

407. Audit, Risk and Compliance Committee Operations

I. Introduction

This Rule establishes Board expectations of its Audit, Risk, and Compliance Committee.

II. Committee Composition

The Committee will consist of at least three members of the Board of Trustees, all of whom are independent of management. At least one member will have financial expertise, and at least one member will have expertise regarding the law and/or regulatory compliance. The required expertise may be gained through education or experience. The Committee will be in addition to existing advisory groups, such as the System Risk Council, called for by Board Rule 106.2(III).

III. Committee Meetings

The Committee will meet at least three times per year, and on other occasions on the call of the Board, Chancellor, or Chair. Attendance, agenda, and minutes will be as provided for in Board Bylaws. The Committee will invite senior administrators, officers, auditors, counsel, and other professionals or employees, to attend and provide information. The Committee may hold executive sessions as allowed by Board policy and law.

IV. Committee Authority and Responsibilities

The Committee has authority to engage in the following advisory activities related to audit, risk, and compliance functions of the System, its institutions, the Health System, and affiliated entities.

- A. Oversight - Assist the Board with substantial oversight of these functions, in light of existing and changing legal and other expectations
- B. Escalation - Forward matters as appropriate to the full Board
- C. Recommendation of Officers - Recommend to the Board the appointment and removal of the chief audit executive and such other officers to be responsible for these functions, and monitor the effectiveness of those individuals
- D. Retention of Independent Professionals - Retain independent professionals for advice or assistance, and monitor the effectiveness of such firms or individuals

- E. Risk Identification and Assessment - Assist and advise senior administrators with the identification and assessment of risks, such as risks related to noncompliance with financial, regulatory, and other standards, or other risks that may impact System operations, finances, reputation, or assets, including, by example, risks related to physical safety and security, and the safety and security of information and data
- F. Mitigation - Assist and advise senior administrators with the development of plans related to the mitigation of such risks, including effective communication with and training of employees, and effective insurance and risk finance programs
- G. Monitoring and Enforcement - Monitor and assist senior administrators with monitoring the efficacy of activities designed to reduce risk to System assets, including the consistent enforcement of standards and incentives, especially in response to any actual or perceived failures
- H. Periodic Review of Standards and Staffing - Periodically review and recommend necessary changes to policies, practices, staffing, and organizational structure
- I. Reports - Request, receive, review, and respond as appropriate to, reports and findings, including internal reports and reports of independent regulators and auditors, such as the State Examiners of Public Accounts
- J. Investigation - Conduct or authorize special or other investigations
- K. Communication - Periodically meet with, promote communication among, and resolve any disagreements among, senior administrators, officers, auditors, counsel, or other employees
- L. Coordination - Promote coordination among System institutions and entities
- M. Tone at the Top – Promote an effective environment for these functions and undertake such other activities as may be necessary to accomplish the Board’s objectives.

V. Further Duties Related to External Auditors

The Committee shall be responsible for the following additional duties related to the hiring of independent external auditors:

- A. Retention - Recommend to the Board the appointment, compensation, and discharge of external financial and other required auditors:
 - 1. Approve in advance all audit and non-audit services provided by the external auditor
 - 2. Review the independent, nationally-recognized accounting firm's proposed audit scope, approach, compensation, and performance
 - 3. Receive and execute the external audit engagement letter

- B. Independence - Review and confirm the independence of the external auditors by obtaining statements from the auditors on relationships between the auditors and the System, including non-audit services and compensation practices, and discussing the relationships with the auditors
 - 1. The external audit firm is authorized to perform audit and audit-related services. Audit related is deemed to be federal audit support, internal control reviews and investigations, review of income and other tax matters, internal financial reviews, due diligence procedures related to public debt offerings, and other transactions and audits of affiliated entities or special purpose audits.
 - 2. The external audit firm should not provide the following services: bookkeeping, financial information systems design and implementation, appraisal or valuation services, actuarial services, internal audits, management and human resource services, broker/dealer and investment banking services, and legal services.
 - 3. The managing partner must rotate no more than every seven years, with a two- year timeout.

- C. Review and Respond - Review the results with senior administrators and external auditors and ensure that appropriate actions are taken in response thereto, in accordance with generally accepted accounting principles

VI. Periodic Review of Committee Activities and Role

The Committee shall periodically assess its activities and role with respect to the responsibilities outlined in this Rule, and with respect to the changing expectations and responsibilities of Universities. The Committee shall take action in response to this assessment, including proposing any necessary changes to the Rule.

(Adopted August 23, 1978 as Committee Guidelines; amended April 10, 1992. Adopted March 11, 1978 as Rule 430. Amended and renumbered December 5, 1997. Amended November 9, 2001, June 20, 2003, November 9, 2007, June 17, 2011, June 15, 2012, and November 4 2016.)