

Audit Committee Charter of the Board of Education of Harford County

The Board of Education of Harford County (the “Board”) has established an Audit Committee (the “Committee”) with authority, responsibility and specific duties as described in this Charter. The Committee shall review and reassess the adequacy of this Charter at least annually, seeking input from senior management, the Board and others, and report its conclusions and any recommendations to the Board.

Purpose

The purpose of this Committee is to assist the Board in fulfilling its fiduciary oversight responsibilities by reviewing:

- Financial information provided by the District.
- The District’s financial systems and associated internal controls.
- The District’s auditing, accounting and financial reporting processes.

The committee shall encourage continuous improvement of, and shall foster adherence to, Board Policies, Administrative Procedures and other various practices at all levels.

The Committee’s primary duties and responsibilities are to:

- Serve as an independent and objective party to monitor the District’s financial reporting process and internal controls.
- Review and appraise the efforts of the external auditors, financial and senior management and the Internal Auditor.
- Provide an open avenue of communication among the external auditors, financial and senior management, the Internal Auditor and the Board.

The Committee will primarily fulfill these responsibilities by carrying out the activities enumerated in the Responsibilities and Duties section of this Charter.

Composition

The Committee shall consist of an odd number of at least five members as determined by the Board. With respect to committee members selected from the community, each member shall be independent and free from any relationship that, in the opinion of the Board, would interfere with the exercise of his or her independent judgment as a member of the Committee. Committee members shall be considered independent if they have no relationship to the District that will interfere with the exercise of their independence from management, the Board, or the District. Examples of a lack of independence shall include but not be limited to:

- A Committee member being employed by the District or any related entity for the current year or any of the past five years.
- A Committee member accepting compensation from the District or any of its affiliates.
- A Committee member of the immediate family of an individual who is, or has been in any of the past five years, employed by the District or any of its affiliates as an administrator or Board Member
- A Committee member being a partner in, or a controlling owner or an executive of, any for-profit business entity to which the District made, or from which the District received, payments

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that are or have been significant to the District or the for-profit business entity in any of the past five years.

The members of the Committee shall be appointed by the Board for staggered three year terms and shall be eligible for reappointment. The members of the Committee shall designate a chairperson by majority vote of the full Committee membership.

All members of the Committee shall have 1) knowledge of the District's basic finance and accounting practices; 2) the ability to read and understand the District's financial statements; and 3) the ability to understand the District's key business and financial risks and related controls and control processes. The Committee shall have access to counsel and other advisors at the Committee's sole discretion.

At least one member of the Committee should have accounting or related financial management expertise, including knowledge of regulatory requirements, and should have past employment experience in finance or accounting or other comparable experience or background. Committee members are encouraged to participate in relevant and appropriate self-study education to ensure understanding of the District and the environment in which it operates.

Meetings

The Committee shall meet at least four times annually, or more frequently if circumstances dictate, to review financial performance. Additional meetings shall be scheduled as considered necessary by the Committee or the chairperson. The Committee shall request members of management, counsel, external auditors or the Internal Auditor, as applicable, to participate in Committee meetings, as necessary, to carry out the Committee's responsibilities.

As part of its job to foster open communications, the Committee should meet at least annually with management, the Internal Auditor and the external auditors in separate executive sessions to discuss any matters that the Committee or each of these groups believe should be discussed privately.

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

The Committee, through the chairperson, shall report periodically, as deemed necessary, but at least semiannually to the Board. In addition, summarized minutes from Committee meetings shall be available at least one week prior to the subsequent Board meeting.

Responsibilities and Duties

To fulfill its responsibilities and duties, the Committee shall:

Financial Reporting

- 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 auditors' views and the basis for audit conclusions.
- Approve changes in important accounting principles and the application thereof in annual financial reports.

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- Advise financial management and the external auditors that they are expected to provide a timely analysis of significant current financial reporting issues and practices.
- Review the annual budget proposals during the budgeting process, prior to submission to the Board.
- Review and monitor all grant programs and their reports.

Risks and Controls

- Review and assess the District's business 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 District's system of internal controls for detecting accounting and financial reporting errors, fraud and defalcations, and legal violations. In that regard, review the related findings and recommendations of the external auditors and the Internal Auditor, together with management's responses.
- Review with the District's legal counsel any legal matters that may have a material impact on the financial statements.

External Auditors

- Participate in the selection of the external auditors, considering independence and effectiveness, and recommend the selection to the Board for approval.
- Confirm that the external auditors will report all relevant issues to the Committee in response to agreed-upon expectations.
- Review the activities and qualifications of the external auditors.
- Discuss with the external auditors any relationships or non-audit services that may affect their objectivity or independence.
- Consider, in consultation with the external auditors, their audit scopes and plans to ensure completeness of coverage.
- Review and approve requests for any consulting services to be performed by the external auditors, and be advised of any other study undertaken at the request of management that is beyond the scope of the audit services engagement letter.
- Review with management and the external auditors the results of the annual audits and related comments, including any difficulties or disputes with management, any restrictions on the scope of audit work or access to required information, any significant changes in audit plans, the rationale behind adoptions and changes in accounting principles, and accounting estimates requiring significant judgments.
- Provide a medium for the external auditors to discuss with the 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 Board.

Internal Auditor

- Review the activities and qualifications of the Internal Auditor.
- Consider, in consultation with the Internal Auditor, his or her audit scopes and plans to ensure completeness of coverage.
- Instruct the Internal Auditor that he or she is responsible to the Board through the Committee.
- Review with the Internal Auditor any changes in the scope of his or her audit plan.
- Review the regular reports prepared by the Internal Auditor, as well as management's response.

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Process Improvement

- Establish regular and separate systems of reporting to the Committee by management, the external auditors and the Internal Auditor regarding any significant judgments made in management's preparation of the financial statements and the view of each as to appropriateness of such judgments.
- Consult with the external auditors about the adequacy of internal controls and the accuracy of the District's financial statements, as well as the level of expertise in the Business Services Department.
- Review with management, the external auditors and the Internal Auditor the extent to which changes or improvements in financial or accounting practices, as approved by the Committee, have been implemented. This review should be conducted at an appropriate time subsequent to implementation of changes or improvements, as decided by the Committee.
- Review with management, the Board, the external auditor and the Internal Auditor the scope, plan and coordination of internal and external audit efforts.

Other

- Maintain confidentiality in the exercise of its duties and responsibilities when exposed to confidential information.
- A committee member shall recuse himself or herself from participating in the investigation and/or voting on an issue in which the member has an interest. The perception of the member's interest in the issue shall be considered in this decision.
- Offer Committee opinions that dissent from the opinion offered by management, the external auditors, the Internal Auditor or the Board.
- 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.
- Perform any other activities consistent with this Charter, Board Policies, Administrative Procedures, and all applicable laws and regulations as the Committee or the Board deems necessary or appropriate.

Revised and approved, 2/10/04

Approved 12/15/03

Board of Education of Harford County, Bel Air, MD