

Contact: Pam Elliott Cain

REVIEW OF AUDIT POLICIES

Action Requested: Consider recommending to the Board the proposed changes to the Regent audit policy.

Executive Summary:

In May 2004, the Board changed its audit policies to voluntarily adopt key provisions associated with the Sarbanes-Oxley Act. The objectives of the Act seek to improve corporate management, financial reporting, internal controls, and executive conduct by enhancing the integrity and reliability of financial reporting, strengthening corporate governance and accountability, improving disclosure, increasing oversight and enforcement of federal securities law, and heightening auditor independence.

In May 2005, the Board changed its internal audit strategy toward a more enterprise-wide approach, which is consistent with the Regent Transformation Plan for Excellence. This change was initiated by filling the open Director of Audit position as an enterprise-wide position, rather than a replacement position within the University of Iowa. The new Regent Internal Audit Director, Todd Stewart, who was hired in August 2005, reports to the chair of the Audit Committee, as well as the President of the Regents.

In addition, legislation enacted during the 2005 session modified the Indigent Patient Care program which eliminated the Iowa Code citation for an audit section on hospital audits.

The proposed changes to the audit policies include:

- Modifications to recognize the role and reporting responsibilities of the Regent Internal Audit Director.
- Deletion of the hospital audit section based on deleted Iowa Code language.

Specific policy language proposed changes are included in the attachment.

Chapter 7 - Business Procedures

7.09 Audit Activities

- A. For the national corporate environment, numerous actions have been taken to improve accountability through the implementation of the Sarbanes Oxley Act. The Board of Regents, through its Audit and Compliance Committee, expects to enhance accountability and fulfill its audit oversight responsibility by:
1. Reviewing all external financial, bond-specific, and other audit reports conducted on the Regents office and any part of its institutions and Regent-associated regional study centers.
 - ~~2.~~ Reviewing the annual audit plans proposed by the Board's Internal Auditors Director.
 3. Reviewing all reports prepared by internal auditors of the Regent institutions.
 4. Encouraging continued evaluation, improvement, and adherence to all Board and institutional policies, procedures, and practices at all levels.
 5. Encouraging an open avenue of communication among the independent auditors, financial and senior management, internal auditors, Committee, and Board of Regents.
 6. Reporting to the Board of Regents regularly regarding the execution of the Committee's duties and responsibilities.
- B. While the Audit and Compliance Committee can delegate certain audit related responsibilities to the institutions, the ultimate reporting by all auditors for all institutional related audits is to the Audit and Compliance Committee.
- ~~C. Each institution shall develop procedures to implement the Board's audit activities policies.~~

D.C. External Audits

1. State Audits
 - a. As established by law, the auditor of state shall annually make a complete audit of the books and accounts of every department of the state, a quarterly audit of the educational institutions, and audit testing of the Board's investments. (Iowa Code §11.2)

Each department and institution of the state shall keep its records and accounts in such form and by such methods as to be able to exhibit in its reports the matters required by the auditor of state, unless otherwise specifically prescribed by law. Each department and institution of the state shall keep its records and accounts in a current condition. The failure of the head of any department of the state to comply with this provision shall be grounds for their suspension from office. (Iowa Code §11.5)
 - b. The institutions will send all draft state audit comments and recommendations from the State Auditor's Office to the Board Office for review.
 - c. Proposed institutional responses to state audit comments and recommendations will be developed by the institutions in consultation with the Board Office. The proposed responses must be approved by the ~~Executive Director~~ Board Office before they are submitted to the State Auditor's Office.

- d. A copy of all state audits related to a Regent institution shall be, upon completion, sent to the Board Office for docketing on the Audit and Compliance Committee agenda.
 - e. The State Auditor's Office may request to discuss financial and audit related issues with the Audit and Compliance Committee
 - f. The Audit and Compliance Committee may request the State Auditor's Office to discuss financial and audit related issues with the Committee.
2. General Provisions
- 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.
 - b. All external audit firms must be currently and appropriately licensed and have a current permit to practice as a Certified Public Accounting firm in the state of Iowa.
 - c. Audit managers for each engagement must be rotated at least every five years.
 - d. Institutions must comply with all state, Board, and institutional conflict of interest policies.
 - e. External auditors for an institution are restricted from providing any of the following services for that institution:
 - 1) Bookkeeping or other services related to the accounting records or financial statements of the institution
 - 2) Financial information systems design and implementation
 - 3) Appraisal or valuation services, fairness opinions, or contribution-in-kind reports
 - 4) Actuarial services
 - 5) Internal auditing outsourcing services
 - 6) Management functions or human resources
 - 7) Broker or dealer, investment advisor, or investment banking services
 - 8) Legal services and expert services unrelated to the audit
 - 9) Any other service that the Board determines is impermissible
 - f. Any exceptions to the restrictions above must be approved by the Audit and Compliance Committee prior to the performance of the proposed services, unless the aggregate amount of all such non-audit services provided to the institution constitutes less than 5 percent of the total amount paid by the institution to its auditor during the fiscal year in which the non-audit services are provided. Each institution is responsible for notifying the Board Office of all such non-audit services received under this exception.
 - g. Institutions should carefully consider and document the benefits and risks of employing an individual who has worked for the auditing firm within the previous year and consider how the position may relate to the institution's external audit.

3. Hospital Audits

~~a. To arrive at proper basis for the payment of said bills for treatment, care, and maintenance (of indigent patients), the Board of Regents shall cause to be made annually an audit of the accounts of the University Hospital and determine the average cost per day for the care and maintenance of each patient therein, exclusive of the salaries of the members of the faculty of said university College of Medicine, and said bills shall be allowed at such average cost. All accounts shall be so adjusted and paid as to reimburse the funds of the hospital used for the purposes of this chapter. (Iowa Code § 255.25)~~

b.a. The University of Iowa Hospitals and Clinics will arrange for an annual external audit of hospital accounts, in accordance with the general provisions of subsection 2 and shall submit, upon completion, a copy of the audit and management letter to be docketed on the Audit and Compliance Committee agenda.

e.b. The UIHC external auditor request to discuss financial and audit related issues with the Audit and Compliance Committee

d.c. The Audit and Compliance Committee may request the UIHC external auditor to discuss financial and audit related issues with the Committee.

4. Other External Audits

Copies of all external audits conducted on any subunit of a Regent institution or regional study center shall be submitted, upon completion, to the Board Office for docketing on the Audit and Compliance Committee's agenda.

External auditors may request to discuss financial and audit related issues with the Audit and Compliance Committee.

The Audit and Compliance Committee may request the other external auditors to discuss financial and audit related issues with the Committee.

E. Internal Audits

1. Purpose. The Board of Regents authorizes the University presidents to hire internal audit staff to provide independent appraisal services to the Board and institutional administrators. Internal auditing is a managerial control which functions by measuring and evaluating the effectiveness of other financial and managerial controls.

2. Objective and Scope. The objective of internal auditing is to assist the Board of Regents and institutional administrators in the effective discharge of their responsibilities by furnishing them with analyses, appraisals, recommendations and pertinent comments concerning the activities reviewed. The attainment of this objective involves such activities as:

- a. Reviewing and appraising the soundness, adequacy and application of accounting, administrative and other operating controls, and promoting effective control at reasonable cost.
- b. Ascertaining the extent of compliance with established policies, plans and procedures.
- c. Ascertaining the extent to which assets are accounted for and safeguarded from losses of all kinds.
- d. Ascertaining the reliability of management data developed within the organization.

- e. Conducting special examinations and reviews at the request of the Audit and Compliance Committee, the Board of Regents or institutional heads.
 - f. Evaluating the economy and efficiency with which resources are employed and recommending improvements in operations, including reviews of administrative and support services with the objective of reducing operating costs.
3. Authority. The internal audit staffs are authorized by the Board of Regents to conduct a comprehensive program of internal auditing. To accomplish their objectives, the internal auditors are authorized to have unrestricted access to university functions, records, properties and personnel. ~~The three universities have internal auditors to perform these functions. The State University of Iowa internal auditor is responsible for internal audits at the Iowa School for the Deaf. The Iowa State University internal auditor is responsible for internal audits at the Iowa Braille and Sight Saving School.~~
4. Reporting. The internal audit staffs report to the Board's Internal Audit Director and indirectly to the University presidents, and where appropriate, to the Superintendents of the special schools, for all auditing activities except those related to the offices of President and Superintendent. Audit activities related to the offices of President and Superintendent are to be reported directly to the President of the Board of Regents. The ultimate reporting responsibility of internal auditors is to the Audit and Compliance Committee.
5. Annual Report. Each year, the Board's Internal Audit Director ~~internal audit staffs~~ will develop and execute a comprehensive audit plan to be conducted in accordance with applicable professional auditing standards. A comprehensive report on the internal audit function will be made to the Board through the Audit and Compliance Committee each year and will include:
- a. An annual audit plan containing:
 - Methods for audit focuses, including internal control evaluation and risk assessment.
 - High-risk areas routinely included in the internal audit cycle.
 - Administrative and support services review.
 - Cooperative plans among Regent University internal audit departments.
 - Internal audits planned for the special schools
 - b. Review of all previous fiscal year audits completed and in progress, including any follow-up reviews;
 - c. Any audits which were scheduled but not completed; and
 - d. A list of all audits completed within the last three fiscal years.
6. A copy of each internal audit report and follow-up review, upon its completion, will be sent to the Board Office for docketing on the Audit and Compliance Committee agenda.
7. Any activity which is illegal or the legality of which is questioned by the audit staff (e.g. conflict of interest, embezzlement or theft) shall be reported to the appropriate institutional administrator or President of the Board (consistent with Section 4 of this subsection of the Policy Manual) immediately upon discovery by audit staff. The Auditor of State and other appropriate authorities should also be notified.

8. In the performance of their functions, internal audit staff will have neither direct responsibility for, nor authority over, any of the activities and operations reviewed.
9. Internal auditors may request to discuss financial and audit related issues with the Audit and Compliance Committee.
10. The Audit and Compliance Committee may request the internal auditors to discuss financial and audit related issues with the Committee.