DEPARTMENT OF EDUCATION
AUDIT COMMITTEE CHARTER

I. PURPOSE

The Audit Committee of the Department of Education ("Audit Committee") shall be responsible for providing oversight assistance to the Department of Education's Board of Education ("BOE") in fulfilling their responsibilities relating to:

A. The integrity of the Department of Education's ("DOE") financial statements;

B. The DOE's compliance with legal and regulatory requirements;

C. The qualifications, independence and performance of the external auditors;

D. Monitoring the performance of the DOE's internal audit activities; and

E. The business practices and ethical standards of the DOE.

It is the responsibility of the Audit Committee to maintain free and open communication between the BOE, the Director of Internal Audit, the external auditors, and management of the DOE. The Audit Committee shall also fulfill the other responsibilities set forth in this charter.

II. COMMITTEE MEMBERSHIP

A. The Audit Committee shall be composed of at least three members of the BOE.

B. The members of the Committee and its Chair shall be approved by the BOE annually and shall serve one year terms or until their successors are elected or their earlier resignation or removal.

C. In the absence of the Committee Chair, the Vice Chairperson shall preside over the meeting.

D. The Board shall approve members for a period shorter than one year in the event of a vacancy.

E. Audit Committee members shall possess or obtain a basic understanding of governmental financial reporting and auditing.

III. MEETINGS

A. The Audit Committee may meet as frequently as required, with a minimum of at least four times per year, with prior notice and publication of the agenda as provided by law.

B. The Chairperson of the Committee may call a special meeting of the Committee upon due notice to the Chair of the Board and each other member, and with prior notice and publication of the agenda as provided by law.

C. A majority of members shall constitute a quorum.

D. A majority of the members present shall decide any question brought before the committee.

IV. AUTHORITY

The Committee shall have the authority, at the expense of the BOE, to retain such independent auditors, consultants, lawyers or other advisors as it shall deem appropriate.

V. RESPONSIBILITIES

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

Risk Assessment

A. Obtain a clear understanding of the risk assessment process.

B. Inquire of management, the internal auditors, and the external auditors about significant risks or exposures. Meet with the necessary parties to discuss the results of the annual risk assessment.

C. Assess the steps management has taken to minimize risks to the DOE.

Accounting and Financial Reporting Processes and Internal Controls

D. Obtain a clear understanding of the DOE's accounting and financial reporting processes and critical policies, and ensure that the financial leadership team is qualified and competent.

E. Review the adequacy and effectiveness of the accounting and financial controls, including information technology and security controls of the DOE with the financial and accounting personnel, internal auditors, external auditors, and elicit any recommendations for the improvement of the system of internal controls or particular areas where new or more detailed controls or procedures are desirable. Particular emphasis should be given to the adequacy of the system of internal controls to expose payments, transactions, or procedures that might be deemed illegal or otherwise improper.

F. Assess the integrity of the annual financial statements and related disclosures, including significant accounting judgments and estimates.

G. Obtain an understanding of any corrective actions to be taken with regard to controls and procedures.

H. Coordinate with the other BOE Committees, as deemed necessary.

Internal Auditors

I. Review the internal audit function of the DOE including the independence and authority of its reporting obligations, qualifications, staffing, co-sourcing where applicable, and proposed annual internal audit plan for the coming year.

J. Review the reports and findings/recommendations of the internal auditors and the DOE schools/offices/management responses to such recommendations.

K. Receive a summary of major findings from completed internal audits.

L. Review the effectiveness of the internal audit function, including compliance with the Institute of Internal Auditors Standards for the Professional Practice of Internal Auditing.

M. Request and review, periodically, internal auditors to review the compliance of intra-department and inter-department Service Level Agreements ("SLA") a.k.a. Memorandum of Understandings.

N. Discuss with the Director of Internal Audit any significant issues deemed necessary to bring to the attention of the Audit Committee in executive session.

External Auditors

O. Review the selection, retention, or discharge of the external auditors for the annual audit in accordance with applicable Hawaii State Law.

P. Review the external auditors' qualifications, performance, and independence. As part of the evaluation, the Audit Committee shall consider the following by obtaining and reviewing a report or reports from the external auditors:

   a. Describing the external auditors' independence policies and procedures;

   b. Describing the external auditors' internal quality-control procedures;

   c. Describing any material issues raised by (1) the most recent internal quality-control review or peer review of the auditing firm or (2) any inquiry or investigation by governmental or professional authorities, within the preceding five years, regarding one or more independent audits carried out by the auditing firm, and any steps to deal with any such issues; and

   d. Describing all relationships between the external auditors and the DOE, consistent with applicable Independence Standards.

Q. Investigate the issues giving rise to the resignation of the external auditor and consider whether any action is required.

R. Recommend to the BOE, when deemed necessary, that the external auditors engage in special studies and reports regarding auditing matters, accounting procedures, or other matters.

S. Review, at least annually, the following with senior management and the external auditor:

   a. Scope of the proposed audit for the current year and the procedures to be utilized.

   b. Annual audited financial statements to determine that the external auditor is satisfied with the disclosure and content of the financial statements.

c. Results of timely analysis of significant financial reporting issues and practices, including changes in, or adoptions of, accounting principles and disclosure practices.

d. Matters required to be communicated to the Audit Committee by Statements of Auditing Standards, including audit adjustments made and passed.

e. Judgments about the quality, not just the acceptability of accounting principles and the clarity of the financial disclosures practices used or proposed to be used, and particularly the degree of aggressiveness or conservatism of accounting principles and underlying estimates.

f. Audit findings, Management Letter and management's response.

g. Material off-balance sheet transactions.

T. Report the results of the annual audit to the BOE.

U. Discuss with the external auditor any significant issues that the external auditor wishes to bring to the Audit Committee's attention, and obtain a confidential appraisal of the DOE's internal audit function and Director of Internal Audit in executive session.

Other

V. Request periodic reviews to validate the results presented in various reports, including the DOE's strategic plan results.

W. Oversee the DOE's policies and procedures regarding compliance with applicable laws and regulations and with the DOE's Code of Conduct and BOE's Ethics Policy and receive status reports from the appropriate areas of the DOE.

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

Y. Consult with the Department of the Attorney General on legal matters regarding financial transactions, fraud, or any other issue that could have significant impact on the annual reports.

Z. Seek any information it requires from DOE employees, all of whom should be directed by the DOE to cooperate with Committee requests.

AA. Develop and maintain procedures for the receipt, retention, investigation and/or referral of complaints concerning accounting, internal controls and auditing to the appropriate body.

BB. Conduct or authorize investigations into any matters within its scope of responsibility.

CC. Obtain any information and training needed to enhance the Committee members' understanding of the role of internal audits and the external auditor, the risk management process, internal controls and a certain level of familiarity in government financial reporting standards and processes.

DD. The BOE is committed to ensure that the DOE uses "Best Practices" methodology. From time to time, the BOE may request the internal audit area to review the practice methodology.

EE. The Committee shall evaluate the adequacy of this Charter annually and recommend any proposed changes to the Board for approval.

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

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Donald G. Horner, Chairperson, Audit Committee Date

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Wesley Lo, Vice Chairperson, Audit Committee Date