

CALIFORNIA STATE UNIVERSITY INSTITUTE

AUDIT COMMITTEE CHARTER

Adopted: March 25, 2008
Reviewed: October 25, 2018

Committee Role

The Committee's role is to act on behalf of the Board of Directors and oversee all material aspects of the organization's financial reporting, control, and audit functions. The Audit Committee's role includes a particular focus on the qualitative aspects of financial reporting and on organization processes for the management of risk and for compliance with significant applicable tax, legal, ethical, and regulatory requirements.

The role also includes maintenance of strong, positive working relationships with management, independent auditors, outside legal counsel, and other committee advisors.

Committee Membership

The Committee shall consist of two or more Directors appointed by the Board and may include individuals who are not members of the Board.

Committee members shall have: (1) access to information regarding the primary activities of the organization and limited to documents necessary to discharge the fiduciary and administrative responsibilities of the committee; (2) the ability to read and understand nonprofit financial statements, including a balance sheet, income statement, statement of cash flows, and key performance indicators; and (3) the ability to understand key operational and financial risks and related controls and control processes. The Committee shall have access to its own counsel and other advisors at the Committee's sole discretion.

The Chairman and Treasurer of the Institute are prohibited from service on the Audit Committee. Members of the Audit Committee shall not have any material financial interest in entities doing business with the Institute.

At least one member, preferably the chair, should be literate in nonprofit financial reporting and control, including:

- knowledge of tax and regulatory requirements;
- an understanding of generally accepted accounting principles and financial statements;
- the ability to assess the general application of such principles in connection with the accounting for estimates, accruals, and reserves;
- experience in preparing, auditing, analyzing or evaluating financial statements that present the breadth and complexity of accounting issues generally comparable to issues reasonably expected to be raised by the organization's financial statements;
- an understanding of internal controls and procedures for financial reporting and an understanding of audit committee functions.

Committee Operating Principles

The Committee shall fulfill its responsibilities within the context of the following overriding principles:

Communications - The chairperson and others on the Committee shall, to the extent appropriate, maintain an open avenue of contact throughout the year with the Board, senior management, and other key committee advisors (independent auditors, outside legal counsel), as applicable, to strengthen the Committee's knowledge of relevant current and prospective organization issues.

Education/Orientation – At their request, the Committee can develop and participate in a process for review of important financial and operating topics. Management will assist in the planning and delivery of these sessions. Additionally, individual committee members may wish to participate in relevant and appropriate educational opportunities to ensure understanding of the organization's activities and risks.

Meeting Agenda - Committee meeting agendas shall be the responsibility of the committee chairperson, with input from committee members. It is expected that the chairperson would also ask management and key committee advisors, and perhaps others, to participate in this process.

Expectations and Information Needs - The Committee shall communicate expectations and the nature, timing and extent of information needs to management, independent auditors, and other relevant parties. Written materials shall be received at least seven (7) days in advance of meeting dates. Committee members will review written materials in sufficient depth to participate in committee/board dialogue.

Meeting Attendees - The Committee shall request members of management, legal counsel, and independent auditors to participate in Committee meetings, as necessary, to carry out the Committee's responsibilities. It shall be understood that independent auditors or outside legal counsel may, at any time, request a meeting with the Audit Committee or Committee Chairperson with or without management's attendance and the Committee Chairperson shall convene requested meeting. The Committee Chairperson may call closed or executive sessions as needed.

Meeting Frequency - The Committee shall meet at least three times per year. Additional meetings shall be scheduled as considered necessary by the Board, the Committee, or chairperson.

Reporting to the Board of Directors - The Committee, through the committee chairperson, shall report periodically, as deemed necessary to the Board of Directors. In addition, summarized minutes from committee meetings shall be available to each board member at least one week prior to the subsequent meeting of the Board of Directors.

Committee Responsibilities

In the execution of its responsibilities, the Committee shall be authorized to access internal and external resources. Many of the responsibilities enumerated below will utilize these resources.

Financial Reporting

- Review and assess the audited financial statements before they are released to the public or filed with the state.
- Review and assess the key financial statement issues and risks, their impact or potential effect on reported financial information, the processes used by management to address such matters, related independent auditors' views, and the basis for audit conclusions.
- Approve changes in important accounting principles and the application thereof in both interim and annual financial reports.
- Advise financial management and the independent auditors that they are expected to provide a timely analysis of significant current financial reporting issues and practices.

Risks and Controls

- Review and assess the organization's operating and financial risk management process, including the adequacy of the overall control environment and controls in selected areas representing significant risk.
- Review and assess the organization's system of internal controls for detecting accounting and financial reporting errors, fraud and defalcations, legal and tax code violations, and noncompliance with the organization's code of conduct. In that regard, review the related findings and recommendations of the independent auditors, together with management's responses.

Independent Auditors

- Recommend the selection of the independent auditors for approval by the Board of Directors.
- Instruct the independent auditors that they are responsible to the Board of Directors and the Audit Committee as representatives of the organization. In that regard, confirm that the independent auditors will report all relevant issues to the Committee in response to agreed-upon expectations.
- Review the performance of the independent auditors.
- Obtain a formal written statement from the independent auditors as to their independence. Additionally, discuss with the auditors any relationships or non-audit services that may affect their objectivity or independence.
- Consider, in consultation with the independent auditors, their audit scopes and plans to ensure completeness of coverage, reduction of redundant efforts, and the effective use of audit resources.
- Review and approve requests for any consulting services to be performed by the independent auditors, and be advised of any other study undertaken at the request of management that is beyond the scope of the audit engagement letter.
- Review with management and the independent auditors the results of the annual audits and related comments in consultation with other committees as deemed appropriate, including any difficulties or disputes with management, any significant changes in the audit plans, the rationale behind adoptions and changes in accounting principles, and accounting estimates requiring significant judgments.
- Provide a medium for the independent auditors to discuss with the Audit Committee their judgments about the quality, not just the acceptability, of accounting principles and financial disclosure practices used or proposed to be adopted by the organization.

Review of federal Form 990 and state Form 199

- Meet with management and preparer to review the draft of the annual federal Form 990 and state Form 199 submission and related schedules. In general, this will be a top-level review that includes explanation of any changes in the IRS forms or instructions and an overview of key information submitted; however, if the Audit Committee desires or deems it necessary to conduct a more detailed review, then they may contact the preparer of the federal Form 990 and the state Form 199 to request copies of the relevant detailed work papers.
- Document all of the questions, comments, and suggested revisions in the meeting minutes, along with any responses from the preparer of the federal Form 990 and state Form 199, if applicable.
- Approve final language no later than two weeks before submission deadline.
- Present a summary of the review to the full Board of Directors at its next scheduled regular meeting.

Other

- Review and update the Committee's charter.
- Review and, as necessary, recommend action related to conflicts of interest.
- Conduct or authorize investigations into any matters within the Committee's scope of responsibilities. The Committee will be empowered to retain independent counsel and other professionals to assist in conducting any investigation.