

September 19, 2019

20-043

APPROVE EDITS TO BOARD OF DIRECTORS AUDIT
COMMITTEE CHARTER

PREPARED BY: Jessica Johnson, Internal Auditor

APPROVED BY: Mark Mitsui, College President

REPORT: It is best practice for an organization having an internal audit function to establish an audit committee to enhance the quality and independence of the audit function. It is also best practice for the audit committee to include at least one member from the governing board.

The PCC Board approved the creation of an Audit Committee of the Board of Directors by Resolution 10-065. According to the Audit Committee Charter, the Audit Committee shall be comprised of four members. Two members shall be from the Board of Directors. Two members shall be citizens residing in the College District. One of the Board members shall be designated as Audit Committee Chair and the other shall be designated as Audit Committee Vice-Chair by Board resolution. The College President serves as an ex-officio member of the committee.

The Board of Directors, College President, and Internal Auditor have considered the membership structure of the Audit Committee and identified edits to the Committee charter that will ensure adaptable and efficient Board operations. These edits include requiring a minimum of one Board member and one citizen to serve on the Audit Committee, rather than two Board members and two citizens. The Board member shall be designated as the Audit Committee Chair, and there will be no Vice-Chair. The committee serves in an advisory capacity to the Board with no voting authority. As such, there is no requirement that the committee be comprised of a certain number of members in order to obtain a quorum.

The PCC Board appointed prior Director Valdez Bravo as Audit Committee Chair by Resolution 19-046. As of June 30, 2019, prior Director Bravo was not eligible to serve as PCC's Zone 5 board member as he no longer resided

within the jurisdiction. The Board will appoint the new Audit Committee Chair by separate resolution.

RECOMMENDATION: Approve edits to the Board of Directors Audit Committee Charter, as noted in Exhibit B.



Charters of the Board of Directors Audit Committee and Internal Auditor

I. Board of Directors Audit Committee

A. Purpose

The Audit Committee of the Board of Directors of Portland Community College is established by resolution to assist the Board in fulfilling its oversight responsibilities relating to:

1. Integrity of the College financial records including the financial statements;
2. Retaining the independent (external) auditor and assuring qualifications and independence;
3. Ensuring the independence and performance effectiveness of the external and internal audit functions;
4. Sufficiency of the system of disclosures and internal controls regarding finance, accounting, legal compliance and ethics as established in Board policy; and
5. Operation performance of the College, particularly with regard to the business risks for the College and the sufficiency of the College's risk mitigation programs.

B. Organization

The Audit Committee is a committee created by the Board of Directors as a whole.

C. Policy

1. The Audit Committee ~~shall be~~ comprised of not less than two- four members. ~~At least one Two- members are is a~~ members of the Board of Directors. ~~Two-At least one~~ members is a ~~are~~ citizens residing in the College District.
2. The term of membership is four years.
3. Members may serve two consecutive terms.
4. Committee members from the PCC Board will be designated by the Board through resolution.
5. One of the Board members on the committee shall be designated as Audit Committee Chair ~~and the other shall be designated as Audit Committee Vice-Chair~~ by Board resolution.
6. The pool of candidates for consideration as College District committee members is comprised of responses to a public "request for participation" prepared by the Board, and of nominations made by

Board members. The Audit Committee will review and evaluate candidates from those recommendations, and select a number of well-qualified candidates for interview. Interviews shall be conducted by the Audit Committee Chair, ~~Vice Chair~~, Internal Auditor, Vice President of Finance and Administration, any existing College District committee members and up to two additional Board members. Following the interviews, the interviewers shall meet to discuss which candidate(s) the Internal Auditor will recommend to the Board for consideration. The selection of the College District committee member(s) shall be at the pleasure of the Board.

7. In the event a citizen member cannot serve the entire term, the process outlined in C.6 shall be used to select a replacement.
8. If permitted by the qualifications and experience of members of the PCC Board of Directors who might serve on this committee, ~~three of the four~~ committee members must have financial management expertise sufficient to fulfill their responsibilities, as determined by the PCC Board as a whole.
9. The College President will be an ex-officio member of the committee, in order to ensure effective staff support for the committee's efforts.

D. Procedure

1. The Audit Committee will meet at least twice annually:
 - a. To hear and comment on the annual audit plan(s) as proposed by staff and the external and Internal Auditor. At this meeting, the Committee may provide feedback as to particular areas of focus for the upcoming audit activity. Both College staff (as designated by the College President) and the external audit firm's audit principal will attend.
 - b. To hear and comment on the draft annual audit report as prepared by the external audit firm prior to its submission to the College Board of Directors. To also hear and comment on the annual internal audit report prepared by the Internal Auditor prior to its submission to the College Board of Directors.
2. The Audit Committee will report on its meetings at the next regular meeting of the Board as a whole.
3. The Committee may consider an additional meeting to review and comment on the College's proposed Consolidated Annual Financial Report (CAFR).
4. The committee may call special meetings with the concurrence of ~~three of the four~~ committee members.

E. Authority

1. The Audit Committee is an advisory committee to the Board of Directors and has no independent authority not granted to it by resolution of the Board of Directors.
2. As a committee of the Board, the Audit Committee does not possess management control authority over College staff, nor does it have supervisory authority over the external or internal audit functions.

3. The agenda for the Board Audit Committee meetings is set by the Chair of the Committee with input from the Internal Auditor, College Board, President, and Vice President of Finance and Administration.

F. Specific Responsibilities

The committee shall:

1. Review external and internal audit plans and results prior to their submission by external auditors or by the Internal Auditor to the Board as a whole.
2. Report to the Board its opinions regarding the College response to the internal and external audit results.
3. Review specific areas of future audit focus for consideration, and provide feedback and opinions to the Internal Auditor, College President, and Board of Directors.

G. Sunset

The Audit Committee may be dissolved by resolution of the Board as a whole.

II. Internal Auditor

A. Purpose

The Internal Auditor's role is to support the mission and values of Portland Community College by providing objective and independent consulting and assurance services that will augment the organization's operations and programs. The auditor helps to ensure that the institution's resources, assets, and program operations are systematically evaluated and risks are appropriately defined and rigorously managed. In carrying out their duties and responsibilities, the auditor shall have full, free, and unrestricted access to all College records, property, and personnel except where such access may be limited or barred by federal or state law, or the provisions of a relevant collective bargaining agreement. No private agreement between PCC and a third party shall be used to limit the applicability of this section.

B. Objectives

1. Establish an ongoing, independent capability to review all College operations, including affiliated organizations where appropriate, to:
 - a. Ensure compliance with statutes, regulations, and policies;
 - b. Review reliability and integrity of financial data, operating information, and the means used to identify, measure, classify and report it;
 - c. Make value-added recommendations for improvements regarding economy, quality, continuous improvement, and effectiveness;
 - d. Assess opportunities for improving management control, economic effectiveness, and the organization's image; and
 - e. Perform appropriate follow-up procedures and assess the

effectiveness of actions taken.

2. Establish an ongoing ~~collaborative~~ risk assessment process ~~managed by the Internal Auditor, and includes in collaboration with~~ the College President and senior management. The auditor will:
 - a. Facilitate conversations and exercises in a multi-layered risk assessment approach, initiating with the College President, campus presidents and senior management, then secondarily with line management and personnel in the identification of potential risks.
 - b. Report on significant legislative or regulatory issues impacting the organization.
 - c. Evaluate internal controls supporting operations.
 - d. Identify operations with significant operating exposure to a campus and/or the overall College where appropriate internal controls are not evident; these will be defined as potential high risk.
 - e. Communicate and discuss potential high risk exposures at the institution with the College President and Board of Directors.
 - f. Consider further evaluation of the risk exposure as part of a more detailed internal audit analysis.
 - g. Utilize risk assessment outcomes in development of a prioritized annual internal audit work plan based on recognized levels of risk exposure and possible resulting liabilities.
 - h. Include recommendations for consideration by the College President and/or the Board to strengthen internal controls through a change in operational and/or financial practices, documented policies, guidelines, etc.
3. Serve as in-house management consultants to the Board and College President, who may request assistance from the auditor on an as-needed basis to review special issues, including strategic plan initiatives, and/or conduct such audits on the campuses and in the District Offices as may be requested.
4. Suggest to the College President plans for the audit function for the forthcoming year and the rationale for such audits. With the concurrence of the College President, present the annual audit plan to the Audit Committee for feedback, and recommend the annual audit plan to the Board for ultimate approval.
 - a. Implement the annual audit plan as approved, including special requests by the College President.
 - b. Issue periodic reports to the College President and to the Board summarizing the results of the audits.
 - c. Immediately report to the College President any significant findings that would jeopardize the College's legal standing or represent a significant immediate risk.
 - d. Coordinate with and provide oversight of other controls and monitoring functions related to risk management, compliance, security, ethics, and environmental issues.

C. Policy

1. The auditor shall serve as an in-house management consultants to the College. The College President and senior management may request assistance from the auditor on an as-needed basis to review special issues, including strategic plan initiatives, and/or conduct such audits on the campuses and in the District Offices as may be requested.
2. The auditor will have no direct responsibility or authority for any of the activities or operations under review. An internal audit does not relieve other persons in the College of the responsibilities assigned to them.
3. The auditor is not authorized to:
 - a. Perform any operational duties for the organization.
 - b. Initiate or approve accounting transactions external to their role.
 - c. Hire or engage external entities in the process of audit functions without the express written permission of the College President.
4. The College President shall review and approve requests for assistance to conduct special reviews and investigations.
5. The auditor shall follow the College's *Investigation Procedures* when conducting investigations.
6. The auditor's cost shall be funded through the College's biennial budget process.
7. The scope of work of the auditor shall encompass all College operations, including affiliated organizations where appropriate, with the exception of academic instruction by the faculty.

D. Reporting Responsibilities

1. The results of audit engagements, the conclusions formed, and the recommendations made will be promptly reported by the auditor to the appropriate administrative personnel. Management is responsible for seeing that necessary and appropriate corrective action on any reported deficient conditions is either planned or taken within a reasonable period of time after receipt of a report disclosing those conditions. Management will include a written response in the formal audit report indicating the actions to be taken to correct the deficiencies noted. The response should include a timetable for anticipated completion of any action to be taken and a justification for any recommendations that will not be addressed.
2. Draft audit reports are internal working documents and as such are the basis for college staff to clarify audit findings. Audit reports are to include an executive summary, as well as a measure of the seriousness of the findings and associated risks.
3. The auditor will submit an annual report to the College President, to the Chair of the Audit Committee, and to the College Board of Directors that summarizes the internal auditing activities of the previous year. All completed reviews, special projects, and investigations conducted by the auditor shall be made available to the Audit Committee of the Board of Directors and College President;

these will also be made available to the campus presidents for issues applicable to their campus.

E. Standards of Audit Practice

The Internal Auditor, in carrying out the internal audit function, shall abide by the following mandatory elements of the International Professional Practices Framework (IPPF) as promulgated by the Institute of Internal Auditors (IIA):

1. Core Principles for the Professional Practice of Internal Auditing,
2. Definition of Internal Auditing,
3. Code of Ethics,
4. International Standards for the Professional Practice of Internal Auditing

Optional recommended elements of the IPPF including implementation and supplemental guidance will also be considered.