

East Side Union High School District
San Jose, California
Second DRAFT (after attorney input)
Audit Committee Charter

I. Audit Committee Authority

The East Side Union High School District (ESUHSD) has established an Audit Committee to assist the Board of Trustees (Board) in the oversight of both the internal and external audit functions. The ability to create an Audit Committee was established by ESUHSD BP 3460.

This charter includes provisions to define the relationship of the Audit Committee to any internal audit function or position that may be created by the Board in the future. It is understood that with the writing of this draft the Board has not yet determined if it wishes to create an internal auditor position. Inclusion of these provisions does not imply support for or against the creation of such a position.

II. Mission

The primary responsibility for financial and other reporting, internal control, and compliance with laws, regulations, and ethics within the ESUHSD rests with the Superintendent and his / her management team. The Board has oversight responsibilities in these areas and the Audit Committee is to assist the Board in fulfilling these responsibilities.

The Board Members who are members of the Audit Committee ~~must~~ shall, on behalf of the Audit Committee, have unrestricted access to all information, including documents and personnel, and have adequate resources in order to fulfill its oversight responsibilities. All confidential information shall be maintained as confidential in accordance with Board policy and law, and shall not be provided or distributed to public members of the Committee.

In adopting this Charter the Board directs that District Administration shall work cooperatively with the Committee to promptly and fully respond to all requests for information and documentation.

The Board has established an Audit Committee to serve in an advisory capacity to the Board and shall:

- 1) Assist the Board in providing oversight of the external/internal audit functions by:
 - a. Making recommendations regarding the selection of the external independent auditor,
 - b. Reviewing the plan for the audit process with the independent auditor to determine the adequacy of the nature, scope, and timetable of the audit,
 - c. Reviewing the results of the audit and participate with the independent auditor and the Board in preparing final recommendations and responses,
 - d. Participating with the independent auditor in presenting the audit report to the Board,
 - e. Reviewing Board policies and administrative regulations to recommend any revisions needed to ensure effective financial reporting,

- f. Providing input on the effectiveness of the independent auditor, and
- g. Periodically reporting to the Board regarding the status of previous audit recommendations for improving the accounting and internal control functions
- 2) Assist the Board in providing oversight of the external/internal audit functions
- 3) Assist the Board in complying with its fiduciary oversight obligations;
- 4) Provide a communication link between the external and/or internal auditor and the Board
- 5) Provide greater transparency over public funds while improving public trust

III. Membership

The Audit Committee consists of seven ~~members~~ voting members appointed by the Board as follows:

- 1. Two Board members, who shall serve as Chair and Vice Chair of the Committee as determined by the Board.
- 2. Five public members

All voting members of the committee must reside within the boundaries of the East Side Union High School District.

The Board may appoint non-voting members with specific expertise to the committee. There is no residency requirement for non-voting members.

Appointments will be made at the Board's annual organizational meeting in December or as vacancies occur. The Board President may not concurrently serve on the Audit Committee.

Board member terms shall be for one year. Public member terms shall be for two years.

The maximum number of consecutive terms a member may serve is four. A termed out member is eligible for appointment again after not serving for at least one year.

~~Members~~ Member's terms will be staggered so that all terms do not start and end at the same time. Immediately after the initial appointment of the five public members the Board shall determine by lot which three of the public members shall serve an initial two year term and which two shall serve an initial term of one year.

The members of the Audit Committee must collectively possess knowledge and experience in accounting, auditing, financial reporting, and school district finances needed to understand and evaluate the district's financial statements, the external audit of those statements, and the district's internal audit activities. Accordingly, the Audit Committee members should:

- 1) Be independent of the day-to-day management of the ESUHSD,
- 2) Possess the required skills and experience necessary to understand technical and complex financial reporting issues,
- 3) Have the ability to communicate with and offer advice and assistance to the Board, the external auditors, and the internal auditor,

- 4) Be knowledgeable about internal controls, financial statement audits, and managerial/operational audits
- 5) Be available to take training in educational finance

The following individuals cannot serve on the Audit Committee:

- a) ~~Anyone~~ Any person who, within the ~~past~~ two years prior to appointment, has been an employee of the ESUHSD or sold goods or services to the ESUHSD,
- b) Anyone who, within the past two years, owns or has a direct and material interest in an entity, or who holds a leadership position in any entity, which provides substantial goods or services to the ESUHSD pursuant to purchase order or contract (either individually or under a fictitious business name),
- ~~a) Anyone who has participated in litigation or other legal matters against the ESUHSD,~~
- ~~d)c)~~ c) A close or immediate family member of anyone who would be prohibited from serving on the Audit Committee under a) through ~~eb)~~ above. The term “close or immediate family member” includes parent, sibling, nondependent child, spouse or ~~spouse equivalent~~ domestic partner, or dependent (whether or not related),

Exceptions are as follows:

- ~~e)d)~~ d) An individual who would otherwise be excluded may serve if, after full disclosure to the Board, the potential conflict ~~on of~~ interest is not material, ~~and does not appear so from the public perspective, or~~
- ~~f)e)~~ e) Any member who develops a conflict of interest while on the Audit Committee must disclose such conflict. The other Audit Committee members at the next meeting shall, by majority vote, make a recommendation to the ~~Board~~ Board. ~~The Board shall which will~~ decide whether or not to remove and replace the affected member.

Should a vacancy occur, the ~~board~~ Board will notify the public of the opening, accept applications and appoint an individual to serve the balance of the vacated term.

IV. Duties and Responsibilities

Internal Control

The Audit Committee monitors the fiscal health of the ESUHSD and the relationship between its spending and its adopted budget. To carry out this duty, the Audit Committee:

- 1) Reviews the effectiveness of the ESUHSD’s accounting organizational structure, operations, and personnel,
- 2) Reviews the ESUHSD’s internal controls, the adequacy of such controls, and recommends changes to management and the Board,
- 3) Reviews with the Superintendent and other management personnel the adequacy of systems and procedures for protecting information,

- 4) Inquires of the Superintendent and other management personnel about significant financial risks or exposures facing the ESUHSD, assesses the steps the ESUHSD has taken, or proposes to take, to minimize such risks to the ESUHSD, and periodically review compliance with such steps.
- 5) Review with the Superintendent and other management personnel:
 - a. Significant findings with respect to any management financial review including that of the Audit Committee, during the year and responses thereto.
 - b. Any difficulties review teams or personnel encountered in the course of their review, including any restrictions on the scope of their work or access to required information.
 - c. Any changes required in the scope of the review.
- 6) Reviews with the independent auditors, the Superintendent, and financial management personnel:
 - a. The adequacy of the ESUHSD's internal controls including computerized information system controls and security.
 - b. Any related significant findings and recommendations of the independent auditors together with management's responses thereto, and
 - c. The clarity and transparency of financial information and disclosures.

The Audit Committee reviews the ESUHSD's procedures for monitoring compliance with the Code of Conduct.

The Audit Committee recommends procedures for the confidential, anonymous submission of concerns about questionable accounting or auditing matters or suspected fraud. At the request of the Board, it reviews any submissions that are received, the current status of the review, and the resolutions, if any.

Assist the Board in providing oversight of the external audit functions

General

The Audit Committee

- Shall perform its duties in good faith, in a manner to be in the best interests of the Audit Committee and the ESUHSD ~~which a reasonably prudent person with such are as a generally prudent person~~ in a similar position would use under similar circumstances,
- Shall have an obligation to the ESUHSD to maintain strict confidentiality regarding confidential information it may have access to,
- ~~Elects a Chair and a Vice-Chair who presides in the Chair's absence~~
- ~~Shall Meets-meet~~ at least three times per calendar year, and at additional times when necessary, to fulfill its responsibilities,
- ~~Shall receive training and Complies-comply~~ with the Brown Act
- May ask members of management or others to attend its meetings and provide pertinent information as necessary,
- In consultation with the Board may have access to all information it deems necessary to carry out its duties, consistent with California law,
- May request information from the ESUHSD that is deemed necessary to carry out its duties and responsibilities. These requests for information will be made only by the Audit Committee Chair. Any member wishing to request information will do so by submitting the approved Committee request form to the Audit Committee Chair for

approval. If the Audit Committee Chair approves the request, the Chair will send the request to the Board for processing. If the Chair does not approve the request, a majority of the Audit Committee may override the request denial. In the event of an override, the Chair is required to submit the request to the Board.

~~A quorum constitutes a simple majority of the total voting membership and meetings will not be conducted unless a quorum is present.~~

~~Every attempt will be made to make decisions by consensus of the voting members present. Consensus is defined as an acceptable solution that all can agree to support. If consensus cannot be reached, polling of the voting membership will take place.~~ Any decision of the Audit Committee requires an affirmative vote by the majority of the committee's voting membership. ~~Voting Members~~-members who are physically absent from a meeting can participate through audio or video means. Proxies CANNOT be granted.

The Audit Committee may recommend to the Board the engagement of hire professional consultants. ~~only with Board approval. The authority to engage professional consultants rests exclusively with the Board.~~

The Audit Committee shall reports to the Board, at least annually, its activities, findings, and decisions. Reported findings should include any suspected fraud or abuse or material defects in internal management controls, and any significant failure to comply with laws, or district policies or regulations.

~~The Audit Committee agenda is set by the Chair. The Chair prepares the agenda.~~ Any member wishing to place an item on the agenda will do so by communicating in writing directly with ~~the~~ to the Chair.

~~All decisions shall be reached by consensus of those members present. Consensus is defined as an acceptable solution that all can agree to support. If consensus cannot be reached, polling of the voting membership will take place and a simple majority will prevail. A quorum constitutes a simple majority of the total membership and meetings will not be conducted unless a quorum is present.~~

The Audit Committee shall prepare minutes of each meeting that, at a minimum will include:

- Copies of the meeting agenda,
- Date, attendance, and location of the meeting
- A brief summary of the topics discussed, and
- Any recommendations forwarded to the Board

The Audit Committee may recommend to the Board the dismissal of any member who has had ~~three~~-two consecutive unexcused absences or ~~five~~-four absences in any twelve month time period. Dismissal requires a majority vote of the Board.

External Auditors

The Audit Committee oversees the ESUHSD's engagement of any independent accountants for the purpose of preparing or issuing an independent audit report or performing other independent

audit, review, or attest services. The Board, acting on the recommendation of the Audit Committee, makes all final decisions concerning the appointment, compensation, and retention of such accountants. All accountants thus engaged report directly to the Audit Committee that will oversee the accountant's work and evaluates their performance.

The Audit Committee's oversight responsibility includes:

- 1) Monitoring the periodic selection of and contracting with, the outside independent auditor in accordance with State law, Periodically rebidding the contract for the provision of the annual audit and reviewing the independence of the audit,
- 2) Meeting with the independent auditors prior to commencement of the annual audit to review the engagement letter (scope of the work to be performed)
- 3) Receiving and reviewing the draft annual audit report and draft management letter comments,
- 4) Reviewing all significant written communications between the independent auditors and management, such as any schedule of unadjusted differences,
- 5) Making a recommendation to the Board concerning acceptance of the annual audit report,
- 6) Reviewing with management and independent auditors:
 - a. The ESUHSD's annual financial statements, related footnotes, and management's discussion and analysis,
 - b. The independent auditor's audit of the financial statements and their report thereon, including any management letter comments or schedule of unadjusted differences,
 - c. The independent auditor's judgments about the quality, not just the acceptability, of the ESUHSD's accounting policies as applied in its financial reporting,
 - d. The auditor's assessment of the ESUHSD's system of internal controls,
 - e. Any significant changes required in the independent auditor's audit plan,
 - f. Restrictions on the auditor's activities or access to information, and any significant difficulties or disputes with the Superintendent or management encountered during the audit,
 - g. Matters required to be discussed by applicable government and professional literature and standards,
 - h. All critical accounting policies and practices used by the ESUHSD, any significant changes in these policies and practices, and the degree of aggressiveness or conservatism in applying these policies and practices,
 - i. Recent and proposed professional and regulatory pronouncements, especially those having a material impact on the ESUHSD's financial statements,
 - j. All alternative treatments of financial information within Generally Accepted Accounting Principles (GAAP) that have been discussed with the Board, the ramifications of each alternative, and the treatment preferred by the ESUHSD, and
 - k. Any corrective action plans developed by the ESUHSD.

The Audit Committee considers, with the Board, the rationale for employing audit firms other than the principal independent auditors for services that the ESUHSD or the independent auditors determine would not be appropriate for the principal independent auditors to perform.

Internal Audit

The Audit Committee:

- a) Makes recommendations to the Board regarding the appointment establishment of an internal auditor position,
- b) Oversees the ESUHSD's engagement of an internal auditor. If such a position is created by the Board, recommends the selection of the Internal Auditor,
- c) Assists in the oversight of the-any internal audit function,
- d) Reviews the annual internal audit plan to ensure that high risk areas and key control activities are periodically evaluated and tested,
- e) Reviews the results of internal audit activities and significant recommendations and finding of the internal auditor,
- f) Monitors implementation of the internal auditor's recommendations by the Superintendent and / or Board,
- g) Provides input on the performance evaluation of the internal auditor

The Audit Committee and the internal auditor(s) shall maintain a degree of professional independence when assessing management's performance of its responsibilities. However, this does not mean that an adversarial role is necessary or desirable as both parties share common goals.

In working to ensure the independence of the internal auditing function and that appropriate actions are taken on audit findings, the Audit Committee shall promote and enhance the mutual cooperation among the Committee, internal auditor(s), and executive management.

Internal Control

~~The Audit Committee monitors the fiscal health of the ESUHSD and the relationship between its spending and its adopted budget. To carry out this duty, the Audit Committee:~~

- ~~1) Reviews the effectiveness of the ESUHSD's accounting organizational structure, operations, and personnel;~~
- ~~1) Oversees the ESUHSD's internal controls, reviews the adequacy of such controls, and recommends changes to management and the Board;~~
- ~~1) Reviews with the Superintendent and other management personnel the adequacy of systems and procedures for protecting information;~~
- ~~1) Inquires of the Superintendent and other management personnel about significant financial risks or exposures facing the ESUHSD, assesses the steps the ESUHSD has taken, or proposes to take, to minimize such risks to the ESUHSD, and periodically review compliance with such steps;~~
- ~~1) Review with the Superintendent and other management personnel;
 - a. Significant findings with respect to any management financial review including that of the Audit Committee, during the year and responses thereto;
 - a. Any difficulties review teams or personnel encountered in the course of their review, including any restrictions on the scope of their work or access to required information;
 - a. Any changes required in the scope of the review.~~
- ~~1) Reviews with the independent auditors, the Superintendent, and financial management personnel:~~

- ~~a. The adequacy of the ESUHSD's internal controls including computerized information system controls and security;~~
- ~~e. Any related significant findings and recommendations of the independent auditors together with management's responses thereto, and~~
- ~~e. The clarity and transparency of financial information and disclosures.~~

~~The Audit Committee reviews the ESUHSD's procedures for monitoring compliance with the Code of Conduct.~~

~~The Audit Committee establishes procedures for the confidential, anonymous submission to the Audit Committee of concerns about questionable accounting or auditing matters or suspected fraud. It reviews any submissions that are received, the current status of the review, and the resolutions, if any.~~

~~Assist the Board in providing oversight of the external audit functions~~

V. Self-Assessment

The Audit Committee shall review its charter annually, reassesses the adequacy of the charter and recommends any proposed changes to the Board. The Audit Committee considers changes that are necessary as a result of new laws, regulations, or accounting or auditing standards.

The Audit Committee conducts an annual self-assessment and describes to the Board, in a written report, how it discharged its duties.

Adoption and amendments to this charter shall be recommended by an affirmative vote of a majority of the committee and by passage of the Board.

DJ/ FEB ~~09/05/09~~09/28/09