

**SOUTH DAKOTA BOARD OF REGENTS**

**Budget and Finance**

**AGENDA ITEM: 10 – G**

**DATE: June 27-29, 2017**

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**SUBJECT: Audit Committee Charter and By-laws Addition**

The primary purpose of an audit committee is to provide oversight of the financial reporting process, the internal and external audit process, the system of internal controls, compliance with laws, regulations and policies, risk management, ethics and management.

The audit committee will review significant accounting and reporting issues and recent professional and regulatory pronouncements to understand the potential impact on financial statements. An understanding of how management develops internal interim financial information is necessary to assess whether reports are complete and accurate.

The committee will review the results of the audit with management, external auditors and internal auditors including matters required to be communicated to the committee under generally accepted auditing standards.

Audit committee will consider internal controls and review their effectiveness. Reports on, and management responses to, observations and significant findings will be obtained and reviewed by the committee. Controls over financial reporting, information technology security and operational matters fall under the purview of the committee.

An audit committee charter sets forth the general purpose, authority, composition and responsibilities of the committee. The Audit Committee Charter is attached in Attachment 1.

Due to the addition of the Audit Committee, board policy needed to be revised to reflect this addition. See Attachment 2 for the revised Article IV. Special Committees to add the Audit Committee in Section 4.5.

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**INFORMATIONAL ITEM**

## **AUDIT COMMITTEE CHARTER**

### **Purpose, Responsibility and Authority of the Audit Committee**

The Audit Committee (“Committee”) shall assist the Board of Regents in its financial oversight responsibilities. The Committee is a permanent standing advisory committee of the Board. The Committee will advise and assist the Board and other standing committees on matters relating to financial reporting and financial controls and procedures. The Committee shall be responsible for communication with and among the independent external auditing firm, Department of Legislative Audit (DLA), institution management, the internal audit staff and the Board. The Committee will not assist in the preparation of or assess the institutions’ budgets or perform other management functions. The Committee shall make policy recommendations to the Board to improve financial oversight. Approval of adoption or changes to policies are exclusively under the responsibility of the Board.

### **Composition**

The Committee members shall be appointed by the Board President and shall consist of 5 members. Three members of the Committee shall be current Board members and 2 shall be non-board members who are permanent residents of the state of South Dakota. All members shall have voting rights. No employee of an institution under the governance of the Board shall serve on the Committee.

The Committee chairperson shall be a member of the Board and appointed by the Board President. Appointments shall be for a three-year term. Terms will be staggered. Committee members may be reappointed.

Committee members shall have (1) knowledge of the primary activities of the institutions; (2) the ability to read and understand nonprofit financial statements, including a statement of financial position, statement of activities and changes in net assets, statement of cash flows and key performance indicators; and (3) the ability to understand key operational and financial risks, and related controls and control processes. The committee shall have access to counsel and other advisers at the committee’s sole discretion.

At least one member should be literate in nonprofit financial reporting and control, including an understanding of GAAP, experience in preparing, auditing analyzing or evaluating financial statements, ability to assess the general application of such principles in the accounting for estimates, accruals and reserves, an understanding of risk assessment and internal controls concepts, an understanding of the roles of internal and external audit, and an understanding of audit scope methodology and process, knowledge of tax and regulatory requirements, and should have past or current employment experience in finance or accounting, or other comparable experience or background.

### **Meetings of the Committee**

The committee shall meet at least bi-annually and at additional times when necessary. The Committee chairperson shall prepare and/or approve an agenda in advance of each meeting. A

majority of the members of the Committee shall constitute a quorum for the purpose of making recommendations to the Board. The Committee shall maintain minutes or other records of meetings and activities of the Committee. The Committee shall, through its chairperson, report regularly to the Board following the meetings of the Committee.

### **Responsibilities of the Committee**

#### **AUDIT FUNCTIONS**

Institution's management shall be responsible for the accurate preparation, presentation and integrity of the financial statements and for establishing and maintaining appropriate accounting and financial reporting policies. The Committee shall receive information regarding all audits performed.

#### **OVERSIGHT of INTERNAL AUDIT FUNCTION**

The Committee shall ascertain that management has the appropriate structure and staffing to carry out its internal audit responsibilities effectively. The audit committee shall monitor the work of the internal auditors and monitor management's progress in responding to the findings.

The charter for the internal audit function shall be approved by the Committee. Internal auditors shall have sufficient access to employees, property, and records of the institutions to complete the internal audit plan approved by the Committee. The Committee shall review internal audit reports with the internal auditors and institution management. The internal audit report shall include significant findings, management's responses and all other such information as may be beneficial for the use of the Committee. Before hiring any new internal audit manager, the institution president shall confer with the Committee Chair. The Committee shall approve the termination of any institutional internal auditor.

#### **OVERSIGHT of REPORTING and COMPLIANCE**

The Committee shall review with Institution management, as it deems necessary, the institution's financial policies and procedures and the results of any review of these areas by the internal auditor or the external auditing firm. The Committee shall inquire of Institution management, the auditing firm and internal auditors about significant risks and uncertainties facing the institutions.

The Committee shall review with the general counsel legal and regulatory matters that, in the opinion of management, may have a material impact on the financial statements and compliance with federal, state, and local laws and regulations.

The Committee shall review with Institution management and the auditing firm the auditing firm's reports on the Institution's financial statements, compliance audits and all related reports, information and auditing results.

The Committee shall accept assignments from the Board in financial oversight of the Board's activities as directed by the Board.

The Committee shall review control deficiencies and remediation plans with institution management and the auditing firm or internal audit as deemed necessary by the Committee. Any unresolved deficiencies or disputes shall be brought to the attention of the Board.

The Committee is responsible for understanding:

- The clarity and completeness of financial statements and other financial and compliance disclosures.
- Management's selection and application of significant account principles.
- Critical accounting policies.
- Significant or unusual transactions or events.
- Significant accounting judgments and estimates.

All Committee members shall have an understanding of the financial affairs and the ability to exercise independent judgment. Understanding of the institution's financial position will require looking at such diverse information as applications and admissions data, results of fund-raising efforts, financial-aid policies, and any revenue streams resulting from research and indirect cost recovery. Appropriate orientation for new Committee members will be provided by the Board office and institutions' financial staff under the direction of the Committee chair.

#### POLICY RECOMMENDATIONS to the BOARD

The Committee shall make policy recommendations to the Board as necessary for proper financial oversight and control. The Committee shall review the adequacy and implementation of policies for:

- Code of ethics or conduct
- Conflict of interest policy
- Whistle-blower or other internal or external reporting procedure
- Other issues related to fiscal oversight and internal audit.

**BY-LAWS OF THE  
SOUTH DAKOTA BOARD OF REGENTS**

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**Article IV. Special Committees**

Section 4.0 Special Committees. Special committees may be appointed from time to time by order of the Board. The following special committees are hereby authorized by order of the Board: Committee of the Whole Board; Steering Committee; Search and Screen Committee; [Athletics Advisory Committee](#); and [Audit Committee](#).

Section 4.1 Reserved

Section 4.1.1 Reserved

Section 4.1.2 Reserved

Section 4.2 Steering Committee. The Steering Committee shall consist of the President of the Board and the chairs of the standing committees of the Board.

Section 4.2.1 Organization. The President of the Board shall chair the Steering Committee, and the Steering Committee shall meet upon call of the chair.

Section 4.2.2 Action. The Steering Committee may rearrange the agenda of the Board, recommend time limits, and recommend any other actions of a procedural nature to the Board. To be enforceable, recommendations of the Steering Committee must be adopted by the Board.

Section 4.3 Search and Screen Committee. All nationwide search and screen activities used by the Board shall be conducted by a Search and Screen Committee appointed in accordance with the Regents' Bylaws.

Section 4.3.1 Organization. The President of the Board will appoint the Search and Screen Committee and any local or campus advisory committee. The Search and Screen Committee shall consist of Regents with the Executive Director serving as staff. The Search and Screen Committee may be supplemented by any local or campus advisory committee.

Section 4.3.2      Action. The chair of the Search and Screen Committee or the President of the Board shall approve the position announcement prior to publication. The Search and Screen Committee shall determine appropriate materials to be submitted by the candidates for position vacancies. The initial screening process shall be conducted by the Search and Screen Committee. The Search and Screen Committee may share the application materials with any local or campus advisory committee appointed by the President of the Board as the Search and Screen Committee deems appropriate. The Search and Screen Committee will contact references and conduct meetings to select approximately ten to twelve semifinalists. From this group approximately five finalists will be selected by the Search and Screen Committee. A recommendation may be made by the Search and Screen Committee and ultimately a final choice will be agreed upon by the Board.

Section 4.4      Athletics Advisory Committee.- The Athletics Advisory Committee shall consist of three board members as appointed by the President.

Section 4.4.1      Organization. The President of the Board shall appoint a board member as chair of the Athletics Advisory Committee, and the Athletic Advisory Committee shall meet upon call of the chair.

Section 4.4.2      Action. The Athletics Advisory Committee shall review matters of intercollegiate athletics, including, but not limited to: fiscal integrity and budget of athletic programs, compliance, personnel contracts, and provide recommendation on policies governing all aspects of intercollegiate athletics.

The chair shall provide recommendations to the Committee on Budget and Finance.

Section 4.5      Audit Committee. The Audit Committee shall consist of five members appointed by the President. Three members of the Audit Committee shall be current board members and two members of the Audit Committee shall be non-board members who are permanent residents of the state of South Dakota.

Section 4.5.1      Organization. The President of the Board shall appoint a board member as chair of the Audit Committee, and the Audit Committee shall meet upon call of the chair or as otherwise outlined in the Audit Committee Charter.

Section 4.5.2      Action. The Audit Committee shall review financial matters, including but not limited to: financial oversight and control, financial reporting, external and internal audit functions and reports, internal controls, and compliance with laws, regulations and policies. Recommendations may be made by the Audit Committee to the Board.