

AUDIT COMMITTEE CHARTER Houston Independent School District

Introduction:

The Audit Committee plays an important role in providing oversight of the Houston Independent School District's ("District's") governance, risk management, and internal control practices. This oversight mechanism also serves to provide confidence in the integrity of these practices. The Audit Committee performs its role by providing independent oversight to the Board of Education ("Board").

Purpose:

The purpose of the Audit Committee is to:

- Assist the Board in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, the internal and external audit processes and Houston Independent School District's process for monitoring compliance with laws and regulations and the code of conduct;
- Provide added protection to the Board in discharging its responsibility for the overall stewardship of District affairs, particularly its financial management;
- Provide public support for the District's audit programs;
- Provide assurances that the overall levels of audit coverage are both reasonable and appropriate to protect the District from undue risks;
- Assist in obtaining effective corrective action and necessary improvement based upon audit findings and recommendations from external and internal auditors; and
- Provide the Board and the public with additional assurances that the prescribed systems of internal controls are functioning as intended.

The committee assists the Board by providing advice and guidance on the adequacy of the District's initiatives for:

- Risk management;
- Internal control framework;
- Oversight of the internal audit activity, external auditors, and other providers of assurance; and
- Financial statements and public accountability reporting.

In broad terms, the Audit Committee reviews each of the items noted above and provides the Board with independent advice and guidance regarding the adequacy and effectiveness of management's practices and potential improvements to those practices.

Background:

The Audit Committee was established on xxxxxx. At that time, the charter for the committee was established by the Board. The charter, which governs the work of the committee, was last reviewed and updated on December 13, 2018.

Authority:

The Audit Committee Charter sets out the authority of the Audit Committee. The Audit Committee has authority, in accordance with Board policy, to recommend audits or investigations into any matters within its scope of responsibility as articulated within the Audit Committee Charter and the annual audit plan, and to review the results of same.

The committee is empowered to:

- Recommend to the Board the appointment and compensation of, and review all audit and non-audit services performed by auditors, including the District's Chief Audit Executive;
- Recommend to the Board proposed resolution to any disagreements between management and the Chief Audit Executive regarding financial reporting;
- Recommend to the Board for approval all auditing and non-audit services conducted by the public accounting firm;
- Recommend to the Board the retention of independent counsel, accountants, or others to advise the committee or assist in the conduct of an audit or investigation;
- Seek information necessary to discharge its duties under this charter from the Superintendent, or the Superintendent's designee, as permitted by law and Board policy;
- Meet with the Board, Superintendent and/or Superintendent's designee, the Chief Audit Executive, external auditors, or Board Counsel, as necessary;
- Recommend to the Board the annual budget for the Office of Internal Audit, which will be included within annual budget adopted by the Board of Education; and
- Recommend to the Board, as necessary, the appointment of community advisors to the Audit Committee.

Composition of the Audit Committee:

The Audit Committee will consist of at least three (3) members of the Board of Education upon nomination and vote of the Board.

The Audit Committee shall elect a Chairperson who will serve the entire calendar year. An Audit Committee member may not serve more than four (4) consecutive years as chair.

Members of the Audit Committee should reflect the Board's commitment to diversity. A strong background in finance, accounting or auditing is not necessary for membership, although such a background in at least one member is preferable. Because the responsibilities of the Audit Committee evolve in response to regulatory, economic, and reporting developments, it is important to periodically re-evaluate member's competencies and the overall balance of skills on the committee in response to emerging needs.

The term of service of each member is two (2) calendar years, unless reduced by vote of the Board or by vote of the members. Members' terms shall be staggered to minimize the impact of member turnover.

A member's term may be extended beyond the initial two (2) year term by nomination by any Board member and approved by the Board, but no member shall serve more than three (3) consecutive terms.

Meetings:

Members of the Audit Committee shall attend all duly noticed regular meetings and may not miss more than three (3) consecutive regular meetings without good cause. Committee members are expected to attend each meeting, in person or , in accordance with state law, via video-conference.

The Chair will establish the agenda for Audit Committee meetings in consultation with Audit Committee members, senior management, and the Chief Audit Executive. Meeting agendas will be provided in advance to members, along with appropriate briefing materials.

The committee will invite members of management, auditors or others to attend meetings and provide pertinent information, as necessary.

A portion of each meeting shall be set aside for a private session with the independent and/or internal auditors for items that fall within the executive session provisions of the Texas Open Meetings Act.

Minutes will be prepared and approved for the record for the open session portion of the meeting, and a certified agenda shall be prepared for the executive session portion of the meeting.

When requested, the Chief Audit Executive will facilitate and coordinate meetings as well as provide ancillary support to the committee, as time and resources permit.

Information Requirements:

The Audit Committee will establish and communicate its requirements for information from the Chief Audit Executive, which will include the nature, extent, and timing of information. Information will be provided to the Audit Committee in sufficient time prior to each Audit Committee meeting.

Quorum:

The quorum for the Audit Committee will be a majority of the members.

Conflict(s) of Interest:

Audit Committee members should adhere to the Board's policies concerning conflict of interest.. It is the responsibility of Audit Committee members to disclose any conflict of interest or appearance of a conflict of interest to the committee, and to recuse themselves from discussion of any item on which they have a conflict.

Orientation and Training:

Audit Committee members will receive formal orientation training on the purpose and mandate of the committee and on the District's objectives. If not already in place, a process of continuing education will be established.

Responsibilities:

The committee will carry out the following responsibilities:

1. Financial Statements

- Review significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, and recent professional and regulatory pronouncements, and understand their impact on the financial statements.
- Review with the Chief Audit Executive and the external auditors the results of the audit, including any difficulties encountered.
- Review the annual financial statements, audit reports, and any related management letters, including but not limited to the comprehensive annual financial report and the single audit report, and consider whether they are complete, consistent with information known to committee members.
- Review with the Chief Audit Executive and the external auditors all matters required to be communicated to the committee under Generally Accepted Auditing Standards.
- Understand how management develops financial information, and the nature and extent of internal and external auditor involvement.
- Understand strategies, assumptions and estimates that management has made in preparing financial statements, budgets, and investment plans.
- Review interim financial reports with management and external auditors before filing with regulators and consider whether they are complete and consistent with the information known to committee members.

2. Internal Control Framework

- Consider the effectiveness of the internal control system, including but not limited to, information technology security and control.
- Review and provide advice on the District's overall and departmental unit's internal contract arrangements, as may be requested by the Board.
- Receive reports on all matters of significance arising from work performed by other providers of financial and internal control assurance to senior management and the Board, as may be requested by the Board.
- Understand the scope of internal and external auditors' review of internal control over financial reporting and operations, and obtain reports on significant findings and recommendations, together with management's responses.

3. Internal Audit

- Review the internal audit charter at least on an annual basis, and make recommendations to the Board concerning any necessary changes.
- Review and recommend to the Board the appointment, replacement, or dismissal of the Chief Audit Executive.
- Review and discuss periodic risk assessments and make recommendations to the Board concerning the annual audit plan and all major changes to the plan.
- Review the internal audit activity's performance relative to its plan.

- Review and provide input on the internal audit activity's strategic plan, objectives, performance measures, and outcomes
- Review and monitor significant internal audit reports, the implementation of audit recommendations, corrective action plans by management, and follow-up audits to confirm implementation.
- Review with the Chief Audit Executive the internal audit budget, resource plan, activities, staff expertise, and organizational structure of the internal audit function, and recommend to the Board for inclusion in the District's annual operating budget.
- Inquiry of the Chief Audit Executive whether any internal audit engagements or non-audit engagements have been completed but not reported to the committee; if so, inquire whether any matters of significance arose from such work.
- Inquiry of the Chief Audit Executive whether any evidence of fraud has been identified during internal audit engagements and evaluate what additional actions, if any, should be taken.
- At least once per year, review the performance of the Chief Audit Executive with the Board and recommend to the Board the annual compensation and any salary adjustment.
- Review the effectiveness of the internal audit function, including conformance with The Institute of Internal Auditors' Definition of Internal Auditing, Code of Ethics and the International Standards for Professional Practice of Internal Auditing and Generally Accepted Auditing Standards, and as applicable, the standards and guidelines promulgated by the American Institute of Certified Public Accountants, Government Auditing Standard (GAGAS), the United States Government Accountability Office, special auditing and reporting guidelines as may be required by the Texas State Comptroller's Office, the Texas Education Agency, or any other regulatory or oversight authority based upon the specific areas reviewed.
- On a regular basis, meet separately with the Chief Audit Executive to discuss any matters that the committee or internal audit believes should be discussed privately, as authorized by law.
- Ensure that the internal audit activity has a quality assurance and improvement program and that the results of these periodic assessments are presented to the Audit Committee.
- Ensure that the internal audit activity has an external quality assurance review every five years
- Review the results of the independent external quality assurance review and monitor the implementation of the internal audit activity's action plans to address any recommendations.

4. External Audit

- Review the external auditors' annual audit plan, including but not limited to, their proposed audit scope and approach, engagement letter, risks assessments, and coordination of audit effort with internal audit.
- Review the performance of the external auditors, and recommend approval on the appointment or discharge of the auditors.

- Review and confirm the independence of the external auditors by obtaining statements from the auditors on relationships between the auditors and the HISD, including non-audit services, and discussing the relationships with the auditors.
- On a regular basis, meet separately with the external auditors to discuss any matters that the committee or auditors believe should be discussed privately, as authorized by law.
- Monitor management's progress on action plans.

5. Compliance

- Review the effectiveness of the system for monitoring compliance with Board policies and Federal/State laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of noncompliance.
- Review the findings and recommendations of internal and external auditors, and any examinations by regulatory agencies.
- Review the process for communicating the code of conduct to HISD personnel, and for monitoring compliance therewith.
- Obtain regular updates from management, legal counsel, and the ethics & compliance office regarding compliance matters.

6. Risk Management

- Annually review HISD's risk profile.
- Obtain an annual report from the Chief Audit Executive on management's implementation and maintenance of an appropriate risk management process.
- Provide oversight on significant risk exposures and control issues, including fraud risk, governance issues, and other matters needed or requested by senior management and the Board.
- Provide oversight of the adequacy of the combined assurance being provided.
- Review and provide advice on the risk management processes established and maintained by management and the procedures in place to ensure that they are operating as intended.

7. Fraud

- Oversee management's arrangements for the prevention and deterrence of fraud.
- Ensure that appropriate action is taken against known perpetrators of fraud.
- Challenge management and internal and external auditors to ensure that the entity has appropriate antifraud programs and controls in place to identify potential fraud and ensure that investigations are undertaken if fraud is detected.

8. Reporting Responsibilities

- Regularly report to the Board of Education about committee activities, issues, and related recommendations.
- Provide an open avenue of communication between internal audit, the external auditors, and the Board of Education.
- Submit an annual report to the Board of Trustees summarizing the Audit Committee’s activities, issues, and recommendations. The report should include:
 - A summary of the work the Audit Committee performed to fully discharge its responsibilities during the preceding year;
 - A summary of progress in addressing corrective actions on the findings and recommendations made in internal and external audit reports;
 - Details of meetings, including the number of meetings held during the relevant period and the number of meetings each member attended; and
 - A discussion regarding any other matter the committee deems of sufficient importance.
- Review any other reports issued by HISD that relate to committee responsibilities.

9. Other Responsibilities

- Perform other activities related to this charter as requested by the Board of Education.
- Review special investigations as directed by the Board.
- Review and assess the adequacy of the committee charter annually, requesting Board approval for proposed changes, and ensure appropriate disclosure as may be required by law or District policy.
- Confirm annually that all responsibilities outlined in this charter have been carried out.
- Evaluate the committee's and individual members' performance on a regular basis.

Audit Committee Charter:

Approved this 13th day of December, 2018.

Rhonda Skillern-Jones

Rhonda Skillern-Jones
President of the Board

Holly Maria Flynn Vilaseca

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Chairperson of the Audit Committee