basis for audit opinion
SAS 106	Clarifies the definition of sufficient appropriate audit evidence
SAS 107	Consideration of risk and materiality when performing an audit
SAS 108	Auditor requirements for and understanding with client and the use of subcontractors
SAS 109	Expands requirements for understanding the entity and its environment, internal controls and other issues that may indicate risks of material misstatements
SAS 110	Guidance on sufficiency of audit evidence and auditor response to results of audit testing
SAS 111	Updates the statistical sampling framework to incorporate SAS 99 and SAS 107

The scope increase resulting from these new standards will increase the fees associated with the audit of the financial statements and the Federal Single Audit report at each institution and the audit of Boise State University Radio.

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Moss Adams brought before the Committee a request by the University of Idaho for Moss Adams to perform non-audit services. After due deliberation, the Committee declined the University's request.

The Committee agreed on a timeline to complete review of the operating agreements and for approval by the Board. The Committee determined to complete the review of each institution's primary foundation operating agreement at its next meeting in August. These agreements will then be used as templates for all other foundation agreements to be completed by the institutions. These agreements are to be brought before the Committee for approval in time for the Board to approve all operating agreements at the October Board meeting.

IMPACT

The 2008 base audit fees for each institution, which include the audit of the institution's financial statements, Federal Single Audit report, and Boise State Radio, are increasing by over \$110,000 (15%) primarily due to the increase in scope for additional Statements on Auditing Standards issued by the AICPA (13%) and contract inflation (2.05%).

The primary questions the institutions raised regarding the foundation operating agreements are the following:

1. Employee relationships
2. Transfer of funds from university to foundation
3. Protecting donor confidentiality

STAFF COMMENTS AND RECOMMENDATIONS

A conference call for June 3rd has been scheduled for the Committee to review and discuss the main operating agreements of Boise State University, Idaho State University and University of Idaho. Institution representatives need to be available and on call should the Committee need their input.

BOARD ACTION

This item is for informational purposes only. Any action will be at the Board's discretion.

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REFERENCE - APPLICABLE STATUTE, RULE, OR POLICY

Idaho State Board of Education
GOVERNING POLICIES AND PROCEDURES
SECTION: V. FINANCIAL AFFAIRS
H. Audits

August, 2005

General Purpose and Governance

The Audit Committee (Committee) is appointed by the Board in fulfilling its fiscal oversight responsibilities. The Committee provides oversight to the organizations under its governance (defined in Idaho State Board of Education, Policies and Procedures, Section I. A.1.) for: financial statement integrity, financial practices, internal control systems, financial management, and standards of conduct.

The Committee serves as the Board's liaison with its external auditor and with the external and internal audit operations of the agencies, school and institutions. The Committee reviews agency, school and institution fiscal operations. The Committee chairperson reports periodically to the Board on the activities of the Committee, including any recommended changes or additions to the Board's policies and procedures.

1. Calendar

The Committee shall establish a calendar of all regularly scheduled meetings including meetings with the Board, the independent auditors, institutions, and others as appropriate. The Committee should take into consideration the requirements and due dates of other State agencies in establishing timelines.

2. Audit Committee

a. Membership

Each member of the Committee shall be in good standing, and shall be independent in order to serve on the Committee. The Committee minutes will indicate whenever a new member is appointed by the Board as well as an acknowledgement that independence has been verified for the new member. Affirmation of independence will be documented in the minutes annually or whenever a change in status by any Committee member occurs.

b. Financial Expert

At least one member of the Committee shall be designated as a financial expert and indicated in the Committee minutes. This designation shall be affirmed annually, unless there is a change in status.

c. Board Bylaws on Audit Committee

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The Committee will review, reassess the adequacy of, and recommend any proposed changes to the Board annually, unless changes are needed during the course of the year, in light of new best practices and new legal requirements.

d. Meetings

The Committee shall meet at least four times per year and may be combined with regularly scheduled Board meetings or more frequently as circumstances may require. The Committee may require institution management or others to attend the meetings and provide pertinent information as necessary. All members are expected to attend each meeting in person, via telephone conference or videoconference. The agendas for meetings should be prepared and provided to members in advance, along with appropriate briefing materials. Minutes shall be prepared that document decisions made and action steps established and shall be maintained at the Board office.

3. Selection of Independent Auditors

Items 3, 4 and 5 apply to the institutions only (Boise State University, Idaho State University, University of Idaho, Lewis-Clark State College, and Eastern Idaho Technical College).

- a. The Committee shall allow enough time to prepare and publish a Request for Proposal, review and evaluate proposals, obtain Board approval of the selected audit firm, and negotiate and authorize a contract.
- b. The Committee may establish a process for selecting an independent audit firm. The process used should include representatives from the Board, Committee, and institutions.
- c. The Committee shall make the selection of the audit firm.
- d. The selection of the new audit firm shall be presented to the Board and ratified at the next Board meeting following the Committee's selection.

4. Independent Auditors

a. Lead Audit Partner Rotation

It is the intent of the Board to adhere to the recommendation of the National Association of College and University Business Officers (NACUBO) to require rotation of the lead audit partner of the independent audit firm every five years, with a two-year timeout provision. The Committee shall establish when the five-year limit will be reached for the current lead audit partner. At least one year prior to that time, the Committee shall discuss transition plans for the new lead audit partner. The five-year limit will be reviewed annually with the independent auditors. These discussions shall be documented in the Committee meeting minutes.

b. Risk Assessment

Prior to the publication of the independent auditor's report, the Committee will review all material written communications between the independent auditors and institution management, including management letters and any schedule of unadjusted differences. The Committee shall conclude on the appropriateness of the proposed resolution of issues, and the action plan for any items requiring follow-up and monitoring. The Committee shall review these risks with institution management at each meeting or sooner, if necessary, to make sure it is up-to-date.

c. Audit Scope

1) Prior to Audit: Prior to the start of any audit work for the current fiscal year, the Committee will meet with the lead audit partner to review the audit scope. Questions related to audit scope may include significant changes from prior year, reliance on internal controls and any internal audit function, assistance from institutional staff, and changes in accounting principles or auditing standards. The Committee should also discuss how the audit scope will uncover any material defalcations or fraudulent financial reporting, questionable payments, or violations of laws or regulations. Areas of the audit deserving special attention by the Committee and issues of audit staffing should be reviewed.

2) Subsequent to Audit: Subsequent to the audit report, the Committee shall meet with the lead audit partner and the Chief Financial Officer of each institution, to review the scope of the previous year's audit, and the inter-relationship between any internal audit function and the external auditors with respect to the scope of the independent auditor's work. Prior to the start of interim work for the current year audit, the Committee shall review the plans for the audit of the current year.

d. Accounting Policies

Annually and/or in conjunction with the year-end audit, the Committee shall review with the lead audit partner all critical accounting policies and practices and all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management of the institutions, the ramifications of each alternative, and the treatment preferred by each institution.

e. Financial Statement Review

At the completion of the independent audit, the Committee shall review with institution management and the independent auditors each institution's financial statements, Management's Discussion and Analysis (MDA), related footnotes, and the independent auditor's report. The Committee shall also review any significant changes required in the independent auditor's audit plan and any

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serious difficulties or disputes with institution management encountered during the audit. The Committee shall document any discussions, resolution of disagreements, or action plans for any item requiring follow-up.

f. Single Audit Review

At the completion of the Single Audit Report (as required under the Single Audit Act of 1984, and the Single Audit Act Amendments of 1996), the Committee shall review with institution management and the independent auditors each institution's Single Audit Report. The Committee shall discuss whether the institution is in compliance with laws and regulations as outlined in the current Single Audit Act described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement. The Committee shall report to the Board that the review has taken place and any matters that need to be brought to the Board's attention. The Committee shall document any discussions, resolution of disagreements, or action plans for any item requiring follow-up.

5. Internal Audits

The Committee shall review with institution management any significant findings on internal audits from the preceding 12 months and planned for the upcoming six months along with the status of each planned audit and management's responses thereto. The Committee shall review any difficulties the institution's internal audit staff encountered in the course of their audits, including any restrictions on the scope of their work or access to required information. The Committee shall discuss any internal audit function's budget and staffing.

6. Other Audits

a. Legislative Audits

- 1) All state agencies under the Board's jurisdiction, excluding the State Department of Education, will receive financial statement audits and federal single audits in accordance with federal and state laws and regulations. The Committee must be informed immediately by an agency of any audit activity being conducted by the legislative auditor.
- 2) At the completion of the legislative audit, the Committee shall discuss with the legislative auditor the progress of the legislative audit, including a full report on preliminary and final audit findings and recommendations.

b. Employee Severance Audits

When key administrative personnel leave an agency, school or institution, the Committee may bring to the full Board a recommendation as to whether an audit should be conducted and the scope of the audit.

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7. Confidential Complaints

- a. The Committee shall set up a process to investigate complaints received by the Board regarding accounting, internal accounting controls, or auditing matters that may be submitted by any party internal or external to any entity under its governance.
- b. The Committee shall review the procedures for the receipt, retention, and treatment of complaints, referenced in paragraph 8.a, received by the Board. The Committee shall review an original of each complaint received, no matter the media used to submit and discuss the status or resolution of each complaint. The Committee shall ensure that proper steps are taken to investigate complaints and resolve timely. The Committee shall review a cumulative list of complaints submitted to date to review for patterns or other observations.

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