

East Side Union High School District
San Jose, California
Audit Committee Charter
Adopted 11/19/2009
Revised 12/10/2015

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.

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 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. Reviewing the plan for the audit process with the independent auditor to determine the adequacy of the nature, scope, and timetable of the audit,
 - b. Reviewing the results of the audit and participate with the independent auditor and the Board in preparing final recommendations and responses,
 - c. Participating with the independent auditor in presenting the audit report to the Board,
 - d. Reviewing Board policies and administrative regulations to recommend any revisions needed to ensure effective financial reporting,
 - e. Periodically reporting to the Board regarding the status of previous audit recommendations for improving the accounting and internal control functions, and
 - f. Providing input on the effectiveness of the external independent auditor.
- 2) Assist the Board in providing oversight of the external and internal audit functions

- 3) Assist the Board in complying with its fiduciary oversight obligations;
- 4) Provide a communication link between the external and internal auditor and the Board
- 5) Provide greater transparency over public funds while improving public trust

III. Membership

The Audit Committee consists of five 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. The Board President may not concurrently serve on the Audit Committee.
- 2) Three public members.

The Board may appoint an alternate public member. The alternate's responsibility is to temporarily substitute, with full voting powers, for any Audit Committee member who is absent from a meeting.

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.

Appointment of Board members to the Audit Committee will be made at the Board's annual organizational meeting in December or as vacancies occur.

Board member terms shall be for one year beginning on the date of appointment at the Board's annual organizational meeting in December and ending the following year at the Board's next annual organizational meeting.

Public members will be appointed at the first regular Board meeting in January. Notification of the appointment process shall be posted at least 30 days prior to the appointment date. Public member terms will be for two years. The alternate public member term will be for one year. In order to coincide with the annual presentation of the external audit report to the Board, public member terms shall begin on February 1 and end two years later on January 31 or when the Board appoints a new member, whichever is later.

Public 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 three public members, the Board shall determine by lot which two of the public members shall serve an initial term of two years with the third public member serving an initial term of one year. The maximum number of consecutive years a member may serve is nine. A termed out member is eligible for appointment again after not serving for at least 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) Any person who, within the 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),
- c) A close or immediate family member of anyone who would be prohibited from serving on the Audit Committee under a) through b) above. The term “close or immediate family member” includes parent, sibling, nondependent child, spouse or domestic partner, or dependent (whether or not related),

Exceptions are as follows:

- d) An individual who would otherwise be excluded may serve if, after full disclosure, the potential conflict of interest is not material.
- 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. The Board shall decide whether or not to remove and replace the affected member. Should a vacancy occur, the Board will notify the public of the opening, accept applications and appoint an individual to serve the balance of the vacated term.

If a vacancy among the voting public members occurs, the Board may appoint the alternate public member to fill the term of the vacated member.

The Audit Committee Chair and Vice Chair shall recommend to the Board as to when (as quickly as possible or in conjunction with the annual appointment of public member(s)) a new alternate public member shall be appointed.

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 may:

- 1) Review the effectiveness of the ESUHSD’s accounting organizational structure, and operations,
- 2) Review the ESUHSD’s internal controls, the adequacy of such controls, and recommends changes to management and the Board,

- 3) Review with the Superintendent and other management personnel the adequacy of systems and procedures for protecting information,
- 4) Inquire 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) Review 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 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 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.
- Shall meet at least three times per calendar year, and at additional times when necessary, to fulfill its responsibilities.
- Shall receive training and 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. Only the Audit Committee Chair will make these requests for information. 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 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 professional consultants. The authority to engage professional consultants rests exclusively with the Board.

The Audit Committee shall report 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 Chair prepares the agenda with consultation with the Vice Chair. Any member wishing to place an item on the agenda will do so by communicating in writing to the Chair.

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 two unexcused absences during the member's term or three absences, for any reason, 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.

The Audit Committee's oversight responsibility may include:

- 1) Monitoring the periodic selection of and contracting with, the outside independent auditor in accordance with State law, 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 non-privileged 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 external auditors:
 - a. The ESUHSD's annual financial statements, related footnotes, and management's discussion and analysis,
 - b. The external auditor's audit of the financial statements and their report thereon, including any management letter comments or schedule of unadjusted differences,
 - c. The external auditor's judgments about the quality, not just the acceptability, of the ESUHSD's accounting policies as applied in its financial reporting,
 - d. Any findings by the independent auditor regarding 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) If requested, may make recommendations to the Board regarding the selection of an internal auditor,
- b) Assists in the oversight of any internal audit function,
- c) Reviews the annual internal audit plan to ensure that high risk areas and key control activities are periodically evaluated and tested,

- d) Reviews the results of internal audit activities and significant recommendations and finding of the internal auditor,
- e) Monitors implementation of the internal auditor's recommendations by the Superintendent and/or Board,

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.

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 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.