

**Audit and Compliance Committee Memorandum**  
Board of Regents, State of Iowa

**Subject:** Temporary Waiver of Timing for External Auditor Selection

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**Date Submitted:** March 2, 2005

**Recommended Action:**

Recommend that the Board authorize a temporary waiver of the policy requirement that mandates the universities to use a solicitation process at least every five years. This temporary waiver would allow the universities to extend current audit services contracts with external auditors for one year until audit matters are resolved.

**Executive Summary:**

Board Policy	<p>In May 2004, the Board adopted new audit policies that voluntarily adopted certain key provisions of the Sarbanes Oxley Act. The approved policies strengthen governance and accountability, improve disclosure, increase oversight, heighten auditor independence, and clearly define an auditor's ultimate reporting responsibilities.</p> <p>The Regent Policy Manual §7.08, Audit Activities, subsection D.2, contains the following general provisions:</p> <p style="margin-left: 20px;">a. For audit services other than statutorily required from the Auditor of State, the institutions are to select external auditors through a competitive Request for Proposal (RFP) process in accordance with the Board's policies on professional services contracts in the Purchasing section of this Chapter. This process shall occur no less than every five years.</p> <p>Current statute requires the Auditor of State to perform the financial and compliance audit of the Board and its institutions.</p>
Different External Auditors	<p>Each university utilizes a different external auditor for its series of bonded enterprises. The audit of the University of Iowa Hospitals and Clinics is conducted by a fourth audit firm.</p> <p>The universities selected the current external auditors through a Request for Proposal process approximately five years ago.</p>
Regent Deregulatory Legislative Program	<p>The legislative study bills for the Regent deregulation program, as drafted, would authorize the Board of Regents and its institutions to competitively bid financial and compliance audit services, similar to community colleges, cities, counties, and school districts, and provide incentives to control costs.</p>

## February Discussion

During the February Audit and Compliance Committee meeting, presentations were made on the financial statements for the twenty-six universities' bonded enterprises for the year ended June 30, 2004.

Although the bonded enterprises were similar among the three universities, the external auditors did not agree on certain financial statement presentations.

During the February Board meeting, Board members discussed employing only one external auditor to conduct all of the bonded enterprise audits at the three universities, with the possible exception of the specialized UIHC audit. This would encompass the issuance of one combined RFP for all of the bonded enterprise audits.

## Current Issues

The various audit issues under consideration include:

- Board policy requirements for an RFP process to select external auditors no less than every five years
- Board discussions about the selection of one external firm to provide audit services for bonded enterprises at all three universities
- The potential authorization to bid out all financial and compliance audit services
- Resolution of issues, which could be as early as this summer
- Selection of external auditors prior to the end of the fiscal year

Until these audit related issues are resolved, the following two choices for employing external auditors are possible:

- Preparing an RFP for a one-year audit contract
- Extending the current audit contracts for one year

The universities do not believe that it is practical to prepare RFPs for one-year contracts. The process would take time and would substantially delay the selection process for external auditors of the bonded enterprises. The universities are not certain whether they would receive reasonable bids on a one-year contract in light of the high demand conditions for public accounting.

## Conclusion

Because of timing concerns and the potential changes to selecting auditing services in the near future, each university has expressed a desire to extend their current audit contracts for one year until the audit issues are resolved.

Since each of the external auditors were selected through an RFP process, a temporary policy waiver of the provision for "no less than every five years" for selection of an external auditor could be provided to allow the universities the opportunity to extend current external audit service contracts for one year until the various audit matters are resolved.