

# STATE BOARD OF COMMUNITY COLLEGES AND OCCUPATIONAL EDUCATION

## AUDIT COMMITTEE CHARTER

BP 7-01

APPROVED: June 13, 2007

EFFECTIVE: July 1, 2007

### REFERENCES:

Board Policy 2-10, Board Committee Structure

### ISSUED BY:

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Dr. Nancy McCallin, System President

### Policy Statement

The Audit Committee ("Committee") is a subcommittee of the State Board for Community Colleges and Occupational Education ("Board"). Board Policy 2-10 defines the purpose of the Committee, which is to assist the Board in fulfilling its fiduciary responsibilities System-wide.

Fiduciary responsibilities include assessing risk and addressing matters including financial statement reporting, internal controls, compliance with applicable laws, regulations and Board policies, as well as System and College policies and procedures. These responsibilities are to include fraud prevention and detection.

### **Organization and Qualifications**

- a. The Committee shall be appointed by the Chairman of the Board for a term of two years and may be reappointed.
- b. The Committee shall consist of at least three Board members.
- c. At least one member of the Committee shall meet the qualifications of a financial expert, as defined in this policy.
- d. The Chairman of the Board shall appoint one of the members of the Committee as Chairman. The Committee Chairman shall meet qualifications of a financial expert and shall perform the role as defined in this policy.

### **Financial Expert**

To be considered a financial expert, an individual should possess the following.

- a. an understanding of GAAP and financial statements;
- b. the ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves;
- c. experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the Colorado Community College System's ("System") financial statements, or experience actively supervising one or more persons engaged in such activities;
- d. an understanding of internal controls; and
- e. an understanding of audit committee functions.

These attributes may be acquired in one or more of four ways:

- a. education and experience as a principal financial officer, principal accounting officer, controller, public accountant or auditor, or experience in one or more positions that involve the performance of similar functions;
- b. experience actively supervising a principal financial officer, principal accounting officer, controller, public accountant, auditor or person performing similar functions;
- c. experience overseeing or assessing the performance of public accountants with respect to the preparation, auditing or evaluation of financial statements;
- d. other experience relevant to audits, investigations or financial operations.

In the event that the Board does not have a member who meets the qualifications of a financial expert as defined, this shall not nullify the authority, activities or actions of the Audit Committee.

### **Authority**

The Committee has the authority to conduct or authorize investigations System-wide through the establishment and operation of an Internal Audit Department. To allow for independent analysis and investigation, the Committee shall have unrestricted access to members of management and relevant information, such as books, records, facilities, property and personnel, in any format, electronic or other, as the information may exist. Audits or investigations may occur without notice. If circumstances require, System property or information relevant to the investigation may be removed from use during the investigation. The Committee may retain independent counsel, accountants, or others to assist it in the conduct of any audit or investigation.

The Board delegates to the Committee Chairman the following authority.

- a. The authority to approve all human resources actions related to the Director of Internal Audit. All actions taken on the Director of Internal Audit should include input from the Committee, the Chairman of the Board and the System President. All human resources actions shall follow the policies and procedures of the System.
- b. With the approval of the Committee, the ability to establish procedures and delegate duties as necessary to conduct the effective and efficient operation of the function.

## **Duties of the Chair**

The Committee Chairman shall lead the Committee in the fulfillment of its mission. The Committee Chairman shall:

- a. Provide the Board with reports on the activities of the Internal Audit department at least quarterly;
- b. Ensure the Audit Committee is provided adequate training to fulfill its role;
- c. Present the budget for the Internal Audit Department to the Board for approval annually as well as any budget overages;
- d. Periodically cause the Committee to review the Audit Committee and Internal Audit Department Charter;
- e. Call Audit Committee meetings and approve agendas;
- f. Be apprised of significant details of audits and investigations in progress;
- g. Shall report whistleblower complaints as necessary to the Chairman of the Board, in compliance with Board Policy 3-71.
- h. Approve personnel actions related to the Director of Internal Audit; including appointment, performance evaluations, pay increases, and any disciplinary action taken, including termination.
- i. Review monthly progress towards the annual audit plan.

With the approval of the Committee, the Committee Chairman may establish procedures necessary to perform these duties as well as delegate duties as necessary for the efficient operation of the department.

## **General**

While the audit committee has the responsibilities and powers set forth in this Charter, it is not the Committee's duty to plan or conduct audits or to determine that the System's financial statements are complete, accurate, and in accordance with generally accepted accounting principles. Management is responsible for the preparation, presentation and integrity of the System's financial statements and for the appropriateness of the accounting principles and reporting policies used. The independent auditors are responsible for auditing the System's financial statements.

In meeting its responsibilities, the Committee shall perform duties to include those noted within the following areas.

## **Meetings**

- a. The Committee shall meet four times per year or more frequently as circumstances require.
- b. The Committee may include in its meetings members of management, representatives of the external auditors, members of the internal audit team and any other personnel employed or retained by the Colorado Community College System.
- c. The Committee will periodically meet with members of management in separate

executive sessions, as allowed by statute, to discuss any matters that the Committee believes should be addressed privately, without the presence of other management.

### **Financial, Compliance and Operational**

- a. Report Committee actions to the Board with recommendations, as the Committee may deem appropriate.
- b. Receive advance notice of all audits, reviews, and internal audit investigations whether internal or external for the System office and all colleges, regardless of the source of funding for the activity reviewed. This review may occur via verbal or written report as accepted by the Committee.
- c. Review the results of all audits, reviews, and investigations whether internal or external for the System office and all colleges, regardless of the source of funding for the activity reviewed. This review may occur via verbal or written report as accepted by the Committee.
- d. Review any matters involving a conflict of interest or matters involving a breach of ethics if they involve personnel at a management level within the System.
- e. Approve procedures for the receipt, retention and treatment of complaints received by the System through any means regarding accounting, internal accounting controls or auditing matters; including procedures for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters. Also matters related to misuse, abuse or misappropriation of resources and inappropriate personnel activity including alleged fraud and supervisory misconduct, financial or other.
- f. Review, on a periodic basis, summary information documenting complaints submitted relating to accounting, internal controls, misuse, abuse or misappropriation of resources and inappropriate personnel activity regardless of action taken or outcome of such action.
- g. Review facts related to any fraud or misconduct committed by employees or senior management of the system office or of the colleges.
- h. Review and evaluate the effectiveness of the System's process for assessing significant risks or exposures and the steps management has taken to monitor and control such risks
- i. Inquire of management, internal audit and the external auditor about risks facing the System.
- j. Review significant findings related to any audit, including management's response, and the timetable for implementation of a correction.
- k. Review summary findings from all completed audits and the status of implementing related recommendations until implementation is complete.
- l. Review periodically and update the Committee's formal charter.
- m. Periodically review the internal audit department charter and evaluate the audit scope and role of internal audit.
- n. Provide oversight of the Director of Internal Audit and the activities of the internal audit department.

- o. Review and appraise the organization structure of the internal audit department; as well as the adequacy of resources, qualifications and independence of the staff members.
- p. Approve all department reports related to audits or investigations, as well as related information, prior to release.
- q. Ensure the adequacy of procedures to protect confidentiality of information obtained through the activities of the internal audit department.
- r. Review results of peer reviews conducted on department activities.
- s. Review annual audit plans.
- t. Review any changes required in the planned scope of their audit plan.
- u. Periodically review Committee effectiveness.

### **Compliance with Laws and Regulations**

- a. Periodically evaluate with legal counsel the process for determining risks and exposure from asserted and unasserted litigation and claims from noncompliance with laws and regulations to determine its effectiveness.
- b. Periodically review status of open litigation or risks and known claims that have not yet been asserted.

### **Financial Reporting**

Review with management and the independent auditor at the completion of the annual audit:

- a. The annual financial statements, management's discussion and analysis, related footnotes, compliance report, findings and auditors' report.
- b. All alternative treatments of financial information that have been discussed with management.
- c. Critical accounting policies and practices in place.
- d. All significant written communications between the auditor and management such as management letter comments and the schedule of unadjusted differences.
- e. Any significant changes required in the independent accountant's audit plan.
- f. Other matters related to conduct, which should be communicated to the Committee under generally accepted auditing standards.

### **External Audit**

- a. Review the scope and approach of the annual audit with the independent accountants.
- b. Assess the external auditor's process for identifying and responding to key audit and internal control risks.
- c. The external auditor shall have direct access to the Committee, and shall meet privately without members of management present at least once during the course of the audit.

- d. Receive communication directly from the external auditor regarding any matters that arose during the course of their audit.

### **Compliance with Codes of Ethical Conduct**

- a. Provide policy oversight regarding the conflict of interest and code of conduct policies and related procedures.
- b. Review and monitor the administration of and compliance with, the code of conduct, conflict of interest policies and the Foreign Corrupt Practices Act.

### **Other Responsibilities**

Report regularly to the full board any issues that arise with respect to:

- a. The quality or integrity of the System's financial statements, not to duplicate communications and activities reported through the external audit;
- b. The System's compliance with legal or regulatory requirements;
- c. The performance and independence of the System's external auditors;
- d. The performance of the internal audit function;
- e. Any other matters in the Committee's performance of its duties that the Committee views important to present to the full Board.