

Docket Item:

HECC Audit Committee Charter

Summary:

Under authority provided in Oregon Revised Statute (ORS) 184.360(3), the Oregon Department of Administrative Services is responsible for adopting rules setting standards and policies for internal audit functions within state government. These rules can be found in [Oregon Administrative Rules \(OAR\), Chapter 125 – Department of Administrative Services, Division 700 - Internal Auditing](#).

OAR 125-700- 0135(5) states that each agency having an internal audit function shall establish and maintain an audit committee. The role and function of the audit committee shall be stated in a formal, written charter that describes the authority, responsibilities, and structure of the audit committee. The charter must be approved and periodically reviewed by the audit committee and governing board.

The rule further states if the agency has a governing board or commission, the audit committee must include one of more board or commission members. If there is no board or commission, agencies are encouraged to include qualified individuals from outside the agency on the audit committee, to enhance public accountability and transparency, and increase the independence of the internal audit function. The primary purpose of the audit committee is to enhance the quality and independence of the internal audit function, thereby helping to ensure the integrity of the internal audit process.

The HECC Audit Committee established and approved the HECC Audit Committee Charter during its September 3, 2020 meeting, and the Charter is submitted for Commission review and approval.

Material:

HECC Audit Committee Charter.

Staff Recommendation:

Staff recommends the Commission review and approve the HECC Audit Committee Charter.

Audit Committee Charter

Purpose

The primary purpose of the Higher Education Coordinating Commission Audit Committee (“Audit Committee”) is to enhance the quality and independence of the agency’s internal audit activity, thereby helping to ensure the integrity of the internal audit process. The Audit Committee plays an important role in providing oversight of the agency’s internal audit activity, as well as the agency’s governance, risk management and internal control practices, which in turn, serve to provide confidence in the integrity of these practices. The Audit Committee assists agency management and the Higher Education Coordinating Commission (“Commission”) by providing advice and guidance on the adequacy of these areas.

Authority

The mandate for the establishment of the Audit Committee is derived from Oregon Revised Statute 184.360 and Oregon Administrative Rule 125-700-0010 through 125-700-0155, which govern internal auditing within state government. This charter establishes the authority of the Audit Committee to carry out any matters within its scope of responsibilities articulated within the Audit Committee Charter, as reviewed and approved by the Commission.

Composition

The Audit Committee will consist of seven members: five members independent of the agency, to include at least one from the Commission and the agency’s Executive Director and Deputy Executive Director, who will be ex officio members and participate in a non-voting role. The members should collectively possess sufficient knowledge of audit, risk, internal control, information technology, finance, accounting, governance, laws and regulations and specific industry knowledge. A member independent of the agency will serve as the Audit Committee Chair as determined by a vote.

The term of office for members independent of the agency shall be two years; however, they may be eligible for reappointment. Terms should be staggered to avoid full turnover. Agency management will serve for as long as they hold the position in the agency. Members considering resignation shall notify the Audit Committee Chair and Chief Audit Executive (“CAE”) sufficiently in advance such that the vacancy can be filled in time for the subsequent quarterly meeting. The Audit Committee will monitor turnover and take steps to bring in new members at least every six years. New candidates may be nominated by the CAE and any member of the Audit Committee and should reflect the Audit Committee’s need for a variety of perspectives. The CAE will work with the Audit Committee Chair to screen candidates. The credentials of qualified candidates will be presented to the Audit Committee for deliberation and decision.

Meetings

The Audit Committee will meet at least quarterly, with authority to convene additional impromptu meetings as deemed necessary. The CAE and all members are expected to attend all scheduled meetings. If a member is unable to attend in person, the member may participate via telephone, video conferencing or other electronic means. Members attending through such electronic means shall be included in constituting a quorum. A quorum of the Audit Committee will be three members independent of the agency. Absent a quorum, the Audit Committee may meet for purposes of gathering information but no formal action may be taken. The Audit Committee Chair and/or CAE may request management, staff or others to attend meetings to provide pertinent information as necessary, as well as conduct executive sessions with the CAE and other officials as deemed necessary.

The CAE will establish meeting agendas in consultation with the Audit Committee Chair. Agenda information will be provided to the Audit Committee at least one week prior to each scheduled meeting. Minutes will be prepared and provided in draft format within a reasonable time after the meeting. The CAE will facilitate and coordinate meetings as well as provide ancillary support to the Audit Committee, as time and resources permit.

Responsibilities

Oversight of the Internal Audit Activity

It is the responsibility of the Audit Committee to enhance the quality and independence of the agency's internal audit activity, thereby helping to ensure the integrity of the internal audit process. Accordingly, to obtain reasonable assurance with respect to the work of the internal audit activity, the Audit Committee will provide oversight related to:

Internal Audit Charter and Resources

- Review and approve the Internal Audit Charter at least annually
- Annually, review the organizational structure, activities, staffing and budget resources for the internal audit activity with management and the CAE
- Evaluate and advise management whether any additional resources are needed permanently or should be provided through outsourcing to achieve internal audit strategy and plans

CAE Performance

- At least annually, provide input to management related to the performance of the CAE
- Provide input on decisions regarding the appointment, evaluation or removal of the CAE before such actions become effective

Internal Audit Strategy and Plan

- Review and approve the internal audit activity's strategic plan
- Review and approve the internal audit activity's risk-based plan and all significant changes to the plan. The CAE will retain final authority over which engagements to conduct and the scope and objectives of each.
- Review the internal audit activity's performance relative to its risk-based plan

Internal Audit Engagements and Follow Up

- Review engagement reports and other communications provided to management

- Review progress reports of management action plans addressing engagement audit recommendations

Standards Conformance

- Inquire with the CAE about steps taken to ensure the internal audit activity conforms to the mandatory guidance of The IIA's IPPF
- Ensure that the internal audit activity maintains a quality assurance and improvement program and the results are reviewed annually
- Ensure that the internal audit activity has an independent external quality assurance review every five years
- Make appropriate inquiries of the CAE and management to determine whether there is inappropriate scope or resource limitations

External Audits

- Review reports and other communications received from external auditors
- Review progress reports of management action plans addressing external audit recommendations

Risk Management

To obtain reasonable assurance with respect to the agency's risk management practices, the Audit Committee will:

- Consider the effectiveness of the agency's risk management framework
- Annually review the agency's risk profile and provide oversight on significant risk exposures

Internal Control

To obtain reasonable assurance with respect to the adequacy and effectiveness of the agency's internal controls in responding to risks, the Audit Committee will:

- Consider the effectiveness of the agency's internal control framework, including information technology security and control
- Understand the scope of internal and external auditors' review of internal control over financial reporting and activities to attain agency objectives and receive reports on significant findings and recommendations, together with management's responses.

Compliance

- Review the effectiveness of the agency's system for monitoring compliance with laws, regulations and policies and the results of management's review and follow-up of any instances of noncompliance
- Review the findings and recommendations, together with management's responses, of any internal and external auditor and regulatory agency reports

Fraud/Ethics

- Periodically review agency anti-fraud programs in place to identify potential fraud
- Ensure appropriate action is taken whenever potential fraud is detected
- Periodically review the mechanisms established by management to establish and maintain high ethical standards for all of the managers and staff of the agency

Reporting Responsibilities

- At least annually, report to the Commission the Audit Committee's composition and responsibilities and how they were executed, as well as any other information requested by the Commission
- Review the annual report required to be filed by the CAE with the Department of Administrative Services
- Review the annual risk assessment and internal audits required to be filed with the Secretary of State Audits Division

Other Responsibilities

- Perform other activities related to this charter as requested by the Commission
- Request and oversee special ad hoc projects as needed
- Annually review and approve the Audit Committee Charter
- Ensure all responsibilities outlined in this charter have been accomplished on an annual basis
- Annually evaluate Audit Committee performance and that of its individual members

Conflict of Interest

It is the responsibility of any member to disclose a conflict of interest, whether actual or perceived, to the Audit Committee. If there is any question as to whether the Audit Committee member(s) should recuse themselves from a vote, the Audit Committee should vote to determine whether the member should recuse themselves.

Approved this ____ day of _____, _____.

Commission Chair

Date

Audit Committee Chair

Date

Executive Director

Date