

Idaho State Board of Education
GOVERNING POLICIES AND PROCEDURES

SECTION: V. Financial Affairs

SUBSECTION: H. Audit, Risk and Compliance Committee

December 2022

1. General Purpose and Governance

The Audit, Risk and Compliance Committee (Committee) is established as a standing committee of the Board under Idaho State Board of Education, Policies and Procedures, Section I. Bylaws to provide fiscal, compliance and risk management oversight responsibilities. The Committee provides oversight for: financial statement integrity, financial practices, internal control systems, financial management, risk management, compliance and standards of conduct. This policy and relevant sections of the Board's bylaws serve as the audit charter for the Audit, Risk and Compliance Committee.

The Committee serves as the Board's liaison with its external auditors, regulatory auditors, the internal audit and risk management functions of the Office of the Board of Education, and with compliance officers of the agencies and institutions. The Committee reviews agency and institution fiscal operations. The Committee also reviews institutional procedures for controlling operating risks and oversees compliance activities. 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 through the Business Affairs and Human Resources Committee. The Committee is authorized to act on applicable items that do not require Board approval.

The Committee shall meet at least four times per year and may be aligned with regularly scheduled Board meetings or more frequently as circumstances may require. The Committee may require institution or agency management or others to attend the meetings and provide pertinent information as necessary.

2. Calendar

The Committee shall establish a calendar of all regularly scheduled meetings including Committee chairperson (or designee) reports to 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.

3. Selection of External Auditors

Items 3, 4 and 5 apply to the institutions only (Boise State University, Idaho State University, University of Idaho, and Lewis-Clark State 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 a contract.
- b. The Committee may establish a process for selecting an external audit firm. The process used should include representatives from the Board, Committee, and institutions.
- c. The Committee shall make the selection of the recommended external audit firm.
- d. The selection of the new external audit firm shall be presented to the Board for approval at the next Board meeting following the Committee's recommendation.
- e. An annual review of external auditor performance and fees shall be conducted.

4. Financial Statement Auditors

a. Lead 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 external 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 external auditors. These discussions shall be documented in the Committee meeting minutes.

b. Scope and Reporting

- i. **Prior to External Audit:** Prior to the start of any audit work for the current fiscal year, the Committee will meet with the lead external 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.
- ii. Prior to the publication of the external auditor's report, the Committee will review all material written communications between the external 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.

- iii Subsequent to Audit: Subsequent to the external audit report, the Committee shall meet with the lead external 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 external 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.

c. Accounting Policies

Annually and/or in conjunction with the year-end external audit, the Committee shall review with the lead external 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.

d. Financial Statement Review

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

e. 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 external 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 Audit (Internal Audit and Advisory Services – IAAS)

- a. IAAS reports functionally to the Committee and administratively to the Board's Executive Director. The Committee shall have sole oversight of internal audit related activities. The internal audit function will be administered by a Chief Audit Executive (CAE) within the Office of the State Board of Education. Institutions are prohibited from establishing their own internal audit functions. The Committee shall:
- i. Ensure that IAAS works under an internal audit charter, reviewed annually by the Committee
 - ii. Ensure the functional independence of IAAS
 - iii. Consult with the executive director on the appointment of a CAE to oversee administration of IAAS
 - iv. Consult with the executive director on termination or discipline of the CAE
 - v. Provide input into the performance review of the CAE
 - vi. Approve and provide feedback on an annual audit plan submitted by the CAE
 - vii. Advise the Board about increases and decreases to internal audit resources needed to carry out internal audit activities
 - viii. Receive and review an annual performance report on internal audit activities from the CAE.
 - ix. Review internal audit's conformance to the *International Standards for the Professional Practice of Internal Auditing* ("Standards") published by the Institute of Internal Auditors ("IIA").
 - x. Review internal audit findings and recommendations, and review the adequacy of corrective action taken by institution management.
- b. IAAS shall have free and unrestricted access to institutional personnel, buildings, systems and records needed to perform internal audit work. The Committee shall review and resolve any difficulties encountered by internal audit staff during the course of internal audit work, including restrictions on scope or access to personnel, buildings, systems or records.
- c. IAAS will maintain a quality assurance and improvement program that covers all aspects of IAAS operations. The program will include an evaluation of IAAS's conformance with the *Standards* and an evaluation of whether internal auditors apply the IIA's Code of Ethics. The program will also assess the efficiency and effectiveness of IAAS and identify opportunities for improvement.

The CAE will communicate to the Committee IAAS's quality assurance and improvement program, including results of internal assessments (both ongoing and periodic) and external assessments conducted at least once every five years by a qualified, independent assessor or assessment from outside Idaho higher education.

6. Other Audits

a. Legislative Audits

- i. 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.
- ii. 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 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.

c. Other External Audits and Reviews

The Committee is authorized to engage the services of outside auditors or evaluators to perform work used to supplement the work of the Committee, to assess compliance with laws and regulations, or to assess business processes.

7. Confidential Reporting Lines

- a. The Committee shall ensure the institutions have reporting mechanisms in place to provide for anonymous and confidential reporting of compliance issues. Such mechanisms include, but are not limited to, the use of external reporting hotlines. The Committee shall review the effectiveness of institutional processes used to resolve reports received through reporting mechanisms.
- b. Reports of accounting, internal control or auditing matters
 - i. The Committee shall set up a process to investigate complaints or reports received by the Board or institutions regarding accounting, internal accounting controls, auditing, or other areas of concern.
 - ii. The Committee shall review the procedures for the receipt, retention, timely investigation and proper treatment of complaints, referenced in the preceding paragraph. The Committee shall review a cumulative list of complaints submitted annually to review for patterns or other observations.

8. Risk Management

The Committee shall provide oversight of a system-wide risk assessment/risk management program. To accomplish this, the Committee shall:

- a. Consult with the executive director on the appointment of a system-wide Risk Manager;
- b. Monitor and periodically review processes established by the system-wide Risk Manager and institutions to implement effective risk management activities;
- c. Periodically receive reports/presentations from the system-wide Risk Manager;
- d. If necessary, receive reports from institution employees who oversee departments that manage key risk areas.

9. Compliance

a. 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.

b. Compliance Program

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

- i. A code of ethics which applies to all employees.
- ii. A published and widely disseminated list or index of all major compliance areas and responsibilities, categorized and prioritized based on risk, probability, and negative impact of potential events. 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. A means of assuring institutional policies are regularly reviewed for compliance with current federal and state laws and regulations and Board policies. Provision of training to educate employees on the laws, regulations and institution policies that apply to their day-to-day job responsibilities.

c. Reporting

- i. 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:

- 1) The perception of risk creates controversy between management and the internal auditor.
- 2) It could have a material impact on the institution's financial statements.
- 3) It is or could be a matter of significant public interest or that carries risk of significant reputational damage.
- 4) It may be reported in an external release of financial information.
- 5) It relates to key controls over financial information that are being designed or redesigned, have failed, or otherwise are being addressed by the organization.
- 6) It involves fraud related to management.
- 7) It leads to correction or enforcement action by a regulatory agency.
- 8) It involves potential financial liability in excess of \$25,000

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 minimis compliance matter need not be reported to the Committee at any time. A violation will be considered de minimis 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 subparagraph, "potential financial liability" means the estimated obligation by the institution to another party resulting from noncompliance. 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 material ethical, legal, or fiduciary responsibilities or obligations.