

**DEPARTMENT OF EDUCATION
AUDIT COMMITTEE CHARTER**

I. PURPOSE

The Audit Committee (“Audit Committee”) shall be responsible for assisting the Board of Education (“Board”) in fulfilling its policy-making, support and oversight responsibilities relating to:

- A. Financial statements, accounting and financial reporting processes;
- B. Compliance with legal and regulatory requirements;
- C. Systems of internal controls over financial reporting and compliance with the Code of Conduct and ethical standards adopted by the Department of Education (“Department”).

II. COMMITTEE MEMBERSHIP

- A. The Audit Committee will comprise of three or more members as determined by the Board.
- B. The members of the Audit Committee and its Chairperson and Vice-Chairperson shall be appointed by the Board at a regularly scheduled meeting, and shall serve one year terms or until their successors are appointed or their earlier resignation or removal.
- C. In the event of a vacancy, the Board shall appoint a replacement as the Board shall determine is appropriate.
- D. The quorum requirement for the Audit Committee shall be determined by the Board.
- E. In the absence of the Chairperson, the Vice-Chairperson shall preside over the meeting; and in the absences of both the Chair and the Vice-Chair, provided that a quorum is present, the remaining members present shall elect one of their number to preside over the meeting.
- F. The Audit Committee shall promptly inform the Board of the actions taken or issues discussed at its meetings.
- G. Audit Committee members shall possess or obtain a basic understanding of governmental financial reporting and auditing.

III. MEETINGS

- A. The Audit Committee will meet at least quarterly, or more frequently as circumstances dictate.
- B. The Chairperson of the Audit Committee may call a special meeting of the committee upon due notice to all committee members and to the Chairperson of

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the Board, and with prior notice and publication of the agenda as provided by law.

- C. The Audit Committee agenda shall be promulgated by the Audit Committee Chairperson, with input from the Superintendent, relevant Assistant Superintendent or Director, and Board Members.
- D. A majority of the members present shall decide any question brought before the Audit Committee.

IV. AUTHORITY

- A. The Audit Committee has the authority to conduct investigations into any matters within its scope of responsibility and obtain advice and assistance from the Hawaii State Department of the Attorney General, accountants, or other advisors, as necessary to perform its responsibilities.
- B. In carrying out its responsibilities, the Audit Committee also has the authority to meet with and seek any information it requires from the Department and its employees, Board Members, or external parties.
- C. The Audit Committee further has the authority to approve and adopt the reports, reviews, and other documents submitted to it as the committee deems necessary and appropriate. The Audit Committee will provide its recommendation to the Board regarding approval and adoption of the reports, reviews, and other documents.

V. RESPONSIBILITIES

In carrying out its oversight responsibilities, the Audit Committee practices and procedures should remain flexible in order to best react to changing conditions and assure the Board that the risk assessment process, the accounting and financial reporting processes, internal controls, internal and external auditing, and compliance programs of the Department are in accordance with all related requirements and are of the highest quality. To fulfill its responsibilities, the Audit Committee will endeavor to engage in the following activities:

- A. Receive and review the external audit reports on the annual financial statements of the Department.
- B. Confirm with management and the external auditor that the annual financial statements disclose all material off-balance sheet transactions, arrangements, obligations and relationships of the Department.
- C. Review new and significant accounting pronouncements with the external auditor and understand their impact of the Department's financial statements.

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- D. Ensure that the Internal Audit Office has appropriate reporting relationships to the Department and the Board to preserve the office's independence.
- E. Determine that the Internal Audit Office is quality oriented and has in place a quality assurance and improvement program.
 - 1. Periodically, and as circumstances warrant, review the Internal Audit Office's plan for adequacy of continuing professional education for Internal Audit Office staff and staffing, and advocate, as necessary, for resources.
- F. Periodically, and as circumstances warrant, review the function of the Internal Audit Office and recommend actions for improvement as appropriate.
- G. Work with the Director of the Internal Audit Office to ensure that the office is sufficiently resourced with competent, objective professionals to carry out the internal audit plan.
- H. Review and concur with the appointment, reassignment, or termination of the Director of the Internal Audit Office.
 - 1. The Audit Committee must be advised of the appointment or termination of the Director of the Internal Audit Office before such action becomes effective.
- I. Address with the Director of the Internal Audit Office all issues related to internal audit independence and objectivity.
- J. Annually, or as necessary, evaluate the adequacy of this Charter and recommend any proposed changes to the Board for approval.
- K. Annually review and approve the internal audit plan and receive quarterly progress reports on the plan.
- L. Periodically review, with the Director of the Internal Audit Office, any significant difficulties, disagreements with management, or scope restrictions encountered in the course of the Department's work.
- M. Receive reports of completed internal audits prior to each meeting, and selectively follow-up on management's planned improvements in response to audits or reviews and assess the outcomes and process.
 - 1. Internal audit reports are actionable, and audit recommendations and/or other improvements are satisfactorily implemented by management.
 - 2. Evaluate audit findings, recommendations, and planned management improvements in light of the risk management is willing to assume.

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- 3. Advise the Board and management as appropriate if in the judgement of the Audit Committee, management is assuming an unreasonable level of risk.

- N. Maintain a clear understanding of the strengths and weaknesses of the organization's internal control and risk management systems.

- O. Inquire of management, the Director of the Internal Audit Office, and the external auditor about significant financial and compliance risks or exposures to Department and assess the steps management has taken to mitigate such risks and exposures.

- P. Review areas of risk assigned to the Audit Committee by the Board for further review or other follow-up based on annual enterprise risk reports from management.

- Q. Periodically, and as circumstances warrant, receive updates on the Department's Code of Conduct and the Department's system to monitor compliance with and enforcement of this code and recommend actions for improvement as appropriate.

- R. Discuss policies with respect to risk assessment and risk management, including appropriate guidance to govern the process, as well as the major financial risk exposures and the steps management has taken to control them.

- S. Ensure that the Department has an appropriate confidential mechanism for individuals to report suspected fraudulent activities, allegations of corruption, fraud, criminal activity, conflicts of interest, breaches of internal control, the Department's Code of Conduct, or abuse by Board members, Department employees, or any persons having business dealings with the Department or breaches of internal control.

- T. Ensure management (or any other appropriate body) develops, maintains, and adheres to procedures for the receipt, investigation, and/or referral of complaints concerning accounting, internal controls, auditing, and any other relevant areas.

- U. Conduct an annual performance assessment of the Audit Committee's purpose and responsibilities outlined herein and report its findings to the Board.

VI. LIMITATIONS OF THE AUDIT COMMITTEE'S ROLE

It is not the duty of the Audit Committee to plan or conduct audits or to determine that the Department's financial statements are complete, accurate, and in accordance with Generally Accepted Accounting Principles ("GAAP"). This is the responsibility of management and the external auditors. Furthermore, while the Audit Committee is responsible for reviewing the Department's policies and practices with respect to risk assessment and management, it is the responsibility of the Superintendent and senior management to determine the appropriate level of the Department's exposure

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to risk. It is the duty of the Audit Committee to report regularly to the Department with respect to any issues that arise concerning the quality or integrity of the Department's financial statements, the Department's compliance with legal or regulatory requirements, the performance and independence of the Department's external auditors, the performance of the internal audit function, or any other matter within the scope of the Committee's functions.

Lance A. Mizumoto

Lance Mizumoto, Chairperson, Audit Committee

DEC 06 2016

Date

Kenneth Uemura

Kenneth Uemura, Vice Chairperson, Audit Committee

DEC 06 2016

Date