

**AUDIT COMMITTEE
FEBRUARY 26-27, 2009**

TAB	DESCRIPTION	ACTION
1	AUDIT COMMITTEE CHARTER	Motion to approve

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AUDIT COMMITTEE
FEBRUARY 26-27, 2009

SUBJECT

Board approval of the Audit Committee Charter

APPLICABLE STATUTE, RULE OR POLICY

Idaho State Board of Education Bylaws, Section H.

BACKGROUND/DISCUSSION

The Audit Committee (Committee) has been working to adopt a Charter that will guide the Committee in its financial oversight responsibilities over the institutions under the Board's governance. The Committee is responsible for communication with and among the independent external auditing firm, institution management, the internal audit staff, and the Board.

IMPACT

The Charter specifies the procedures the Committee will follow for issues such as:

- Composition of the Committee
- Meetings
- Selection and oversight of the external auditor
- Oversight of the internal auditors
- Oversight of institution reporting and compliance

Immaterial changes to the Charter may be made at the discretion of the Committee; however, the Committee will request the Board approve material changes to the Charter.

STAFF COMMENTS AND RECOMMENDATIONS

Staff recommends approval.

ATTACHMENTS

Attachment 1 – Audit Committee Charter

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BOARD ACTION

A motion to approve the Charter of the Audit Committee as presented on pages 3-13.

Moved by_____ Seconded by_____ Carried Yes_____ No_____

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Idaho State Board of Education Audit Committee Charter

Purpose, Responsibility and Authority of Audit Committee

The Audit Committee ("Committee") shall assist the State Board of Education ("Board") in its financial oversight responsibilities over the institutions under the Board's governance (defined in Idaho State Board of Education, Policies and Procedures, Section I. A.1.) ("Institutions"). The Committee is a permanent standing advisory committee of the Board. The Committee will advise and assist the Board and other standing committees on matters relating to financial reporting and financial controls and procedures. The Committee shall be responsible for communication with and among the independent external auditing firm ("auditing firm"), Institution management, the internal audit staff and the Board. The Committee will not assist in the preparation of or assess the institutions' budgets or perform other management functions. The Committee shall make policy recommendations to the Board to improve financial oversight. Approval of adoption or changes to policies are exclusively under the responsibility of the Board.

(See Appendix A.)

Composition of the Committee

The Committee members shall be appointed by the Board and shall consist of six or more members. Three members of the Committee shall be current Board members and three members shall be non-Board members who are permanent residents of the state of Idaho. All members shall have voting rights. No employee of an institution under the governance of the Board shall serve on the Committee.

The Committee chairperson shall be appointed by the Board President. Appointments shall be for a three-year term. Terms will be staggered such that the term of two members end and two members are appointed each year. Committee members may be appointed for up to two additional terms.

Each Committee member shall be independent and have no conflicts of interest. Committee members who are not Board members shall not be compensated for their service except for reimbursable out-of-pocket expenses. All Committee members shall have an understanding of the Committee Charter and the institutions' financial affairs. At least one member of the Committee shall have current accounting or related financial management expertise.

(See Appendix B.)

Meetings of the Committee

The Committee shall meet at least quarterly following the close of each fiscal quarter and at additional times when necessary. Meetings may be held in conjunction with meetings of the Board, or may be held more frequently as circumstances may require. The Committee chairperson shall prepare and/or approve an agenda in advance of each meeting. A majority of the members of the Committee shall constitute a quorum. The Committee shall maintain minutes or other records of meetings and activities of the Committee. Meetings shall be conducted per Robert's Rules. The Committee shall, through its chairperson, report regularly to the Board following the meetings of the Committee. The chairperson shall submit minutes of all meetings of the Committee to the Board.

The Committee, or designated members of the Committee, shall quarterly at the discretion of the Committee, meet with the management and advisors of the Institutions under the Board's governance, including, as requested by the Committee, the Institution's general counsel, external counsel, vice president of finance and administration, controller, and other finance personnel; the independent external auditor; and the internal auditors where available.

(See Appendix C.)

Selection and Oversight of an Independent External Auditing Firm

Institution management shall be responsible for the accurate preparation, presentation, and integrity of the financial statements and for establishing and maintaining appropriate accounting and financial reporting policies. The Committee shall advise the Board in the appointment and compensation of the auditing firm and shall oversee and evaluate the performance of the audit. The auditing firm will be responsible for certifying the financial statements of the institutions, and performing compliance audits, and conducting other attestation services or agreed upon procedures as requested by the Committee.

The auditing firm shall report directly to the Committee and the auditor's "engagement letter" shall be addressed to the Committee and the President of each institution.

(See Appendix D.)

Oversight of Internal Audit Function

The internal audit department at each Institution shall report functionally to the Committee with administrative reporting to the Institution president. The charter for each internal audit function shall be approved by the Committee. Internal auditors shall have sufficient access to employees, property, and records of the Institution to complete the internal audit plan approved by the Committee. The Committee shall review internal audit reports with the internal auditors and institution management. The internal audit report shall include significant findings, management's responses and all other such information as may be beneficial for the use of the Committee.

(See Appendix E.)

Oversight of Institution Reporting and Compliance

The Committee shall review with Institution management, as it deems necessary, the Institution's financial policies and procedures and the results of any review of these areas by the internal auditor or the auditing firm. The Committee shall inquire of Institution management, the auditing firm, and internal auditors about significant risks and uncertainties facing the Institutions and i) assess the steps Institution management has taken to minimize such risks and uncertainties and ii) review compliance with such steps.

The Committee shall review with the general counsel legal and regulatory matters that, in the opinion of management, may have a material impact on the financial statements and compliance with federal, state, and local laws and regulations.

The Committee shall review with Institution management and the auditing firm the auditing firm's reports on the Institution's financial statements, compliance audits and all related reports, information and auditing results. The management shall present the financial statements to the Committee and Board and provide detail and summary reports as appropriate. The auditing firm shall present to the Committee and Board its reports on the financial statements and compliance audits.

(See Appendix F.)

Other Duties and Responsibilities as Assigned by the Board

The Committee shall accept assignments from the Board in financial oversight of the Board's activities as directed by the Board from time to time. These assignments shall be allowed so long as the assignments do not conflict with the Committee's ability to maintain its independence.

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Audit Committee Charter**

Appendix A

Additional Information on the Role and Responsibilities of the Audit Committee

Additional Description of Responsibilities

The Institutions' financial management, systems and reporting, including the preparation of financial statements and reports, are the responsibility of the Institutions. The Committee will work collaboratively with the Institutions, the independent external auditors and the internal auditors where available.

The Committee shall review control deficiencies and remediation plans with Institution Management and the auditing firm or internal audit group as deemed necessary by the Committee. Any unresolved deficiencies or disputes shall be brought to the attention of the Board.

The Committee is responsible for understanding among other things the following for each institution:

- The clarity and completeness of financial statements and other financial and compliance disclosures.
- Management's selection and application of significant accounting principles.
- Critical accounting policies.
- Significant or unusual transactions or events
- Significant accounting judgments and estimates.
- Communications received from the independent auditor.
- Whether the financial statements and accompanying notes are prepared and presented in accordance with generally accepted accounting principles (GAAP).
- Whether the financial statements, footnotes and related management discussion provide the reader with a clear understanding of the organizational and program risks being managed.
- The impact of management's assertions and the related controls over financial and compliance disclosure.

Policy Recommendations to the Board

The Committee shall make policy recommendations to the Board from time to time as necessary for proper financial oversight and control. The Committee shall review the adequacy and implementation of policies for:

- Code of ethics or conduct
- Conflict of interest policy
- Whistle-blower or other internal or external reporting procedure
- Records retention policy

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Appendix B Additional Information on the Composition of the Audit Committee

Independence, Conflicts of Interest and Related Parties

Each Committee member shall be independent and free from any relationship that would interfere with the exercise of her or his independent judgment. Committee members shall not be compensated for their service on the Committee and shall not have a financial interest in or engage in related-party transactions, or any other conflict of interest with any entity doing business with the Board, or any institution under the governance of the Board. Members, or their immediate relatives, shall not hold a salaried position with any Institution under the Board's governance nor be employed by any entity that provides services for a fee to any such Institution.

The Committee may appoint a working unit or units, which may include the financial officers of the Institutions and financial officers of the Board office.

Committee Members Involvement in Financial Oversight

All Committee members shall have an understanding of the Committee and financial affairs and the ability to exercise independent judgment. Understanding of the institution's financial position will require looking at such diverse information as applications and admissions data, results of fund-raising efforts, financial-aid policies, and any revenue streams resulting from research and indirect cost recovery. Appropriate orientation for new Committee members will be provided by the Board office and institutions' financial staff under the direction of the Committee chair.

Significant Financial Expertise

At least one member of the Committee shall have current accounting or related financial management expertise in the following areas:

- An understanding of GAAP, experience in preparing, auditing, analyzing, or evaluating complex financial statements, and;
- The ability to assess the general application of such principles in the accounting for estimates, accruals, and reserves;
- An understanding of risk assessment and internal controls concepts;
- An understanding of the roles of internal and external audit; and
- An understanding of audit scope, methodology and process.

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Appendix C Additional Information on the Meetings of the Audit Committee

Areas to be Included in the Annual Meeting Schedule

The Committee meetings shall include the following areas of discussion at the recommended dates.

Area	Recommended Meeting (approximate month)
Assessment of Committee procedures and results	November
Review risk assessments of internal auditors	November
Approval of internal audit plans	November
Meeting with external auditor to approve audit plans	March
Meeting with external auditor to review results of interim testing	April
Meeting with external auditor to review the reports on financial statements and compliance audits	September

Meetings with Institutions' Management

At the meetings scheduled above, the Committee shall hold meetings with the management of each institution to discuss financial oversight and audit-related issues and other issues as deemed necessary by the Committee.

Annual Assessment

The Committee will review its procedures annually, reassess the adequacy of the procedures, and recommend any proposed changes to the Board. The Committee will consider changes that are necessary as a result of new laws, regulations, or accounting and auditing standards.

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**Appendix D
Additional Information on the Independent External Auditing Firm**

The Committee's responsibilities regarding the auditing firm engaged to perform the audits of the financial statements of the Institutions shall also include:

- The Committee will approve any non-audit services.
- If the auditing firm provides any non-audit services, the Committee shall determine that the auditing firm has evaluated whether providing such non-audit services could impair, in any way, the auditor's independence in appearance or in fact from auditing the financial statements of the Institution. Such evaluation shall consider applicable guidance as stipulated in *Government Auditing Standards*.
- The Committee shall monitor and evaluate the independence and performance of the auditing firm on an annual basis and consider rotating the external audit to a different audit firm on an occasional basis.
- The Committee shall adopt a guideline with respect to auditing firm lead audit partner rotation.
- The Committee shall review with the Board any proposed discharge of the auditing firm.
- The Committee shall obtain updates from the auditing firm on new regulatory, accounting or auditing developments that may impact the activities of the Committee or its responsibilities.
- The Committee shall review with the auditing firm critical accounting policies and practices used by the institution, alternative treatments of financial actions within GAAP that have been discussed with the institution's management, the ramifications of each alternative, and the treatment preferred by the institution.
- The Committee shall review all significant written communications between the auditing firm and management, such as any management letter or schedule of unadjusted differences.
- The Committee shall review with the auditing firm the adequacy of the institution's internal controls including computerized information system controls

and security and any significant findings and recommendations of the auditing firm and internal auditors together with management's responses.

- The Committee shall consider, with Institution management, whether an additional external firm should be engaged to provide audit or non-audit services the Institution or the auditing firm determine would not be appropriate for the principal auditing firm to perform.
- The Committee, or its designated representatives, who shall be members of the Committee, shall inquire of institution management, the independent auditing firm, and internal auditors about significant risks or exposures facing the institutions; assess the steps institution management has taken or proposes to take to minimize such risks to the institution; and periodically review compliance with such steps.
- The Committee, or its designated representatives, who shall be members of the Committee, shall review with the independent auditing firm and the internal auditors, where applicable, the audit plan and scope of the auditing firm and the internal auditors. The Committee or its designated representatives shall address the coordination of audit efforts to assure the completeness of coverage, reduction of redundant efforts, and the effective use of audit resources.

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Appendix E Additional Information on the Role of Internal Audit

The Committee's responsibilities regarding the internal audit function shall also include (where applicable or where such internal audit function is established):

- A formal Charter establishing the purpose, mission, and authority of each internal audit group. The Charter shall address independence, duties, responsibilities, and professional standards. The Charter shall be reviewed annually in conjunction with review of the annual internal audit plan.
- An annual risk assessment and an internal audit plan shall be prepared by the internal auditor group. The Committee shall review the plan with the internal auditors and the Committee shall approve the plan. In the event, the Committee and management do not agree on the plan or any of its aspects, those differences will be referred to the Board for resolution.
- The Committee shall assure that the internal audit efforts are properly coordinated with the auditing firm to assure the completeness of coverage, reduction of redundant efforts, and the effective use of audit resources.
- If the scope of the internal audit activity extends to the direct support and affiliated organizations of the Institution (including foundations), the Committee shall obtain approval for access to the records and employees of those affiliate organizations.
- The Committee shall review an Annual Summary Internal Audit Report issued by each internal audit group, which report shall include:
 - Significant findings on internal audits during the year and Institution management's responses.
 - Any difficulties the internal audit team encountered in the course of its audits, including any restrictions on the scope of its work or access to required information.
 - Any changes required in the scope of the internal audits.
 - The internal audit department budget and staffing.
 - The internal audit department audit procedures.
 - The internal audit department's compliance with applicable standards (for example, *Government Auditing Standards*, or the Institute of Internal Auditors' (IIA's) Standards for the Professional Practice of Internal Auditing).

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**Appendix F
Additional Information on the Institution Reporting and Compliance**

The Committee's responsibilities regarding institution reporting and compliance shall also include:

- To provide general guidance and support for developing risk assessment models for all institutions and discuss with the internal auditors and auditing firm the materiality of the individual components of the financial statements and the financial statements as a whole for each Institution.
- To determine the adequacy of controls documentation. If warranted, the Committee shall direct development of a multiyear process for documenting and evaluating the adequacy of internal controls and the financial reporting process.
- The Committee shall review with management and the auditing firm the effect of any regulatory and accounting initiatives.
- The Committee shall review with management and the auditing firm:
 - The institution's annual financial statements, related footnotes, and management's discussion and analysis.
 - The auditing firm's reports on the financial statements and compliance audits.
 - The auditing firm's judgments about the quality, not just the acceptability, of the institution's accounting principles as applied in its financial reporting.
 - The auditing firm's "single audit" of the federal awards administered by the institution and its reports thereon.
 - Any significant changes required in the auditing firm's audit plan due to changes in the institution, auditing standards or other circumstances.
 - Any serious difficulties or disputes with management encountered during the audit.
 - Matters required to be discussed by the AICPA Statements on Auditing Standards, the U.S. Government Accountability Office's and the U.S. Office of Management and Budget's Circular A-133 related to the conduct of the audits.

The Committee shall ensure that senior members of the institution's administration and all Board members have provided adequate, annual disclosure of outside interests and relationships that might bear, in any way, on their responsibilities to the institution or Board.

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