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Justin P. Wilson
Comptroller

November 16, 2010

Mr. Richard G. Rhoda
Executive Director
Tennessee Higher Education Commission/
Tennessee Student Assistance Corporation
Parkway Towers, Suite 1900
Nashville, Tennessee 37243-0830

Dear Mr. Rhoda:

Thank you for submitting the revision to the audit committee charter for the Tennessee Higher Education Commission/Tennessee Student Assistance Corporation. We have reviewed that charter for compliance with the Comptroller's Guidelines for Audit Committee Charters. We are pleased to approve the revised charter.

Sincerely,

Justin P. Wilson
Comptroller of the Treasury

JPW/geb

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Audit Committee Charter

PURPOSE

The audit committee of the Tennessee Higher Education Commission/Tennessee Student Assistance Corporation will assist the Commission/Board of Directors in fulfilling its oversight responsibilities in preventing fraudulent financial reporting, and the misappropriation of assets.

AUTHORITY

The creation of an audit committee is required under Public Chapter 310, known as the "State of Tennessee Audit Committee Act of 2005." The audit committee has authority to conduct or authorize investigations into any matter within its scope of responsibility. THEC/TSAC's Internal Audit Director is responsible for providing the committee with educational resources related to accounting principles, internal controls, applicable policies, and other information that may be requested by the committee to maintain appropriate understanding of financial and compliance matters.

MEMBERSHIP

The committee and its chair shall be selected by the Executive Director of THEC/TSAC and confirmed by the Commission/Board of Directors. The Audit Committee shall consist of five members with representation from both organizations who are generally knowledgeable in financial, management, and auditing matters. The committee chair shall have some accounting or financial management expertise. Each member shall serve for a term not to exceed three years, and may be reappointed. Each member shall be free of any appearance of conflict and of any relationship that would interfere with his or her exercise of independent judgment.

MEETINGS

The committee will meet at least annually or as circumstances require. The chairman or any two committee members may call a meeting. A quorum will be established when three or more of the Audit Committee members are present. The committee will invite members of management, auditors, or others to attend and provide pertinent information. Members may also meet individually with management and others as necessary. Meeting agendas will be provided to members in advance, along with appropriate briefing materials. The Internal Audit Director will provide support for the committee, and will prepare the necessary meeting agendas and minutes.

RESPONSIBILITIES

The Audit Committee will carry out the following responsibilities after approval of this charter by the Audit Committee, the Commission/Board of Directors and the Comptroller of the Treasury's Office.

State and Federal Audits

- Immediately inform the Comptroller of the Treasury's Office when fraud is suspected or detected.
- Review with State and Federal auditors the scope and results of their examination of fiscal records and any other matter related to the conduct of the audit, which should be communicated to the committee.
- Serve as a facilitator of any audits or investigations, including advising auditors and investigators of any information they may receive or otherwise note regarding risks of fraud or weaknesses in internal controls; reviewing with the auditors any findings or other matters noted by the auditors during audit engagements; working with management and staff to ensure implementation of audit recommendations; and assisting in the resolution of any problems the auditors may have with cooperation from management or staff.
- Develop a formal process for assessing the risks of fraud; including documentation of the results of the assessments and assuring the internal controls are in place to adequately mitigate those risks.
- Develop and formally communicate to the Commission/Board of Directors and staff their responsibilities for preventing, detecting, and reporting allegations of fraud, waste, or abuse to the committee and the Comptroller's Office as well as a process for immediately reporting such information.
- Review with management and legal counsel any legal matters, including pending litigation that may have a material impact, and any material reports or inquiries from regulatory or governmental agencies.
- Resolve any differences between management and the State and Federal auditors regarding financial reporting.
- Review the established process to ensure compliance with legal and regulatory requirements.
- Oversight and direction of Federal and State audits.
- Seek any information required from management and staff – all of whom are directed to cooperate with the committee's requests – or external parties.
- Meet with State officials, legal counsel, and State or Federal Auditors to discuss matters that the committee deems necessary.
- Other duties as required.

Internal Control

- Oversight of the effectiveness of the internal control system and management practices, including information technology security and control.
- Understand the scope of the auditors' review of internal control over financial reporting.
- Review management's risk assessment and internal control structure.

- Ensure that the internal audit department has direct and unrestricted access to the chairman and other committee members.
- Review the internal audit director's administrative reporting relationship to assure not only that independence is fostered, but adequate resources in terms of staff and budget are provided to enable the department to effectively perform its responsibilities.
- Review the annual audit plan and results of the year's work with the internal audit director. Changes to the plan, including management requests for unplanned assignments, should also be reviewed.
- Receive and review reports and other work prepared by the internal audit department.

External Auditors

- Review the external auditors' proposed audit scope and approach.
- Present the external auditors' conclusions to the full Commission/Board of Directors.
- Meet regularly with the external auditors to discuss any matters that the committee or auditors deem appropriate.

Communications and Reporting

- Provide an open avenue of communications among State and Federal auditors, senior management, and the Commission/Board of Directors. Ensure procedures for the receipt, retention, and treatment of complaints about accounting, internal controls, or auditing matters are appropriate.
- Report regularly to the Commission/Board of Directors regarding committee activities and issues, including such recommendations as the committee deems appropriate.
- Provide a confidential mechanism for reporting suspected irregularities.
- Develop a written Code of Conduct policy that is easy to understand and implement. This Code of Conduct policy must be reviewed as needed and communicated to the Commission/Board of Directors, management and staff, and it shall be posted on the THEC/TSAC website to remind those individuals of the public nature of the Commission/Board of Directors and the need for all to maintain the highest level of integrity with regard to the financial operations and any related financial reporting responsibilities; to avoid preparing or issuing fraudulent or misleading financial reports or other information; to protect assets from fraud, waste, and abuse; to comply with all relevant laws, rules, policies and procedures; and to avoid engaging in activities which would otherwise bring dishonor.
- Review the Conflict of Interest and Code of Conduct policies to ensure the term "conflict of interest" is clearly defined; guidelines are comprehensive; annual signoff is required; and potential conflicts are adequately resolved and documented.