

AUDIT
OCTOBER 17, 2013

| TAB | DESCRIPTION | ACTION |
|------------|---|-------------------|
| 1 | AMENDMENT TO BOARD POLICY Section V.Y. – Compliance Programs – Second Reading | Motion to approve |

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SUBJECT

Board Policy V.Y. – Compliance Programs – second reading

REFERENCE

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| August 2010 | Board was briefed on Audit Committee project to make policy recommendation for proper financial oversight and control, including such issues as codes of ethics or conduct, conflict of interest policy, and whistle-blower or other reporting procedures. |
| August 2012 | Board approved first reading of Board Policy V.Y. Compliance Programs |
| December 2012 | Board approved second reading of Board Policy V.Y. Compliance Programs |
| June 2013 | Board approved first reading for revisions to Board Policy V.Y. Compliance Programs |

BACKGROUND / DISCUSSION

In December 2012 the Board approved the new Board Policy V.Y., Compliance Programs. The new policy requires material compliance issues be reported to the Audit Committee on a semi-annual basis, defines materiality, requires material compliance issues in excess of \$200,000 be reported to the Audit Committee immediately, and requires de minimus compliance issues under \$25,000 not be reported to the Audit Committee.

In June 2013 the Board approved the first reading of the policy adding a requirement to provide adequate training to educate employees on the laws, regulations and institution policies that apply to their day-to-day job responsibilities. Clarification is also provided in determining material compliance matters and when they need to be reported.

IMPACT

The proposed amendments would require adequate training and clarify reporting of material compliance matters.

ATTACHMENTS

Attachment 1- Board Policy Section V.Y., 2nd reading

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STAFF COMMENTS AND RECOMMENDATIONS

There were no changes between first and second reading. Staff recommends approval.

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BOARD ACTION

I move to approve the second reading of the proposed amendment to Board Policy V.Y., as presented in attachment 1.

Moved by _____ Seconded by _____ Carried Yes _____ No _____

1. General

The Board is committed to ethical conduct and to fostering a culture of compliance with the laws and regulations which apply to the institutions and agencies under its governance.

2. Compliance Program

Each institution shall designate a chief compliance officer, approved by the Audit Committee (Committee), and shall ensure that the institution establishes a compliance audit program to be approved by the Committee which must address, at a minimum, the following:

- a. A code of ethics which applies to all employees.
- b. A published and widely disseminated list or index of all major compliance areas and responsibilities, and to categorize and prioritize these compliance areas and responsibilities by considering the risks, probability, and negative impact of potential events.
- c. A mechanism for coordinating compliance oversight, monitoring and reporting. This includes a management level group or individual with authority to examine compliance issues and assist the chief compliance officer in investigating, monitoring, and assessing compliance and/or recommending policies or practices designed to enhance compliance.
- d. A means of assuring institutional policies are regularly reviewed for compliance with current federal and state laws and regulations and Board policies.
- e. Provision of adequate training to educate employees on the laws, regulations and institution policies that apply to their day-to-day job responsibilities.

3. Reporting

- a. The chief compliance officer of each institution will prepare and submit a semi-annual compliance report in January and July, on a confidential basis, to Board counsel and the Committee noting all material compliance matters occurring since the date of the last report, and identifying any revisions to the institution's compliance program.

For purposes of this policy, a compliance matter shall be considered material if any of the following apply:

- The perception of risk creates controversy between management and the internal auditor.
- It could have a material impact on the financial statements.

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- It is or could be a matter of significant public interest or exposure.
 - It may be reported in an external release of financial information.
 - It relates to key controls over financial information that are being designed or redesigned, have failed, or otherwise are being addressed by the organization.
 - It involves fraud related to management.
 - It leads to correction or enforcement action by a regulatory agency.
 - It involves potential financial liability in excess of \$25,000
- b. Notwithstanding the foregoing, a compliance matter with financial liability in excess of two hundred thousand dollars (\$200,000) must be reported to the Committee as soon as reasonably practicable. A de minimus compliance matter need not be reported to the Committee at any time. A violation will be considered de minimus if it involves potential financial liability of less than twenty-five thousand dollars (\$25,000) and is a matter that has not been recurring or is not otherwise indicative of a pattern of noncompliance. For purposes of this Subsection, "potential financial liability" means the estimated obligation by the institution to another party resulting from noncompliance.
- c. Compliance concerns at agencies under the governance of the Board shall be reported to the Committee by the Board's Executive Director when, in his/her discretion, the matter presents extraordinary ethical, legal, or fiduciary responsibilities or obligations.