

*BOARD OF REGENTS
AUDIT AND COMPLIANCE COMMITTEE*

August 3, 2004

Persons in attendance (not all-inclusive):

Committee members: Owen Newlin (Chair), Mary Ellen Becker, Robert Downer, David Neil, John Forsyth – ex officio (excused at 3:15 p.m.)

Others: Amir Arbisser, Sue Nieland (arrived at 2:15 p.m.), Jenny Rokes, Greg Nichols (arrived at 2:45 p.m. and excused at 3:15 p.m.), Robert Barak, Pam Elliott, Tom Evans, Deb Hendrickson, Joan Racki, Barb Boose, Barb Briggie, David Skorton, Doug True, Donna Katen-Bahensky, Dick See, Gregory Geoffroy, Warren Madden, Robert Koob, Tom Schellhardt, Jeanne Prickett, Jim Heuer, Andrea Anania, Carol Senneff, Sheryl Rippke, Tim McKenna.

Regent Newlin called the meeting to order at 2:02 p.m.

Minutes from May 18, 2004, Committee Meeting

Regent Newlin asked if there were any additions or corrections to the minutes. There were none.

MOTION: Regent Neil moved to approve the minutes of the May 18, 2004, Audit and Compliance Committee meeting, as written. Regent Arbisser seconded the motion. MOTION CARRIED UNANIMOUSLY.

Revised Committee Work Plan.

Director Elliott stated that the internal auditors had requested to move the evaluation of institutional internal audit plans from May to August.

MOTION: Regent Neil moved to approve the revised Committee work plan. Regent Downer seconded the motion. MOTION CARRIED UNANIMOUSLY.

Internal Audit Plans

Director Senneff reviewed the internal audit plan for the University of Iowa. She reiterated comments that she has made in the past about the process for developing the plan. Internal controls and risk assessment are at the core of internal audit plan development. University activities addressed in the plan include cash handling, regulatory compliance including HIPAA compliance, general control environment and complexity of operations. She said the Registrar's Office, which has never before been audited by internal audit, was included in the audit plan. The internal audit evaluation assessed the Registrar's Office risk as high.

Feedback from the University of Iowa's audited clients is received throughout the audit process. Director Senneff said the auditors remain in contact with the clients throughout the follow up until the auditors are satisfied that the risks have been mitigated. Very few recurring audits are performed. She noted that the internal auditors spent nearly a week performing a risk assessment at the Iowa School for the Deaf.

Director Senneff addressed the staffing of the University of Iowa's internal audit function. Another auditor has become a certified internal auditor. All of the auditors are either CPAs (Certified Public Accountants), CMAs (Certified Management Accountants) or CIAs (Certified Internal Auditors).

Regent Neil referred to information provided in the meeting materials about the level of audit staff of peer institutions, and asked if the number of auditors on staff was grossly out of balance compared to peers. Director Senneff stated there are internal audit offices at the Hospital and at the University campus which work together closely. In addition to Dick See and herself, there are two full-time internal auditors at the University of Iowa Hospitals and Clinics and five full-time internal auditors at the University. She stated she could certainly use more resources, particularly at the University of Iowa Hospitals and Clinics.

President Skorton pointed out that some of the schools on the list of peer institutions are actually systems; therefore, their numbers are much larger. He expressed his belief that the University of Iowa internal audit office is understaffed, especially considering the enormous growth the University has experienced in sponsored funding and the level of Hospital activity.

Regent Becker referred to summary information provided in the meeting materials which compared the three Regent universities' number of audits, number of audit hours and staff. She stated that, on the surface, it appeared the University of Iowa is doing many more audits per person. She questioned whether all three universities were counting audits in the same way and determining similarly what constitutes an audit.

Director Senneff stated the summary was like comparing apples and oranges. For example, the University of Iowa's information does not include any of her time nor any administrative time. Iowa State University's information includes Director Rippe's time.

Regent Becker suggested the universities take a look at the way those figures are reported so they are counting audits the same.

Regent Newlin questioned whether it would be appropriate for Director Senneff to allocate her time to the internal audits. Director Senneff said that would be very difficult to do, but discussions could take place about how to do it. Regent Newlin asked that Director Senneff do so in order to make the University of Iowa's information more comparable with that of the other two universities.

President Forsyth asked if there is an integrated plan for the Regents on audit activity regarding the Sarbanes-Oxley Act (SOX). Director Elliott responded that the following three groups have been identified: 1) Board policies, 2) internal audits and 3) institutional policies.

President Forsyth asked that SOX activity be included in the work plan. Director Elliott said the Board Office would include it in the work plan.

President Forsyth stated that, where possible, for the sake of consistent reporting, items should be counted the same.

President Skorton stated that the University of Iowa has established a work group comprised of the internal auditors and the general counsel's office to address SOX. He offered to have Director Senneff describe the work group as the Committee considers a Regent-wide approach.

Regent Newlin asked that Director Senneff provide comments at this time. Director Senneff stated that the University team includes faculty and students from across the campus. The group will initially look at two issues related to SOX: 1) gap analysis and 2) a comprehensive whistle-blowing process and procedure. University officials are determining how best to establish a way to "blow the whistle" on campus.

Regent Newlin asked for comment about the notation in the meeting materials regarding participation in a Web seminar on SOX. Director Rippke stated that representatives of all three universities participated in the seminar. Mr. McKenna reported that it was a 1-2 hour seminar which provided a broad overview of SOX.

Vice President Madden stated there are a number of efforts nationally to review SOX. Many professional organizations are using Web programming to reach their members. National audit firms are looking at SOX. He suggested the universities put together a status of where they are with regard to SOX, which Regent Newlin said was a good idea. Vice President Madden said the universities could work together on the task and come back at a subsequent meeting.

Director Rippke reviewed the internal audit plan for Iowa State University. She said the process for determining the audits to be performed is very similar to what was described by Director Senneff. She noted that she performs some special audit work but no formal audits. At Iowa State University, the auditors tend more toward auditing the administrative areas than academic areas. One internal auditor is certified in information technology auditing.

Regent Newlin asked for comment about Iowa State University's ranking with peer institutions with regard to the number of auditors.

Director Rippke stated that Iowa State University has four internal auditors. She networks with internal auditors at the peer institutions and believes Iowa State University's staffing level is about average. She noted that the internal auditors have learned to do more with less. She does not feel the University is grossly in peril and stated they are able to do what needs to be done.

President Forsyth asked if each of the internal auditors have the staff necessary to carry out their responsibilities.

Director Rippke responded that she does not feel a great deal of anxiety that the risk needs of Iowa State University are not being addressed. Although she is satisfied with the audit coverage at Iowa State University, she would like to have a couple more auditors.

Director Senneff expressed her belief that a good job is being done at the University of Iowa. She believes there is not enough coverage in a couple of areas, especially at the University of Iowa Hospitals and Clinics. She is also concerned about information technology auditing. Information technology represents a huge risk and one that is only going to grow. One of the areas where the auditors have not done as well as they should have in the last couple of years is auditing new systems and process development. She said it would be beneficial to perform more of that type of auditing up front.

President Forsyth said he agreed that it would be best to involve the auditors in new processes so that checks and balances are included in the beginning.

Director Senneff stated that the internal auditors are evaluating how much time and resources to give to a potential new system at the University of Iowa. If the decision is to give minimally-adequate coverage to that area, then other areas of the audit plan will have to be delayed.

President Skorton pointed out that this Committee is called the Audit and Compliance Committee. He thinks of audit as one subset of risk management on campus. Other elements of risk management include compliance activities that are done by external agencies, legal activities, and finance activities. He questioned whether the questions being asked might more broadly be recast as risk management and not just internal

audit. If so, perhaps the Committee members could think about the Committee's function more broadly than just audit.

Regent Arbisser asked if there is a protocol within the business of auditing whereby audit activities of one institution can be compared with the activities of others. Is there an external list of general accounting activities?

Director Senneff responded that there is no protocol or measurement system as described by Regent Arbisser. She said internal auditors are highly self-regulated. Members of the Institute of Internal Auditors know what each other is doing. The auditors are in touch with each other on a regular basis.

Regent Downer referred to Director Senneff's comment that the area of information technology is expanding greatly. He asked if there should be specific plans to deal with that expansion to keep pace with the challenges.

Director Senneff responded that is done as part of risk assessment; however, the internal auditors are limited by the expertise of their staffs. She said she has talked to representatives of the University's central information technology group about working with the internal auditors on some of the audits.

Regent Neil recommended that HIPAA, as a new audit area, be given a strong look.

President Forsyth stated there is a need to have a consistent audit application across the institutions. There is a need for an integrated, seamless audit function for the enterprise, located within the institutions. With regard to compliance with Sarbanes-Oxley, he questioned whether the Regent enterprise wants to be in the lead or wait to see what is going to be applied to public institutions, because of the cost. He said there is a need to apply the resources to the highest-risk areas. In the short-term, they need to ensure that what is needed for the Hospital is being done, and he believes that President Skorton and Director Senneff are doing that.

Mr. McKenna presented a brief summary of the internal audit plan for the University of Northern Iowa. He said the process of developing the internal audit plan was similar to the processes at the University of Iowa and Iowa State University.

Regent Newlin thanked the Directors of Internal Audit for their efforts.

ACTION: Regent Newlin stated the Committee (1) received the progress reports for the universities' FY 2004 audit plans and (2) received the universities' internal audit plans for FY 2005, by general consent.

Internal Audit Reports

Director Elliott presented the initial attempt to summarize internal audit reports utilizing a simplified dashboard approach, as requested at the May Committee meeting. She pointed out that the colors were determined arbitrarily.

Regent Becker asked that the titles and format of similar categories be consistent throughout the dashboard. She noted that she liked the general notions of the different categories.

Mr. McKenna said it may be difficult to distinguish some audits into the different colors. He cautioned that the Committee not just focus on the colors.

President Geoffroy asked who will make the decision as to which color is chosen. He said he could imagine different interpretations. President Forsyth suggested that the people closest to the process – the universities – should make that judgment.

President Geoffroy expressed his belief that materiality-criticality was the most important category. He said the presidents and vice presidents, working with the auditors, should determine the materiality-criticality. The Board Office could always alert the chair of the Audit Committee if there was a difference of opinion.

President Skorton asked if President Forsyth's concept was that the agenda item would be prepared by the University staffs and auditors, and not the Board Office. President Forsyth responded affirmatively. He stated that doing so is in agreement with the concept of having common definitions, common processes and a single approach to matters. The agenda item could be presented from the institutions to the Board Office and from the Board Office to the Board. If the Board Office has questions or issues, it is incumbent upon the Board Office to ask questions.

Director Rippke questioned whether the institutions would be provided with additional information about the interpretation of core institutional process. She said the institutions will need a significant amount of guidance in how to define the attributes. For example, core institutional process to some people might relate directly to the educational mission but to someone else it might be in terms of dollars. Auditors think everything relates to the core educational mission in one way or another.

President Forsyth asked if the university auditors have one definition and the universities and the Board Office have a different definition. Director Rippke responded that there are probably multiple definitions across the enterprise. Perhaps in the context of internal audit there should be a unique definition.

President Forsyth suggested the internal auditors reach agreement about the definition of core institutional process, in conjunction with the Board Office. A single judgment would then be presented to the Committee.

Regent Becker cautioned that the definition apply to all of the institutions including the two special schools and the Hospital.

Director Rippke noted that the dashboard will create problems on the campuses. People will see it as a grade and will concentrate and focus on that rather than what the auditors are trying to accomplish.

President Forsyth said the dashboard should not be seen as a negative, and part of it is a grade. People need to improve in the areas in which they are out of compliance.

President Skorton expressed the following as his expectation of the audit process: A deficiency will be identified. As a process improvement partner, the auditor will work with the unit to improve the process. As the process goes forward, a decision has to be made about which color to use. Determination of the color will be based upon the importance of the deficiency and whether a business process was put in place that brought the deficiency back within acceptable bounds.

President Forsyth stated that the ultimate accountability for fixing the deficiency is not the audit function; it is the line management's function.

President Skorton asked if the report to be brought back to the Committee is not only that a deficiency was found but also what the auditor, as a business partner with management, is able to do.

President Forsyth said a time frame is established by the auditor in conjunction with management for resolution of each audit finding. The Committee then has an opportunity to see whether the matter is or is not resolved.

Director Senneff expressed her belief that if there is an issue that is critical enough to be reported, then something needs to be done to mitigate the risk within 3 to 6 months. There are long-term and short-term solutions. In every case, with almost no exception, there is a way to mitigate risk while working on a long-term solution. The auditors remain in contact with the audit client every month until a resolution is implemented. She suggested that consideration be given to the development of a status report regarding what is actually happening with audit finding resolution.

Regent Newlin suggested that the Board Office convene the internal auditors to discuss this topic and report to the Committee at its November meeting regarding the completed definitions and the benchmarks.

Regent Nieland asked if the dashboard would be used in November. Regent Newlin responded affirmatively.

MOTION:

Regent Downer moved adoption of the recommendation that the Board Office convene the internal auditors to complete the definitions

and benchmarks, with a report to be presented at the November Committee meeting. Regent Becker seconded the motion. MOTION CARRIED UNANIMOUSLY.

Regent Downer referred to the University of Iowa – Hospital Operations Contractual Adjustments audit, the internal audit report for which was issued in January 2003 but the follow-up memorandum for which was not issued until June 2004. He asked for the reason for a delay of that length. Director Senneff responded that the audit was very complex and there was a change of direction. The audit is now closed.

Adjournment

The meeting adjourned at 3:17 p.m.



Pamela M. Elliott
Director, Business and Finance



Gregory S. Nichols
Executive Director

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