I.5. Audit Committee

Thursday, April 9, 2015
7:45-8:55 a.m.
UW-Waukesha
1500 N. University Drive
Room C101
Waukesha, Wisconsin

a. Approval of the minutes of the December 5, 2014 meeting and the March 2, 2015 teleconference of the Audit Committee

b. Changes to the Office of Internal Audit Charter
   [Resolution I.5.b.]

c. Discussion of Recent UW System Office of Internal Audit Reports and Management Response Progress

d. Waste, Fraud and Abuse Hotline Implementation

e. System Audit Team Integration
   [Resolution I.5.e.]

f. System Risk Assessment Process

g. Report of the Chief Audit Executive
AUDIT COMMITTEE

Resolution:

That, upon the recommendation of the President of the University of Wisconsin System, the Board of Regents adopts the attached Office of Internal Audit Charter, consistent with the *International Standards for the Professional Practice of Internal Auditing*. 
UPDATE TO UNIVERSITY OF WISCONSIN SYSTEM
OFFICE OF INTERNAL AUDIT CHARTER

BACKGROUND

In 2013, the Board of Regents created an Audit Committee and approved an Audit Committee Charter. The Chief Audit Executive has reviewed the Audit Committee Charter and how it relates to the University of Wisconsin System Operations Review and Audit (now Office of Internal Audit) Charter (“Office Charter”) which governs the mission, purpose, responsibilities and authority of the Office of Internal Audit.

REQUESTED ACTION

Adoption of Resolution I.5.b., approval of the updated Office of Internal Audit charter.

DISCUSSION

Updates are proposed to the Office Charter to accomplish the following:

- Conform the document to the Board of Regents Audit Committee Charter
- Ensure the Office Charter conforms to the requirements of the International Standards for the Professional Practice of Internal Auditing
- Ensure the Office Charter is consistent with the current practices of the Office of Internal Audit

Attached are the Office Charter, a version with changes marked, and the final version.

RELATED BOARD OF REGENTS POLICIES

NA
OPERATIONS REVIEW AND OFFICE OF INTERNAL AUDIT
CHARTER

MISSION

The mission of the Office of Operations Review and Internal Audit is to provide independent, objective assurance and consulting services designed to add value to, protect, and strengthen the management of the University of Wisconsin System and its universities, colleges, universities, and extension.

PURPOSE

The purpose of the Office of Operations Review and Internal Audit is to determine whether the University of Wisconsin System’s risk management, control, and governance processes, as designed and implemented by management, are adequate and functioning in a manner to ensure:

- Risks are appropriately identified and managed.
- Interaction with various governance groups occurs as needed.
- Financial, managerial, and operating information is accurate, reliable, and timely.
- Employee actions are in compliance with University policies and procedures, and applicable laws and regulations.
- Resources are acquired economically, used efficiently, and adequately protected.
- Programs, plans, and objectives are achieved.
- Quality and continuous improvement are incorporated in the University of Wisconsin System’s control process.
- Significant legislative or regulatory issues impacting the University of Wisconsin System are recognized and addressed appropriately.

RESPONSIBILITIES

The Office of Operations Review and Internal Audit will:

- Develop a flexible annual audit plan using an appropriate risk-based methodology, including any risks or control concerns identified by management, and submit the plan to the Business, Finance, and Audit Committee of the Board of Regents.
- Implement the audit plan, as approved by the Business, Finance, and Audit Committee of the Board of Regents, including as appropriate any special tasks or projects requested by management and the Board of Regents.
- Maintain a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this Charter.
- Evaluate and assess significant new or changing services, processes, operations, and control processes coincident with their development, implementation, and/or expansion.
- Review the status of Board of Regents’ policy implementation.
- Review the effectiveness with which the University of Wisconsin System institutions or the University of Wisconsin System Administration has implemented state or federal requirements.
- Conduct research and analysis in operational areas of interest to the Board of Regents or University of Wisconsin institutions.
- Issue periodic reports to the Business, Finance, and Audit Committee of the Board of Regents summarizing the results of audit activities.
- Provide to management and the Business, Finance, and Audit Committee of the Board of Regents information related to emerging trends and successful practices in internal auditing.
- Assist in providing consulting services to University of Wisconsin System management by conducting targeted studies to assist management in meeting its objectives, the nature of which is agreed to with management, and for which the Office of Operations Review and Internal Audit assumes no management responsibility.

Updated October 7, 2011
• Maintain a positive working relationship with the State of Wisconsin Legislative Audit Bureau, the organization’s external auditor.
• Assist in the investigation of suspected fraudulent activities within the University of Wisconsin System and notify the management and the Business, Finance, and Audit Committee of the Board of Regents of the results, as appropriate.
• Request from individuals responsible for the subject matter of reports of the Office of Operations Review/Internal and Audit a response to specific findings and recommendations, including a timetable for anticipated completion of corrective action(s) to be taken or an explanation for any corrective action(s) that will not be implemented.
• Establish a follow-up process to monitor and identify whether corrective actions have been effectively implemented, or whether senior management has accepted the risk of not taking action.
• Consider the scope of work of the external auditors and regulators as appropriate for the purpose of providing optimal audit coverage to the institution.
• Review and update the Operations Review and Audit Office of Internal Audit Charter, as necessary, and periodically provide the Charter to the Business, Finance, and Audit Committee of the Board of Regents for review and approval.
• Follow the International Standards for the Professional Practice of Internal Auditing and its Code of Ethics.
• Coordinate training opportunities for and provide assistance to Institutional Auditors within the University of Wisconsin System, as appropriate.
• Review audit plans and copies of reports prepared by Institutional Auditors within the University of Wisconsin System, as appropriate.

AUTHORITY

The Office of Operations Review and Internal Audit is authorized to:

• Have unrestricted access to all functions, records, property, and personnel relevant to its responsibilities.
• Audit the accounts of all organizations required to submit financial statements to the University of Wisconsin System, as defined in note 1 to the System’s annual financial statements.
• Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives.
• Obtain the necessary assistance of personnel in areas of the University of Wisconsin System where audits are being performed, as well as other specialized services from within the University of Wisconsin System.
• Maintain the independence necessary to render objective reports by assuring all audit activities (including audit scope, procedures, frequency, timing, and report content) are free from influence by auditee.
• Have full and unencumbered access to the President of the University of Wisconsin System and Business, Finance, and Audit Committee of the Board of Regents.

The Office of Operations Review and Internal Audit is not authorized to:

• Perform any operational duties for the University of Wisconsin System, its campuses, or its affiliates. Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair internal auditor’s independence of judgment.
• Initiate or approve accounting transactions external to the Office of Operations Review and Internal Audit.
• Develop or install systems or procedures, prepare records, make management decisions, or engage in any other activity that could be reasonably construed to compromise the Office of Operations Review and Audit’s independence or impair its objectivity.
• Direct the activities of any organization employee not employed by the Office of Operations Review and Internal Audit, except to the extent such employees have been appropriately assigned to auditing
teams or to otherwise assist the internal auditors.

Internal audit reviews do not, in any way, substitute for or relieve other University of Wisconsin System personnel from their assigned responsibilities.
UNIVERSITY OF WISCONSIN SYSTEM
OPERATIONS REVIEW AND OFFICE OF INTERNAL AUDIT CHARTER, (CONTINUED)

ORGANIZATION

The Chief Audit Executive shall report to the Board of Regents through the Audit Committee directly and to the System President. The System President and the Chair of the Audit Committee have joint responsibility for the hiring, performance evaluation and compensation of the Chief Audit Executive. The Office of Operations Review and Audit Chief Audit Executive will report administratively to the Vice President for Finance, and will have full and unencumbered access to the President of the University of Wisconsin System and the Business, Finance, and have full and unencumbered access to the Audit Committee of the Board of Regents.

STANDARDS OF AUDIT PRACTICE

The Office of Operations Review and Internal Audit will exercise professional objectivity in gathering, evaluating, and communicating information about the activity or process subject to audit. Furthermore, the staff of the Office of Operations Review and Internal Audit will strive to make a balanced assessment of all the relevant circumstances and not be unduly influenced by personal interests or by others in forming judgments.

The Office of Operations Review and Internal Audit will carry out its responsibilities in accordance with University of Wisconsin System policies, state law, and federal law. Additionally, the Office of Operations Review and Internal Audit recognizes the mandatory nature of the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing, which are part of the International Professional Practice Framework (IPPF), which is the conceptual framework that organizes authoritative guidance promulgated by the Institute of Internal Auditors. All policies and procedures implemented by the Office of Operations Review and Internal Audit will adhere to the IPPF.

APPROVAL

The Operations Review and Audit Charter was approved by the Board of Regents on October 7, 2011.
UNIVERSITY OF WISCONSIN SYSTEM
OFFICE OF INTERNAL AUDIT CHARTER

MISSION

The mission of the Office of Internal Audit is to provide independent, objective assurance and consulting services designed to add value to, protect, and strengthen the management of the University of Wisconsin System and its universities, colleges, and extension.

PURPOSE

The purpose of the Office of Internal Audit is to determine whether the University of Wisconsin System’s risk management, control, and governance processes, as designed and implemented by management, are adequate and functioning in a manner to ensure:

- Risks are appropriately identified and managed.
- Interaction with various governance groups occurs as needed.
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- Quality and continuous improvement is incorporated into the University of Wisconsin System’s control processes.
- Significant legislative or regulatory issues impacting the University of Wisconsin System are recognized and addressed appropriately.

RESPONSIBILITIES

The Office of Internal Audit will:

- Develop a flexible annual audit plan using an appropriate risk-based methodology, including any risks or control concerns identified by management, and submit the plan to the Audit Committee of the Board of Regents.
- Implement the audit plan, as approved by the Audit Committee of the Board of Regents, including as appropriate any special tasks or projects requested by management and the Board of Regents.
- Maintain a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this Charter.
- Evaluate and assess significant new or changing services, processes, operations, and control processes coincident with their development, implementation, and/or expansion.
- Review the status of the Board of Regents’ policy implementation.
- Review the effectiveness with which University of Wisconsin System has implemented state or federal requirements.
- Conduct research and analysis in operational areas of interest to the Board of Regents.
- Issue periodic reports to the Audit Committee of the Board of Regents summarizing the results of audit activities.
- Provide to management and the Audit Committee of the Board of Regents information related to emerging trends and successful practices in internal auditing.
- Provide consulting services to University of Wisconsin System management by conducting targeted studies to assist management in meeting its objectives, the nature of which is agreed to with management, and for which the Office of Internal Audit assumes no management responsibility.
UNIVERSITY OF WISCONSIN SYSTEM
OFFICE OF INTERNAL AUDIT CHARTER (CONTINUED)

- Maintain a positive working relationship with the State of Wisconsin Legislative Audit Bureau, the organization’s external auditor.
- Assist in the investigation of suspected fraudulent activities within the University of Wisconsin System and notify the management and Audit Committee of the Board of Regents of the results, as appropriate.
- Request from individuals responsible for the subject matter of reports of the Office Internal Audit a response to specific findings and recommendations, including a timetable for anticipated completion of corrective action(s) to be taken or an explanation for any corrective action(s) that will not be implemented.
- Establish a follow-up process to monitor and identify whether corrective actions have been effectively implemented, or whether senior management has accepted the risk of not taking action.
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The Office of Internal Audit is authorized to:

- Have unrestricted access to all functions, records, property, and personnel relevant to its responsibilities.
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- Initiate or approve accounting transactions external to the Office of Internal Audit.
- Direct the activities of any organization employee not employed by the Office of Internal Audit, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.

Internal audit reviews do not, in any way, substitute for or relieve other University of Wisconsin System personnel from their assigned responsibilities.
OVERSIGHT

The Chief Audit Executive shall report to the Board of Regents through the Audit Committee directly and to the System President. The System President and the Chair of the Audit Committee have joint responsibility for the hiring, performance evaluation and compensation of the Chief Audit Executive.

STANDARDS OF AUDIT PRACTICE

The Office of Internal Audit will exercise professional objectivity in gathering, evaluating, and communicating information about the activity or process subject to audit. Furthermore, the staff of the Office of Internal Audit will strive to make a balanced assessment of all the relevant circumstances and not be unduly influenced by personal interests or by others in forming judgments.

The Office of Internal Audit will carry out its responsibilities in accordance with University of Wisconsin System policies, state law, and federal law. Additionally, the Office of Internal Audit recognizes the mandatory nature of the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing, which are part of the International Professional Practice Framework (IPPF), which is the conceptual framework that organizes authoritative guidance promulgated by the Institute of Internal Auditors. All policies and procedures implemented by the Office of Internal Audit will adhere to the IPPF.
AUDIT UPDATE
Agenda Items 1.5.c., 1.5.d., 1.5.f., 1.5.g

April 9, 2015
## Agenda Item 1.5.c.
### Major Project Activity

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<td>Colleges</td>
<td>2013-72</td>
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<td>Eau Claire</td>
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<td>UW System Administration</td>
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<td>• Stevens Point</td>
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<td>• Stout</td>
<td>2014-08</td>
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<td>• Milwaukee</td>
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<td>• Oshkosh</td>
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<td>• Platteville</td>
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<td>Audit of Employee Payroll Information</td>
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<td>• Madison</td>
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<td>• Colleges</td>
<td>2013-19</td>
<td>Report Date – May 30, 2014</td>
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<td>Audit of System Travel Regulations</td>
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<td>• Madison</td>
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## Major Project Activity, Continued

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<td>Extension</td>
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# Management Response Progress

## Summary

- System Audit sent 170 e-mails to institution management for corrective action taken on audit comments for reports finalized between December 2012 and October 2014.

- The response rate was 80%.

- Of the 80% who responded, 88% provided documentation to show the corrective action was completed.

- Efforts to obtain additional responses and documentation are ongoing.

- Non-responses to corrective action plans span 11 institutions and five audits.
## Audits on Hold Due to Lack of Staff

<table>
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<tbody>
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<td><strong>Strategic</strong></td>
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<td>• Donor Intent</td>
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<td><strong>Compliance</strong></td>
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<td>• PCI Compliance</td>
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## Audits Deferred

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<tr>
<td>• Affordable Care Act Reporting Requirements</td>
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<td>• Flexible Degree Option</td>
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## Consulting/Committee Work

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<tr>
<td>• HRS Controls</td>
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<tr>
<td>• Travel Management and Operations Committee</td>
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<td>• Affordable Care Act Employer Compliance</td>
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**Agenda Item 1.5.d.**  
**Waste, Fraud and Abuse Hotline Implementation**

<table>
<thead>
<tr>
<th>Timeline</th>
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<tbody>
<tr>
<td>• Initial call with The Network, Inc. was held on March 18, 2015.</td>
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<tr>
<td>• A detailed implementation plan has been created. Full implementation is expected by May 15, 2015.</td>
</tr>
</tbody>
</table>
| • Chief Audit Executive is leading the project. She will be supported by representatives from the following functions:  
  Legal  
  Human Resources  
  Finance  
  IT  
  Communications  
  Academic Affairs  
  Institution Internal Audit |


## Agenda Item 1.5.f.
### System Risk Assessment Process

**Timeline**

- Survey was sent in March 2015 to:
  - Regents
  - Chancellors
  - Provosts
  - Chief Business Officers
  - Controllers
  - Chief Information Officers
  - Human Resources Leaders
  - Auditors
  - President Cross’ Cabinet Members

- 158 surveys were sent.

- 76 responses have been received.

- Risk areas surveys included:
  - Governance and strategy
  - Finance and budget
  - Auxiliary services
  - Administrative services
  - Human resources
  - Information technology
  - Regulations and standards
  - Student services and academic affairs
  - Research

- Results to be tabulated and analyzed and will be used to draft proposed fiscal 2016 audit plan.
### Agenda Item 1.5.g.
**Report of the Chief Audit Executive**

<table>
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<tr>
<th>Title</th>
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<tbody>
<tr>
<td>• System Audit Staffing</td>
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<tr>
<td>• Training</td>
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<tr>
<td>• Auditing of PR Balance Reporting</td>
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</tbody>
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AUDIT COMMITTEE

Resolution:

That, upon the recommendation of the President of the University of Wisconsin System, the Board of Regents approves the conversion of internal audit positions at individual UW institutions to UW System Administration positions, with overall supervision of the systemwide internal audit function provided by the Chief Audit Executive.
UNIVERSITY OF WISCONSIN SYSTEM INTERNAL AUDIT ORGANIZATION

BACKGROUND

The appropriate structure for and oversight of the University of Wisconsin System’s internal audit function has been considered periodically since at least the 1990s. Prior to 1996, the UW System Office of Internal Audit was responsible for conducting most audits within the UW System. These audits were primarily operational or financial in nature. In 1996, a UW System reorganization reduced the number of central office staff by five full-time-equivalent (FTE) staff, from 16 to 11. The UW System Office of Internal Audit, later re-named the Office of Operations Review and Audit, was charged with conducting financial audits, program reviews, and management reviews with systemwide impact.

UW System Administration used savings from the five positions that were eliminated in 1996 to provide funding to each UW institution to support the equivalent of a half-time auditor position. In exchange, each UW institution was expected to establish at least one auditor position. Institutional auditors were given responsibility for conducting campus-based financial and management audits.

In 2005, oversight of audit was added to the Board of Regents’ business-related committee, resulting in the creation of the Business, Finance and Audit Committee. One Regent on the committee was designated the “audit liaison” and worked closely with the Vice President for Finance and the director of the audit office on audit-related issues.

By about 2012, partly in response to the recommendations of the President’s Advisory Committee on the Roles of UW System Administration, the UW System Administration audit function was changed to reduce, and eventually eliminate, the program review function. The role of the System office returned to a stronger focus on financial, compliance, and management audits.

In 2013, UW System Administration contracted with Baker Tilly for a review of the UW System’s internal audit function; the Baker Tilly report, “Assessment of the University of Wisconsin System’s Internal Audit Function System-wide, Final Report,” was issued on July 11, 2013. Subsequently, the Board of Regents created an Audit Committee to place additional focus on audit, separating it from the Business, Finance and Audit Committee. In addition, the System replaced an audit director position with a Chief Audit Executive who reports to the Audit Committee and the President of the UW System; and the audit office was re-named the Office of Internal Audit.

REQUESTED ACTION

Adoption of Resolution I.5.e., approval of the centralization of the UW System audit function.
DISCUSSION

The CAE is responsible for managing internal audit activity in the UW System, including establishing a risk-based annual plan, obtaining input to the plan from management and approval of the plan from the Audit Committee, determining and managing the human resources necessary to execute the plan and reporting the results of the audit work to management and the Audit Committee. The Audit Committee is responsible for ensuring that management’s responses to the audit findings and recommendations are appropriate.

A structure that calls for the Chief Audit Executive (CAE) to report directly to the Audit Committee of the Board of Regents is consistent with the International Standards for the Professional Practice of Internal Auditing (Standards) and the Baker Tilly report. In addition, the 2013 Baker Tilly report recommended that internal audit staff report to the System internal audit office.

This recommendation from Baker Tilly, when viewed in conjunction with the Standards, suggests that it is appropriate and timely to combine responsibility for the audit function under the auspices of the UW System Administration Office of Internal Audit. The Standards require, among other things, that auditors be independent, be objective and have an impartial and unbiased attitude and avoid any conflict of interest. Having a System-level reporting structure will help in meeting these standards.

Therefore, the CAE recommends that as of July 1, 2015, all internal auditors at UW institutions join those at System Administration and become System Administration employees. This change affects approximately 17 employees and six open positions.

UW System Administration would fully fund the payroll, benefits and general administration costs (i.e. training, audit software, etc.) of these auditors. Further, because the internal audit function is an oversight and Board function, the CAE recommends that the cost of the function be borne at the System level and not assessed and allocated back to the institutions. This is consistent with the practices of the UW’s Big Ten peers. It also makes it clear to all stakeholders that all internal auditors are accountable to the Audit Committee.

The CAE would expect the institutions to provide adequate and appropriate work space for the auditors who primarily work at their institutions (in or near the business and administrative leaders’ offices), basic supplies and help desk support. Because they are still employees of the university, the auditors should have the accommodations they currently have (i.e. parking, inclusion in social events). Finally, it is the CAE’s expectation that auditors would be allowed the access to the information systems, management and facilities necessary to complete their assignments in an efficient and objective manner.

As is the current practice, we expect that the campus-based UW System auditors will be invited to participate in working groups and committees at the institutions, especially those that deal with financial, ethical or compliance matters. This allows Audit to provide timely input to management for its consideration.

Progress reports on the change to the new administrative structure will be provided at future Audit Committee meetings.