

DATE: April 20, 2006

SUBJECT: THEC Audit Committee Charter

ACTION RECOMMENDED: Approval

BACKGROUND INFORMATION: Chapter 35 of the Tennessee Code Annotated is the "State of Tennessee Audit Committee Act of 2005". This act requires a State Government board, council, commission, or equivalent body that has the authority to hire and terminate its employees to create an audit committee.

The act includes provisions for (1) the creation of a standing audit committee; (2) development of a charter; (3) committee membership; (4) committee responsibilities, powers, and duties; (5) establishment of confidential reporting provisions; and (6) notice of meetings.

The State Comptroller's Office has developed guidelines to assist in the formulation of such standing committees. The establishment of the THEC Audit Committee, its duties and functions, and its membership that includes Katie Winchester, Chair, Wendell Gilbert, and Ransom Jones as members was approved at the November 17, 2005, Commission meeting. It is recommended that the attached Charter for the THEC Audit Committee be approved.



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Tennessee Higher Education Commission
Audit Committee Charter

PURPOSE

The audit committee of the Tennessee Higher Education Commission will assist the Commission in fulfilling its oversight responsibilities in preventing fraudulent financial reporting, and the misappropriation of assets.

AUTHORITY

The creation of an audit committee is required under Public Chapter 310, known as the “State of Tennessee Audit Committee Act of 2005.” The audit committee has authority to conduct or authorize investigations into any matter within its scope of responsibility. THEC senior management and fiscal staff are responsible for providing the committee with educational resources related to accounting principles, internal controls, applicable policies, and other information that may be requested by the committee to maintain appropriate understanding of financial and compliance matters.

MEMBERSHIP

The committee and its chair shall be appointed by the Commission and shall consist of at least three members who are generally knowledgeable in financial, management, and auditing matters. The committee chair shall have some accounting or financial management expertise. Each member shall serve for an indefinite term and be free of any relationship that would interfere with his or her exercise of independent judgment.

MEETINGS

The committee shall meet as circumstances require. At least two members constitute a quorum. The chairman or any two committee members may call a meeting. The committee will invite members of management, auditors, or others to attend and provide pertinent information. Members may also meet individually with management and others as necessary. Meeting agendas will be provided to members in advance, along with appropriate briefing materials. THEC’s Associate Executive Director of Fiscal Affairs will provide staff support for the committee, and will prepare the necessary meeting agendas and minutes.

RESPONSIBILITIES

The audit committee will carry out the following responsibilities:

State and Federal Audits

- Immediately inform the Comptroller of the Treasury's Office when fraud is suspected or detected.
- Review with State and Federal auditors the scope and results of their examination of THEC's fiscal records and any other matter related to the conduct of the audit, which should be communicated to the committee.
- Serve as a facilitator of any audits or investigations of THEC, including advising auditors and investigators of any information they may receive or otherwise note regarding risks of fraud or weaknesses in THEC's internal controls; reviewing with the auditors any findings or other matters noted by the auditors during audit engagements; working with THEC management and staff to ensure implementation of audit recommendations; and assisting in the resolution of any problems the auditors may have with cooperation from THEC management or staff.
- Develop a formal process for assessing the risks of fraud at the Commission; including documentation of the results of the assessments and assuring the internal controls are in place to adequately mitigate those risks.
- Develop and formally communicate to the Commission and THEC staff their responsibilities for preventing, detecting, and reporting allegations of fraud, waste, or abuse at the Commission to the committee and the Comptroller's Office as well as a process for immediately reporting such information.
- Review with management and legal counsel any legal matters, including pending litigation that may have a material impact on THEC, and any material reports or inquiries from regulatory or governmental agencies.
- Resolve any differences between management and the State and Federal auditors regarding financial reporting.
- Review the established process to ensure THEC's compliance with legal and regulatory requirements.
- Oversight and direction of Federal and State audits.
- Seek any information required from THEC management and staff – all of whom are directed to cooperate with the committee's requests – or external parties.
- Meet with THEC officials, legal counsel, and State or Federal Auditors to discuss matters that the committee deems necessary.
- Other duties as directed by the Commission.

Internal Control

- Oversight of the effectiveness of THEC's internal control system and management practices, including information technology security and control.
- Understand the scope of the auditors' review of internal control over financial reporting
- Review management's risk assessment and internal control structure.

Communications and Reporting

- Provide an open avenue of communications among State and Federal auditors, senior management, and the Commission. Ensure procedures for the receipt, retention, and treatment of complaints about accounting, internal controls, or auditing matters.
- Report regularly to the Commission regarding committee activities and issues, including such recommendations as the committee deems appropriate.
- Develop and annually review a written code of conduct which shall be communicated to the Commission, THEC management and staff, reminding those individuals of the public nature of the Commission and the need for all to maintain the highest level of integrity with regard to the financial operations and any related financial reporting responsibilities of the Commission; to avoid preparing or issuing fraudulent or misleading financial reports or other information; to protect the Commission's assets from fraud, waste, and abuse; to comply with all relevant laws, rules, policies and procedures; and to avoid engaging in activities which would otherwise bring dishonor to the Commission.
- Review the conflict of interest policy to ensure the term "conflict of interest" is clearly defined; guidelines are comprehensive; annual signoff is required; and potential conflicts are adequately resolved and documented.