

**Claremont McKenna College**  
**Board of Trustees**  
**Audit and Compliance Committee**  
**Charter**

**Approved by the Board of Trustees on October 2, 2015**

**Ratified by Audit and Compliance Committee on March 10, 2016**

***I. Purpose and Mission***

The Audit and Compliance Committee (the “Committee”) is a committee of the Board of Trustees (the “Board”) of Claremont McKenna College (the “College”). The Committee shall assist the Board in fulfilling its oversight responsibilities with respect to:

- Financial audits and reporting, including:
  - Processes and systems of internal controls regarding finance and accounting;
  - Monitoring the independence and performance of the College’s independent auditors; and
  - Monitoring the performance of the College’s internal finance functions;
- Legal, regulatory, and compliance matters (including non-financial reporting), including:
  - Monitoring legal and regulatory matters, including compliance with material legal, research grant, and other regulatory obligations and any active or threatened litigation or regulatory actions; and,
  - Monitoring the College’s ethics and compliance program.
- Enterprise Risk Management, including:
  - Monitoring the College’s insurance coverage levels; and,
  - In coordination with the Executive Committee of the Board, monitoring the enterprise risk management activities of the Board and its standing Committees.
- Providing a confidential avenue of communication to receive and respond reports or complaints of any illegal conduct or other potentially significant violations of College policies or unethical behavior within the College.

The Committee shall have the authority to conduct any review or investigation it deems appropriate to fulfilling its responsibilities and shall have direct access to the independent auditors as well as anyone within the faculty and administration at the College. The Committee shall have authority to retain, at the College's expense, special and independent legal, accounting, or other consultants or experts it deems necessary in the performance of its duties.

## ***II. Committee Liaisons***

The College's Vice President for Business and Administration shall act as the administrative liaison to the Committee with respect to its financial audit and reporting oversight activities, and the College's General Counsel and Chief Ethics and Compliance Officer shall act as the administrative liaison to the Committee for all of its other activities. The administrative liaison shall be available to assist the Committee as requested and shall have a direct reporting line to the Committee and its Chair, including the ability and obligation at all times to communicate any applicable concerns directly with the Committee and its Chair.

## ***III. Structure and Operation***

### **A. Composition**

The Committee shall be comprised of members of the Board only, and each member of the Committee shall be appointed annually by the Board; provided, however, that each member shall normally be expected to serve for a total of at least three to five years. The Committee shall consist of at least five (5) Trustees, not more than a minority of which may also serve on the Board's Finance Committee. Each member shall be an independent Trustee. A Trustee is deemed independent if he or she is, in the judgment of the Board, free from any relationship that would interfere with the exercise of his or her independent judgment. A Trustee may not serve on the Committee if the Trustee or an Immediate Family Member (a) accepts any compensation from the College or a College Affiliate, whether as an employee or otherwise, for providing any service or property to the College or a College Affiliate; (b) has a Position of Responsibility in an entity that provides accounting, consulting, legal, investment banking or financial advisory services for compensation to the College or a College Affiliate, or personally provides or receives compensation directly related to such services; or (c) is a current employee, partner, member, director, officer or greater than ten percent owner of a company that has made payments to or received payments from the College or a College Affiliate for property or services in any of the last three fiscal years in excess of the greater of \$1 million or two percent of such company's consolidated gross revenues.

### **Definitions**

1. **Immediate Family Member**. A person in one of the following relationships with a Trustee: spouse, domestic partner, or person in a civil union or similar

relationship; minor child or stepchild; or child or stepchild sharing a home with the Trustee. An Immediate Family Member who is a full-time or substantially-full time student at the College and who is employed on a part-time basis by the College, a College Affiliate or a company doing business with the College or a College Affiliate is not within the purview of (a) and (c) above because of such employment.

2. Position of Responsibility. A person who is a partner, member, managing director or officer occupying a comparable position or an executive officer, or a person occupying a similar position in an entity. A person is not in a Position of Responsibility because he or she is a limited partner or a non-managing member if the person has no active role in providing services to the College or any College Affiliate and does not receive compensation directly related to the services.
3. College Affiliate. An entity controlled by or under common control with the College.

All members of the Committee shall be financially literate (i.e., able to read and understand financial statements and aware of the functions of auditors for a college) or, in the judgment of the Board, able to become financially literate and aware of audit functions within a reasonable period of time after his or her appointment to the Committee. Updates on accounting issues affecting higher education will be provided to the Committee by management and the independent auditor.

At least one member of the Committee shall qualify as a **“financial expert” and shall be designated as such by the Chair or any Co-Chair of the Committee**. A financial expert shall be deemed to be a person who has the following attributes:

1. An understanding of financial statements and generally accepted accounting principles;
2. An ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves;
3. Experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of accounting issues that can reasonably be expected to be raised by the College’s financial statements, or experience actively supervising one or more persons engaged in such activities;
4. An understanding of internal controls and procedures for financial reporting;  
and

5. An understanding of audit and compliance committee functions.

A person can acquire such attributes through any one of more of the following means: (i) education and experience as a principal financial officer, principal accounting officer, controller, public accountant, auditor or experience in one or more positions that involve the performance of similar functions; (ii) experience actively supervising a principal financial officer, principal accounting officer, controller, public accountant, auditor, or person performing similar functions, or experience overseeing or assessing the performance of companies or public accountants with respect to the preparation, auditing or evaluation of financial statements; or (iii) other relevant experience.

B. Chairs and Vice Chairs

One or more members of the Committee shall be appointed by the Board to serve as Chair or Co-Chair of the Committee, as the case may be. The Board may also designate one or more Vice Chairs of the Committee.

C. Meetings

A majority of the number of members serving on the Committee shall constitute a quorum for the transaction of business at any meeting of the Committee. Provided that a quorum is established, any matter for which a vote of the Committee is required shall be decided by a majority of the number of members participating in a meeting.

The Committee shall meet at least two times annually, or more frequently as determined by the Chair of the Committee.

The Committee should meet separately in executive session at each meeting with the administrative liaison, any other member of the administration it requests, and the independent auditors, to discuss any matters that the Committee or any of these individuals or groups believes should be discussed.

The Committee shall maintain minutes of meetings and report to the Board on significant matters relating to its activities.

D. Subcommittees

The Committee may form subcommittees for any purpose; provided, however, that such subcommittee shall be advisory only and shall not be a committee of the Board. The Committee may delegate to a designated member or members of the Committee the authority to approve in advance non-audit services to be provided by the independent auditor so long as any such approvals are disclosed to the full Committee at its next scheduled meeting.

#### ***IV. Responsibilities***

The following sets forth the recurring responsibilities of the Committee in carrying out its purposes:

##### **A. Audit Procedures**

1. The Committee shall review the College's annual audited financial statements prior to submitting and recommending them to the Board for acceptance. Such review should include discussion with management and the independent auditors of significant issues and changes regarding accounting principles, practices, and judgments.
2. In consultation with the College's management, the independent auditors and the internal auditors, the Committee shall review the integrity of the College's financial reporting processes and controls, discuss significant financial reporting and control risk exposures and the steps management has taken to monitor, control, and report such exposures, and review significant findings prepared by the independent auditors and the internal audit department together with management's responses.

##### **B. Independent Auditors**

1. The independent auditors shall report to the Committee. The Committee shall review the independence and performance of the independent auditors at least annually.
2. The Chair or any Co-Chair of the Committee shall have authority to act on behalf of the Committee to approve the selection or retention of the independent auditors, the scope of the audit and audit fees, all in conjunction and cooperation with the audit committee chairs of the other Claremont Colleges.
3. The Committee shall approve audit fees to be paid to the independent auditors.
4. The Committee shall adopt and seek to ensure compliance with a preapproval policy with respect to non-audit services provided by the independent auditors.
5. At least annually, the Committee shall obtain and review a report by the independent auditors: (a) confirming the independence of the independent auditors with respect to their relationship to the College; and (b) communicating the results of the independent auditors' most recent external quality control review as required by the Government Audit Standards.

6. At least annually, the Committee shall review the independent auditors' plan and discuss the scope, staffing, locations, reliance upon management and internal audit and general audit approach.
7. The Committee shall review the independent auditors' judgments about the quality and appropriateness of the University's accounting principles as applied in its financial reporting.
8. The Committee shall review management's policy relating to hiring employees or former employees of the independent auditor.

C. Financial Reporting, Accounting Policies and Internal Controls

1. The Committee shall seek to review the effect of regulatory and accounting initiatives on the financial statements of the College.
2. The Committee shall periodically review the University's policies with respect to financial reporting processes and controls and legal and regulatory compliance and risk management processes.

D. Legal Matters / Ethics and Compliance Program

1. At each meeting, the Committee shall review with the General Counsel and Chief Ethics & Compliance Officer any legal matters that could have a significant impact on the College's financial statements or its reputation, the College's compliance with applicable laws and regulations, research grant terms and obligations, and reports or inquiries received from regulators or governmental agencies.
2. The Committee shall periodically review and approve changes to the College's Code of Ethics, and receive, at least annually, a report on management's compliance with and systems to enforce the Code and the extent to which the Code represents a best practice.
3. The Committee shall review at each meeting the administration's procedures for and the handling of the receipt, retention and treatment of complaints with respect to the College's accounting, auditing and compliance with legal, research grant terms and regulatory requirements, including the College's procedures for the confidential, anonymous submission by College employees of concerns regarding questionable accounting, auditing and compliance with legal, research grant terms and regulatory requirements.

E. Enterprise Risk Management Program

1. The Committee shall develop, maintain, and review on at least an annual basis an enterprise risk management (ERM) risk register related to the various activities and functions under its oversight and shall submit a summary report on its ERM activities to the Executive Committee of the Board of Trustees.
2. The Committee shall also, in coordination with the Executive Committee, review the ERM risk registers and summary reports from each Board Committee and shall present a summary report and recommendations to the Executive Committee.

F. Other Responsibilities of the Committee

The Committee may perform any other activities consistent with this Charter, the College's Bylaws, and governing law, as the Committee deems necessary or appropriate.

G. Evaluation

1. On an annual basis, the Committee shall evaluate and discuss its performance relative to the Committee's purpose and responsibilities, as described by this Charter.
2. The Committee shall review and assess the adequacy of this Charter at least annually and shall submit any proposed changes to the Charter to the Board for approval.