

THE TRUSTEES OF THE STEVENS INSTITUTE OF TECHNOLOGY

CHARTER OF THE AUDIT AND RISK COMMITTEE

Adopted June 26, 2020

Background

The Audit and Risk Committee (the “Committee”) is a committee of the Board of Trustees (the “Board”) of The Trustees of the Stevens Institute of Technology, a New Jersey nonprofit corporation (the “University”). This Charter (“Charter”) replaces and supersedes in its entirety the Charter of the Committee dated as of October 30, 2015.

Purpose

The primary purpose of the Committee is to oversee the following:

- a. establishment of and compliance with appropriate accounting policies and internal controls;
- b. issuance of the University’s financial statements and reports in a timely manner in accordance with its regulatory and legal obligations and generally accepted accounting principles (“GAAP”);
- c. compliance with legal and regulatory requirements and policies with respect to the financial operations of the University;
- d. engagement and oversight of a qualified and independent external auditor (“External Auditor” or “External Auditors”);
- e. adoption of management policies and processes to detect and prevent fraud;
- f. performance of the University’s internal audit, risk and compliance functions; and
- g. performance of the University’s information technology (“IT”) function.

Membership

Composition

Upon recommendation by the Nominating and Corporate Governance Committee, each member of the Committee shall be elected (or reelected) by the Board on an annual basis.

The Committee shall consist of at least four members who shall be elected by the Board from among the University’s trustees (each such member, a “Trustee Member”) on an annual basis. The Board shall elect one of the Trustee Members to serve as the Chair of the Committee (the “Chair”).

Skills; Independence

Each Trustee Member of the Committee shall be financially literate or must become financially literate within a reasonable time after being appointed to the Committee. An individual will be considered financially literate if he or she is able to read and understand university financial statements and has a working knowledge of basic finance and accounting practices.

Each Trustee Member must be an independent member of the Board. Independence shall be determined by the Board using the guidelines set forth herein. A Trustee Member shall not be deemed “independent” if:

- a. he or she is, or within the past three years was, affiliated with or employed by the University;
- b. his or her immediate family member is, or within the past three years was, an executive officer of the University;
- c. he or she is, or in the past three years was, affiliated with or employed by a present or former auditor of the University’s financial statements;
- d. he or she receives or has received within the past three years, directly or indirectly, a consulting, advisory or other compensation fee from the University other than a fee received for service on the Board in accordance with Section 5.2 of the University’s Bylaws. A Trustee Member shall be deemed to receive indirect compensation if an entity in which such Trustee Member is a partner, member, controlling equity holder, executive officer, director or other principal provides accounting, consulting, legal, investment banking, financial, advisory or other similar services to the University, for which such entity is compensated, regardless of whether the Trustee Member actually performs such services;
- e. he or she is, or in the past three (3) years was, employed as an executive officer of another entity for whom any of the University’s executive officers serve on such entity’s compensation committee or a body performing a similar function; he or she has an immediate family member in any of the foregoing categories within the past three (3) years; or
- f. either the Board Chair or such Trustee Member determines that (i) such Trustee Member has a relationship that would prohibit him or her from acting in the best interests of the University with respect to a particular matter that will likely come before the Committee, or (ii) such Trustee has a relationship that would interfere with the exercise of such Trustee’s independent judgment in carrying out the responsibilities of a Trustee Member.

Meetings

Schedule

The Committee shall meet at least three times per year. Additional meetings shall be held upon the request of the Chair or any other member of the Committee, or at the direction of the Board.

Attendance

In addition to members of the Committee, meetings shall normally be attended by representatives of the External Auditors, the University’s President, the Provost, the Chief Financial Officer (“CFO”), the General Counsel, the Chief Information Officer (“CIO”), the Chief Information Security Officer (“CISO”), the Director of Audit and Advisory Services (“DAAS”), the Chief Compliance Officer (“CCO), the Associate Vice President for Finance, and the Controller.

Other persons, including other officers and employees of the University, may attend meetings upon the request of the Committee, at the Committee's discretion. Non-members of the Committee may be excused from any meeting, or portion of any meeting, of the Committee upon the request of the Chair. Any individual other than a Trustee Member who attends a meeting of the Committee shall attend in an advisory, nonvoting capacity.

Administrative Support

The Committee will be administratively supported by the DAAS of the University whose duties shall include recording the minutes of each meeting. In the absence of the DAAS, a designee of the CFO shall attend the meeting of the Committee to record the minutes. In the absence of such individual, the members of the Committee shall designate a Trustee Member to record such minutes.

The complete, detailed and accurate minutes of the meetings of the Committee, containing discussions and decisions of the Committee, shall be submitted to the Board at its next meeting or within the time required under N.J.S.A. 15A:6-9.

Executive Sessions

The Chair shall have the authority to call executive sessions which shall be limited to the Trustee Members of the Committee. Based on the topics to be discussed in executive session, the Committee may invite management or other advisors as deemed necessary. The Committee shall hold executive sessions with each of the following groups as frequently as it deems necessary but in any event not less than once a year:

- a. the President and selected Officers of the University ("Management");
- b. the University's DAAS, CCO and CISO; and
- c. the University's External Auditors.

Quorum

At any meeting of the Committee, a majority of Trustee Members of the Committee shall constitute a quorum for the transaction of Committee business.

Reporting

The Chair of the Committee shall report the findings of the Committee at each meeting of the Board and on other additional occasions as deemed appropriate by the Chair.

Authorities, Duties and Responsibilities - External Auditors

Selection and Oversight

With respect to the External Auditors, the Committee shall have the following authority, duties and responsibilities:

- a. appoint, retain and terminate the University's External Auditor. The independent auditors are ultimately accountable to the Board and the Committee acting on behalf of the Board;
- b. sole authority to approve all audit engagement fees and terms, and any permitted non-audit engagements with the External Auditors;
- c. review with the External Auditors, prior to their annual audit, the scope of their examination and the associated fees, and consider the possible effects, if any, of non-audit engagements on the independence of the independent auditors;
- d. ensure a formal written statement delineating all relationships between the External Auditors and the University or any services provided by the independent external auditors to the University or by the University to the independent auditors is submitted to the Committee. The Committee shall discuss with the External Auditors any such relationships or any services that may impact on the objectivity and independence of the External Auditors and take appropriate action in response to such report to satisfy itself of the independence of the External Auditors;
- e. obtain and review at least annually, a report by the External Auditors describing the External Auditors' internal quality control procedures and any material issues raised by the most recent internal quality-control review or in any inquiry by governmental or professional authorities;
- f. evaluate the External Auditors' qualifications, performance and independence, including the firm's personnel rotation policy;
- g. review with the External Auditors on a regular basis any audit problems, difficulties with the University's response (including any restrictions on the scope of the External Auditors' activities or access to requested information, and any significant disagreements with Management), budget performance and staffing of the University's internal audit function as they pertain to the support of the External Auditors;
- h. set clear hiring policies for hiring employees or former employees of the External Auditors;
- i. review the External Auditors' management letters to the University and any Management responses thereto; and
- j. discuss with the External Auditors such other matters and take such other action as the Committee deems appropriate.

External Auditor Review

On a periodic basis, at least once every 10 years, the Committee shall direct Management to undertake a process of obtaining competitive bids from at least three qualified firms to act as External Auditors for the University. The incumbent firm may be invited to participate in the proposal process at the discretion of the Committee. The Committee will recommend the engagement of a new external auditor or retention of the current External Auditor to the Board.

Authorities, Duties and Responsibilities - Financial Statement and Reporting Matters:

With respect to financial statements and reporting matters, the Committee shall have the authority, duties and responsibilities set forth as follows:

- a. the Committee shall review and approve all financial statements of the University, including without limitation the annual audited financial statements. In connection therewith, the Committee shall:
 - oversee the work of Management and the independent auditors on such financial statements;
 - discuss such financial statements with Management and/or the External Auditors as the Committee deems appropriate in the course of its review;
 - satisfy itself that accounting principles and disclosure practices are in accordance with GAAP; and
 - make such recommendations to the Board with respect to the approval of such financial statements as the Committee deems appropriate;
- b. the Committee shall review with Management and the External Auditor changes in accounting principles and reporting standards that have, or may in the future have, a significant impact on the financial statements of the University;
- c. the Committee shall require Management to provide to the Committee, on a timely basis, advice of significant current financial reporting issues and practices;
- d. the Committee shall discuss and review with Management and the independent auditors their qualitative judgments about the appropriateness of accounting policies, principles (including underlying assumptions relied upon in preparation of the financial statements) and financial disclosure practices used or proposed to be adopted; and
- e. the Committee shall review the University's tax returns and other governmental and external reporting obligations such as the reports due in accordance with Uniform Guidance and relevant state law for the Single Audit and other relevant filings, including but not limited to the University's annual IRS Forms 990 and 990T. The Committee shall submit each approved Form 990 and 990T to the Board for its review and approval.

Authorities, Duties and Responsibilities - Other Matters: In addition to the other authorities, duties and responsibilities set forth in this Charter, the Committee shall have the authority, duties and responsibilities set forth as follows:

- a. the Committee shall oversee the internal audit function of the University, including review and assessment of the:
 - Internal Audit Charter;
 - the Audit Plan and supporting rationale;
 - compliance with the standards of the Institute of Internal Auditors;
 - adequacy of the staffing of the internal audit function;
 - Management's action plans to address the results of internal audit findings; and
 - adequacy and effectiveness of the University's internal controls.

The DAAS shall report directly to the Committee and shall administratively report to the CFO;

- b. the Committee shall oversee the risk and compliance function of the University, including review and assessment of the:
 - compliance work plan;

- enterprise risk management (“ERM”) program, including the process by which the University assesses and manages its exposure to risk, risk assessments, prioritization and mitigation plans;
- insurance risk management program;
- adequacy of programs and initiatives to ensure compliance with laws and regulations; and
- University’s conflict of interest policy and code of ethics.

The CCO shall report directly to the Committee and shall administratively report to the CFO.

- c. the Committee shall oversee the IT function of the University, including review and assessment of the:
- IT infrastructure, including technology architecture and significant technology investments;
 - effectiveness of information systems procedures and controls and related security programs;
 - cyber security, risk of cyber-attacks and protection of the University’s data;
 - IT policies and procedures; and
 - reports prepared by the Vice President of Information Technology and CISO.

The CISO shall report directly to the Committee and shall report administratively to the CIO.

- d. the Committee shall have direct access to the External Auditors and to the University’s DAAS, CCO and CISO. Similarly, the External Auditors and the DAAS, CCO and CISO will have direct access to the Committee as needed;
- e. the Committee shall report regularly to the Board with respect to its authority, duties and responsibilities under this Charter;
- f. the Committee shall discuss and review policies with respect to risk assessment and risk management, including guidelines by which the President and Management can assess and manage the University’s exposure to risk. The Committee shall discuss and assess the University’s major financial risk exposures and the steps Management has taken to monitor and control such exposures;
- g. the Committee shall review employee expense policies, including pre-authorization, documentation requirements and approval schedules;
- h. The Committee shall cause an audit of all expenses of the President and the other five most highly-compensated employees of the University to be conducted on an annual basis;
- i. the Committee shall establish and ensure the adequacy of procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting control or auditing matters, including the confidential submission of complaints by employees regarding such matters;
- j. The Committee may make a request to the Board for assistance from external advisors (which may be legal advisors), if determined to be necessary and, upon Board approval,

- the Chair of the Committee will work with the Chief Financial Officer (or the General Counsel with respect to legal advisors) to engage and supervise such advisors; and
- k. the Committee shall review such other matters as the Committee shall determine from time to time within the scope of its authority, duties and responsibilities set forth in this Charter, and make such recommendations to the Board with respect thereto as the Committee deems appropriate.

Evaluation

The Committee will review and evaluate its activities and findings from time to time. The Committee also shall review this Charter periodically and recommend any proposed changes to the Board. Any changes shall become effective upon approval of the Board.