

# NEW JERSEY SCHOOLS DEVELOPMENT AUTHORITY

## AUDIT COMMITTEE CHARTER

### I. PURPOSE

Article IX of the By-Laws of the New Jersey Schools Development Authority (the “Authority”) establishes the Audit Committee as a standing committee of the Authority. The purpose of this Audit Committee Charter is to set forth the authority, composition, meetings, voting, and specific responsibilities of the Audit Committee. The responsibilities of the Audit Committee shall include those duties established by *Executive Order 122*, issued July 23, 2004 (McGreevey) (“EO 122”), and such other duties as may be prescribed from time to time by resolution of the members of the Authority, provided that the actions of the Audit Committee shall be advisory in nature and shall not bind the members of the Authority or other parties.

### II. AUTHORITY

The Audit Committee has authority to:

- A. Conduct or authorize investigations into any matters within its scope of responsibility.
- B. Retain accountants, counsel, compensation consultants or other specialists to advise the Audit Committee or assist in the conduct of investigations.
- C. Meet with the Authority’s officers, independent auditor, internal auditor, or counsel, as necessary to fulfill its responsibilities.
- D. Seek any information it requires from employees – all of whom are directed to cooperate with the Audit Committee’s requests – or external parties.

### III. COMPOSITION

- A. The Audit Committee shall consist of no less than three and no more than seven members, including the Chairperson of the Authority, the State Treasurer and up to five additional members of the Authority appointed by the Chairperson. The Chairperson shall select one of the members of the Audit Committee to chair the Committee. At no time shall a member of the Authority’s staff be a member of the Audit Committee.
- B. Each Audit Committee member shall be independent of the Authority as required by EO 122. Independence of a member is satisfied only under the following circumstances:
  1. The member has no financial relationship with the Authority, nor is the member a partner, shareholder or officer of an organization that has a financial relationship with the Authority;
  2. Neither the member nor any member’s relative is an employee of the Authority;

3. Neither the member nor any member's relative is currently employed by, or has in the past three years been affiliated with or employed by, a present or former auditor of the Authority;
  4. Neither the member nor any member's relative receives or has received in any of the past three years direct or indirect compensation from the Authority for consulting, legal or financial services, regardless of the amount received and regardless of whether it is or was paid to the member or to a firm with which the member or any member's relative was associated; and
  5. The member is in compliance with all standards regarding independence of auditors as may appear in Generally Accepted Government Auditing Standards (GAGAS) or may be established by the United States General Accounting Office.
- C. At least one Audit Committee member shall have accounting or related financial expertise, and shall be designated as the "financial expert" as defined pursuant to the provisions of the Sarbanes-Oxley Act.
- D. All Audit Committee members shall have knowledge of the Authority's governmental functions and sufficient time to accomplish the responsibilities of the Audit Committee.

#### **IV. MEETINGS**

- A. The Audit Committee shall meet at such times and places as set forth by the Chairperson of the Committee. The Audit Committee has the authority to convene additional meetings as circumstances require. Additional meetings shall be held upon the request of an Audit Committee member, a member of the Authority, the independent auditor, or the internal auditor, and may include such staff members as the Audit Committee determines necessary. All Audit Committee members are expected to attend each meeting, either in person or via teleconference.
- B. The Audit Committee will invite members of management, the independent auditor, the internal auditor or others to attend meetings and provide pertinent information, as necessary.
- C. At least twice each year, the Audit Committee will hold private meetings with the independent auditor. One of these meetings shall be held prior to commencement of the financial audit, and the other upon issuance of the final audit report.
- D. At least once each year, the Audit Committee will meet with the head of internal audit, who shall also report to the Audit Committee.
- E. Meeting agendas shall be prepared and provided in advance to Audit Committee members, along with appropriate briefing materials. Minutes of all Audit Committee meetings shall be prepared and retained.

## **V. VOTING**

At every meeting of the Audit Committee at which action must be taken, a majority of the sitting members shall constitute a quorum. All action may be taken and motions and resolutions adopted by the affirmative vote of a majority of members present.

## **VI. RESPONSIBILITIES**

In carrying out its duties, the Audit Committee shall proactively assist and advise the members of the Authority in overseeing (i) the integrity and quality of the Authority's financial statements; (ii) the independent auditor's performance and ability to perform; (iii) the performance of the Authority's internal audit and internal control functions; (iv) the Authority's compliance with legal, regulatory, and ethical requirements; and (v) personnel and compensation policies. The specific duties of the Audit Committee shall include, but not be limited to, the following:

### **A. Financial Statements and Policies**

1. Review and recommend approval of the Annual Operating Budget and Staffing Plan to the members of the Authority on an annual basis and, at least quarterly, review comparisons of actual expenses to budgeted amounts.
2. Review major financial commitments being contemplated by the management of the Authority.
3. Review major changes in financial policies and procedures.
4. Review analyses prepared by management and/or by the independent auditor setting forth significant accounting or financial reporting issues, including complex or unusual transactions, and judgments made in connection with the preparation of the financial statements, including the effects of alternative accounting methods on the financial statements.
5. Review the audited financial statements and any interim statements and discuss them with management and the independent auditor. These discussions should include a review of particularly sensitive accounting estimates, reserves and accruals, judgmental areas, audit adjustments (recorded or not) and other such matters as the Audit Committee or independent auditor shall deem appropriate.
6. Review recent professional and regulatory pronouncements, and understand their impact on the financial statements.
7. Regularly review with the independent auditor any audit problems, any risks of material misstatements due to fraud, difficulties with management's response (including restrictions or attempts to restrict the auditor's activities, restrictions on access to information, and significant disagreements with management) and the responsibilities, budget and staffing of the Authority's internal audit and control functions.
8. Review with management and the independent auditor all matters required to be

communicated to the Audit Committee under generally accepted auditing standards, including the annual management letter.

## **B. Selection of Independent Auditor**

1. The Audit Committee shall assist the Authority in retaining an independent auditor to conduct an audit of the Authority's financial statements, after engaging in the auditor selection process described below, which is in accordance with EO 122. The auditor selection process shall be based upon public, competitive bidding principles and shall take place no less than once every five years. The contract shall be awarded based upon the Authority's governing statute and regulations, and EO 122. The auditor selected shall report directly to the Audit Committee. At no time shall the independent auditor report to any staff member of the Authority.
2. In order to ensure the independence of the auditor selection process, the Audit Committee shall adhere to the following procedures when making a recommendation to the Authority in awarding a contract to an auditor:
  - a. An evaluation committee shall be established by the Authority to conduct the solicitation and evaluation of eligible auditors. The evaluation committee shall consist of no less than three members of the Authority.
  - b. The evaluation committee shall be responsible for drafting requests for proposals ("RFPs"), soliciting responses to such RFPs, accepting and evaluating proposals, and providing a final written report to the Audit Committee. The evaluation committee may draw upon the expertise of the Division of Purchase and Property to assist it in the drafting of the RFP, soliciting responses to the RFPs, and evaluating proposals. The role of staff of the Authority shall be limited to providing assistance with the RFP design.
  - c. The evaluation committee shall review all responses to RFPs for responsiveness and responsibility and shall evaluate such responses pursuant to criteria established by the Audit Committee, as described below, and shall rank the responses with respect to such criteria. The evaluation committee shall prepare a written report of such evaluation and shall forward the report to the Audit Committee.
  - d. Prior to the solicitation of the engagement of any independent auditor, the Audit Committee shall establish criteria for the selection of an auditor and may weigh the criteria established. The weighted criteria shall be used by the evaluation committee during the evaluation of proposals. In developing the criteria to be used by the evaluation committee, the Audit Committee shall include the following:
    - i. Proposed fee for services;
    - ii. Quality of response to RFP package;
    - iii. Demonstrated ability and qualifications to conduct governmental audits;
    - iv. Quality of relevant service to governmental entities in previous transactions; and
    - v. Familiarity with federal laws, rules and regulations relevant to governmental audits.

- e. Upon receipt of the evaluation committee's report, the Audit Committee shall review the report and determine whether to re-rank the responses based upon interviews. In such event, the Audit Committee shall interview the firms responding to the RFP and rank the candidates after such interviews based upon the established evaluation criteria.
- f. The Audit Committee shall make a recommendation to the members of the Authority for award of an audit contract.
- g. The members of the Authority shall review the recommendation and make an award to a firm.
- h. The Audit Committee shall also issue a report to the State Treasurer within six months of making the recommendation to the Authority that sets forth the steps taken to comply with these procedures for the selection of an independent auditor.

### **C. Oversight of Independent Auditor**

1. Review the independent auditor's proposed audit scope and approach, including the extent of coordination of audit effort with internal audit.
2. Review and evaluate audit fees.
3. Review and approve all engagements of the independent auditor with the Authority, including non-audit engagements, giving specific consideration to their effect on the independence of the auditor.
4. Review the performance of the independent auditor, and where the Audit Committee believes that the auditor's performance is not adequate in quality or independence, recommend such steps as may be necessary to elicit appropriate performance, including replacement of the independent auditor.
5. Review and confirm the independence of the independent auditor by obtaining statements from the auditor on relationships between the auditor and the Authority, and discuss any independence issues with the independent auditor.
6. At least once every three years, obtain and review a report of the independent auditor describing for the preceding year: (i) the independent auditor's internal quality control procedures; (ii) any material issues raised by the most recent internal quality control peer review, or by reviews conducted by governmental or professional authorities; and (iii) steps taken by the independent auditor to address such issues, and discuss each of these items with the independent auditor on annual basis.

#### **D. Internal Audit**

1. Review and concur in the assignment, replacement or dismissal of the head of internal audit.
2. Review with management and the head of internal audit the charter, plans, activities, staffing and structure of the internal audit function.
3. Ensure there are no unjustified restrictions or limitations on the internal audit function in performing its audit activities.
4. Review the effectiveness of the internal audit function, including compliance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

#### **E. Internal Control**

1. Review internal control functions such as the planned scope of audit reviews; adequacy of staffing; actions to be taken as a result of audit findings; the effectiveness of electronic data processing procedures and controls; and related security programs.
2. Understand the scope of the internal and independent auditor's review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses.

#### **F. Compliance**

1. Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of noncompliance.
2. Review procedures for: (i) the receipt, retention and treatment of complaints received by the Authority regarding accounting, internal control or auditing matters; and (ii) the confidential, anonymous submission by employees of the Authority or other parties of concern regarding questionable accounting or auditing matters, or other matters regarding non-compliance with the Authority's rules and regulations as defined in *Section 1 of the Authority's By-laws*.
3. Review the results of any examinations conducted by regulatory agencies or auditors.
4. Review the process for communicating the New Jersey State Ethics Commission's *Uniform Ethics Code* and the Authority's *Supplemental Ethics Code* to Authority personnel, and for monitoring compliance therewith.
5. Obtain regular updates from management and counsel regarding compliance matters.

## **G. Personnel and Compensation**

1. Review matters relating to the Authority's staffing needs, compensation schedules, health plans and benefits, and make recommendations to the Authority about the same.
2. Review the SDA Annual Staffing Plan as defined in *Section 1.7 of the Authority's Bylaws*.
3. At least once per quarter, review matters concerning personnel and compensation as presented by the Chief Executive Officer.

## **H. Reporting Responsibilities**

1. Regularly report to the members of the Authority about Audit Committee activities, issues and related recommendations.
2. Provide an open avenue of communication between the internal auditor, the independent auditor and the members of the Authority.

## **I. Other Responsibilities**

1. Discuss with management, and recommend if necessary, policies with respect to risk assessment and risk management.
2. Institute and oversee special investigations as needed.
3. Review and assess the adequacy of the Audit Committee Charter annually, requesting that the members of the Authority approve proposed changes.
4. In accordance with Executive Order 41, issued June 15, 2005 (Codey), confirm annually to the Governor's Authorities Unit that the Authority has met all requirements of EO 122.
5. Perform other duties as may be assigned by the members of the Authority.