AGENDA ITEM 6a

MEMORANDUM

To: Board of Regents

From: Board Office

Subject: Status Report of Administrative Efficiencies - Status of Internal Reviews

Date: December 1, 2004

Recommended Action:

Accept the universities proposals for reorganizing fleet operations, internal audit, and risk management, with the exception noted on page 15, and with the understanding that as the institutions work through implementation issues, they will be requested to provide further information to the Board.

Executive Summary:

The University Presidents submitted reorganization plans for the following three areas:

- Fleet Operations (Attachment A – page 4)
- Internal Audit (Attachment B – page 12)
- Risk Management (Attachment C – page 18)

Reorganizations of each area, as identified by the University Presidents, is expected to be implemented at the beginning of FY 2006.

At the end of each attachment, is a one-page synopsis of each proposal that includes implementation issues to be addressed by the universities. The synopses follow the criteria established for the administrative studies discussed by the Board in May 2004.

Background:

December Board Resolution

At its December 2003 meeting, the Board adopted a resolution to provide contingent direction to the institutions.

As part of that resolution, the Board directed the University Presidents to propose methods to achieve administrative efficiencies and other cost containment measures through enterprise-wide collaboration or the creation of enterprise-wide non-academic, administrative services.

In response to the Board's directive in December 2003, staff from the three Regent universities identified areas for enterprise-wide collaboration, limiting the focus to key areas under the purview of the universities' Vice Presidents for Finance. These areas and detailed criteria for each of the studies was presented to the Board in May 2004.

The University Presidents were requested to identify the three areas for initial implementation.

Policy Manual Provisions The Regent Policy Manual addresses two of the three areas for reorganization: Internal Audit and Risk Management.

Internal Audit Regent Policy Manual Section 7.08 – Audit Activity states:

B. 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 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.

5. Responsibility. Each year, the 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 annually.

6. The report will include the annual audit plan, review of all previous fiscal year audits completed and in progress, including any follow-up reviews and any audits which were scheduled but not done, and a list of all audits completed within the last three fiscal years.

7. A copy of each internal audit report and follow-up review, upon its completion, will be sent to the Board Office for docketing.

8. 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 <u>Policy Manual</u>) immediately upon discovery by audit staff. Other appropriated authorities should also be notified.

9. In the performance of their functions, internal audit staff will have no direct responsibility for, nor authority over, any of the activities and operations reviewed.

Risk Management

Regent Policy Manual Section 7.06 Risk Management states:

A. Statement of Risk Management Policy

1. The policy of the Board of Regents with respect to risks of property and liability loss is to:

   a. Protect the Regent budgets and assets against large losses

   b. Minimize and stabilize total risk management costs

   c. Protect Regent employees against losses.

2. When risks of a catastrophic nature exist, they will be eliminated or reduced to the extent practical. Funding will be arranged when the potential loss is large. Funding will be obtained from:

   a. The State General Fund,

   b. Insurance, when it is available at a premium judged acceptable by the Board, or

   c. Self-insurance, with appropriate reserves for incurred but unpaid claims.

3. The Board will not insure risks that do not present a significant loss potential unless the purchase is indicated by other factors, such as a need required by contract, bond or statute.

4. The Regent institutions shall work with the Board Office to develop appropriate protocols to implement Regent-wide risk management programs, in accordance with the Board's policies and procedures.

Pamela M Elliott

Pamela M. Elliott

Approved: Gregory S Nichols

Gregory S. Nichols

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As submitted by the Universities:

Regents Fleet Operations

I. INTRODUCTION

The purpose of this paper is to outline proposed consolidation of the fleet operations at the Regents' institutions into a single department that will serve all Regents' institutions. It is helpful to examine the work done previously in this area. In 1996 the Governor of Iowa formed a Blue Ribbon Task Force and requested an independent review of the state's fleet operations. The State selected David M. Griffith & Associates (DMG) in 1997 to conduct the review. As part of the study, the fleet operations of the Board of Regents Institutions, the Department of Transportation and the Department of Administrative Services (then Department of General Services) were exhaustively reviewed.

DMG issued a separate report for each Institution and an overall report identifying potential costs savings opportunities. Many of the consultant's recommendations have been implemented. Upon issuance of the report, the Regent Institutions immediately began collaborating on a number of the identified issues and have continued this practice. However the transportation arena is constantly changing. Increasing complexity of vehicle specifications, acquisitions, assignment, use, operations, maintenance and repair, parts procurement and supply, fuel procurement and supply, replacement, disposal, financial management and fleet information systems must constantly be analyzed, understood, and managed.

II. REGENT FLEET OPERATIONS

<u>The Scope of Fleet Operations</u>

Historically, government fleets did not focus on improving productivity but instead concentrated on meeting more general measures of performance such as: (1) keeping agency expenditures within budget; (2) reducing complaints with customer departments; and (3) maintaining an acceptable public image of the fleet. Today, fleet operations have evolved from a line item in the budget to a self-funded enterprise operation. Fleet Managers now need to know how fleet performance benchmarks against other fleets, where efficiency can be gained and what improvements can be made. Fleets are expected to provide high levels of customer service and be more competitive than other options in the marketplace. User groups are increasingly scrutinizing the charges they are assessed. Customers want to know how their internal charges are determined and whether these charges compare favorably with those of external service providers. Today's fleets are composed of a wide variety of vehicles and equipment, making it a challenge to stay up-to-date with technician training and certification. The pace of change in automotive technology is accelerating. In the near future, fleets will be dealing with an increasing number of hybrid vehicles, 42-volt systems, by-wire brake/steering/stability systems, tire pressure monitoring systems, and tighter diesel emission controls. New technology will impact training, parts inventory, service levels, and diagnostic capabilities.

<u>Background Information</u>

Historically, the Board of Regents has not had a centralized fleet operation. Each Regent Institution is responsible for all aspects of its fleet operations. The major functional areas are: vehicle specification and acquisition, vehicle assignment and use, vehicle operation, vehicle maintenance and repair, parts procurement and supply, fuel procurement and supply, vehicle replacement, vehicle disposal, financial management, and information systems.

DMG carefully reviewed each fleet operation and issued a separate report for each Institution, as well as, a Report on Statewide Fleet Management Activities, in which they stated: “Our overall assessment of the State Fleets is that they are well managed and are providing good service at a competitive cost. Consequently, there is no need to fundamentally restructure.” The following recommendations focused on ways each operation could enhance the quality of service being provided and further reduce costs:

- Change to fixed monthly charges for cost-of-ownership
- Coordinate commercial rentals through rental pools and use them to supplement peak pool demand
- Establish driver certification and verification process
- Adopt an operating charge-back rate structure and methodology for determining operating rates based on the use of full cost, service-based rates
- Develop procedures to review personal vehicle reimbursement to determine the most cost-effective way to meet employees’ business transportation requirements
- Purchase a common fleet management information system
- Improve training of fleet management personnel in information analysis
- Establish a state-wide commercial fuel card program

The Regents fleet managers responded quickly and positively to the recommendations. ISU took the lead and working with the other Regent Institutions developed an RFP for a fleet management information system. ISU, SUI, and UNI all purchased the same system, resulting in additional savings due to multiple purchases on the same contract. ISU also researched commercial fleet fuel card programs and all three Regent Institutions decided to use the same card program for their fleets. In addition, IBSSS and ISD were set up as sub-accounts under ISU, so they could also benefit from using a commercial fleet card. In 1997 SUI initiated a fleet safety program on its campus; establishing driving standards, checking driver’s histories, and restricting access for unqualified drivers in an effort to lower risk exposure and improve driving safety.

The remaining items on the list of recommendations have also been implemented at most campuses including; establishing rental and lease charges that reflect the true cost of ownership, utilizing commercial car rental services to augment Regents’ fleets during peak demand times and improving the training of fleet management personnel in information analyses.

The DMG report noted, “The State is acquiring vehicles at a low cost.” This is due to the fact that all Regent Institutions combine their vehicle specification packages with the DOT and DAS when they solicit bids for new vehicles. Additionally, they stated: “The State’s use of a Life Cycle Cost methodology in the evaluation of competitive bids is to be commended as a means of identifying the true costs of ownership.” The Regent Institutions also dispose of their vehicles through DOT, DAS and other public auctions or bid processes. By collaborating in these three areas, the Institutions reduce the largest expense in any fleet – depreciation.

<u>Institutional Fleet Operations</u>

Currently fleet operation functions are coordinated independently at each Regent Institution and there are differences between the Institutions.

The University of Iowa (SUI) Fleet Services is the university’s primary fleet services provider. Fleet Services is a division of the university’s Parking and Transportation Department. Its personnel manage, maintain, and fuel a fleet of 511 vehicles, including 56 trucks with Gross

Vehicle Weights (GVW) of 14,000 lbs. or more. Of these, 449 are assigned to departments while the remaining 62 light duty vehicles support a daily rental operation.
The rest of the fleet, including the rental fleet, consists of light duty sedans, pickups, vans and SUVs. In addition to the vehicles owned by Fleet Services, various departments within the university own another 157 vehicles. These vehicles consist mainly of pickups, vans, transit buses, and ambulances. About one-half of these vehicles are maintained at Fleet Services shops. All are fueled at Fleet Services. Two of the largest independent operations, Cambus and Patient Transportation maintain their vehicles using their own maintenance facilities and staffs. Fleet Services currently has a staff of 12 full-time people, plus part-time employees.

ISU manages its fleet assets by assigning responsibility primarily to two organizations. The organization responsible for managing the largest share of the fleet is University Transportation Services (UTS). UTS is a division of the university's Business Affairs Office and manages 450 vehicles which include sedans, pickups, passenger and cargo vans, and a few medium duty trucks. Another twenty seven percent of the fleet is managed by The Facilities Planning & Management department (FP&M), which has the second largest fleet. It consists of 85 vehicles, most of which are medium and heavy-duty vehicles and specialized pieces of equipment, such as garbage trucks, aerial lifts, tree spade truck, etc. A Specialist in the FP&M's Project Support Services Section administers the program, although the specialist has no direct supervisory or management responsibility for the vehicle maintenance operation. FP&M's fleet maintenance operation is part of the Department's Campus Services Shop, which is responsible for providing all facility and grounds maintenance. Other departments such as Research Farms and agricultural departments with various locations around the state own and maintain an additional 84 vehicles. The University has centralized the management of some fleet functions, most notably fuel procurement, vehicle acquisition, licensing and disposal of vehicles. UTS operates the only fuel site on campus and supplies fuel to all University owned vehicles located in the vicinity. To accomplish its mission, UTS has a staff of eight full time staff plus student employees.

The UNI fleet is managed and maintained by Transportation Services, a section of the Physical Plant's Campus Services Group. The fleet consists of 181 licensed vehicles. The department with the largest number of vehicles is the Motor Pool accounting for 49 percent of the fleet. The Physical Plant accounts for 26 percent of the fleet. The other 25 percent of the fleet belongs to various departments throughout the University. There are six people within Transportation Services responsible for fleet maintenance and operations.

The IBSSS and ISD operate small fleets and are assisted by the Board Office and each of the Regent fleet managers with various fleet issues. Previously when IBSSS needed to replace cars, the Board Office ran a financial analysis comparing leasing from a major leasing company, purchasing the cars or leasing from a Regent Institution. The result was that leasing from ISU was the most economical option. Accordingly ISU leases to the special schools and issues fleet credit cards, because they are not large enough individually to qualify for a fleet card program.

About 75 percent of all government fleet organizations currently use charge-back systems. Charging users for the costs of fleet services they consume improves the consumption and provision of fleet resources by 1) linking the behavior of vehicle users and the costs of the vehicle and related services they consume, 2) encouraging fleet users to hold fleet management accountable for the quality and costs of goods and services the organization provide and 3) maintaining a self-supporting operation. The majority of Regents fleets are chargeback operations but because of joint activities and shared responsibilities some functions are shared with other campus operations.

III. IMPROVING REGENT FLEET OPERATIONS

Continue programs in which the fleets already work together. These include:

(1) All Regent Institutions combine their vehicle specification packages with the DOT and DAS when they solicit bids for new vehicles reducing vehicle acquisition costs to a level DMG found impressive.
(2) The DOT, DAS and the Regent Institutions put their fuel requirements together in a bid package to minimize total fuel costs.
(3) The Regent Institutions dispose of their vehicles using methods with the best returns, including DOT and DAS auctions and other local public sales or bid processes.
(4) The Institutions collaborated on the purchase of the same fleet management system software and not only saved on the original purchase price; they also minimized training expenses by coordinating training to reduce vendor travel costs.
(5) The Regent Institutions implemented a commercial fleet card though a collaborative process.
(6) The Institutions also look first to each other when needing vehicles to supplement fleet operations. On several occasions, one Institution has purchased vehicles from another to supplement a program need, without incurring the cost of buying new vehicles.

<u>Opportunity for Institutional Improvement</u>

Each Institution has more than one department on campus responsible for managing a portion of its fleet assets. The Institutions each have a primary fleet services organization with a professional fleet manager, who is an active member of the National Association of Fleet Administrators. The remaining vehicles at each Institution are either managed by departments with very specific transportation needs as in the case of CAMBUS (the University of Iowa's 31-bus student-operated public transit system), or managed by departmental personnel as an added duty to their primary assignments. Information about each fleet is gathered and entered into separate systems. Separate parts and vendor contracts result in added cost to coordinate multiple contracts and some services may be contracted, that are available through one of the other internal fleet operations. Consolidation of contracts and processing fewer payments would result in lower overall administrative costs. Centralizing internal fleet operations within each institution could result in some savings, though appropriate cost/benefit analysis should be undertaken. A careful analysis of how to most efficiently manage bus systems and specialized campus maintenance and grounds equipment should be undertaken.

IV. RESTRUCTURING REGENTS FLEET OPERATIONS

Although the current structure has served the institutions, the consolidation of the Regents fleet operations into a single organization that will serve all Regent institutions provides the potential for additional efficiency in fleet operations.

GOALS

- Collaboration and consistency in Regents fleet safety programs
- Consistency in rate setting and chargeback methodology
- Development of joint Regents contracts for parts and overflow vehicle rental
- More effective utilization of fleet vehicles
- Modification of vehicle liability pool rate setting to equally share risks across all vehicles
- Examination of potential synergies with local governmental and nonprofit organizations
- Consistency in fleet disposal, evaluation, and reporting parameters

- Lowest possible cost per mile and high quality service in support of institutional transportation needs
- Establishment of integrated information systems and uniform consolidated reporting of information

Each institution's fleet operation works closely with their customers to meet their specific research, educational, and transportation needs. It is important that this capability continue to exist with a strong presence on each campus. Under the proposed consolidated organizational structure, several of current fleet managers duties would be consolidated under the Director of Regents Fleet Management. An individual at each campus would be charged with supervising the respective institutions' staff and providing the day-to-day management of vehicle assignment, use, operations, and maintenance at established campus locations. The fleet support staff would continue to be campus based because the daily activities of maintenance, scheduling, dispatching, and accounting still need to be location centered. The following organizational changes would occur:

V. PROPOSAL FOR CHANGE

- The Director of Regents Fleet Management will report to the Director of Business Affairs at Iowa State University and will work closely with all institutional business officers and with the Board Office.
- Campus-based fleet staff will report to the Director of Regents Fleet Management but will maintain effective communication and work closely with institutional leaders of the campus to which they are assigned. In cooperation with campus administrators the Director of Regents Fleet Management is responsible for evaluating the performance of and making salary increase recommendations for all fleet staff as well as leading and administering searches for new fleet staff when necessary. In the case of institutional staff who have fleet responsibilities as part of their overall duties, the Director of Regents Fleet Management will provide to the campus supervisor input on performance evaluation and salary increase recommendations. Consultation on hiring, goal setting, performance reviews and compensation will involve the respective business officers when it impacts personnel from that campus. This will be further accomplished through adherence to a matrix structure to be developed by the Director of Regents Fleet Management and the institution vice presidents to assure a consultative process that does not sacrifice the close communications, university senior management involvement, and management support of a campus-based fleet organization. The matrix process will assure close consultation on critical issues of goal setting, evaluation and compensation of key personnel recognizing that there are shared responsibilities with other campus operations that contribute to overall efficiencies.
- The Director of Regents Fleet Management would be administratively responsible for all aspects of the daily rental, seasonal, and annual leasing functions across the three universities and the two special schools. This includes vehicle specification and acquisition, vehicle assignment and use, vehicle operation, vehicle maintenance and repair, parts procurement and supply, fuel procurement and supply, vehicle replacement, vehicle disposal, financial management, and information systems. Acquisitions would be coordinated through normal procurement processes.
- The Director of Regents Fleet Management would be responsible for evaluating the performance and making salary increase recommendations for operations supervisors at each campus. In addition, the Director of Regents Fleet Management would recommend organizational/personnel changes in consultation with campus business affairs officers, when necessary.

- The Director of Regents Fleet Management would manage the overall fleet budgets, integrating and communicating with each Institution's accounting system and coordinating consolidated fleet reports requested by the Board of Regents.
- The Director of Regents Fleet Management would coordinate efforts to review the potential advantages/disadvantages of further consolidating fleet operations within each institution.
- The Director of Regents Fleet Management would be responsible for issue identification, policy recommendations, and the development of Regent-wide fleet management collaborative projects, programs and initiatives.
- The Director of Regents Fleet Management would coordinate efforts to ascertain the potential issues and benefits of collaborating more closely with local governments and nonprofit organizations.
- Annual operating budgets will be developed by the Director in consultation with the institutional vice presidents appropriately distributing any joint costs among all the Regents institutions based upon the services provided.

<u>Proposal Benefits</u>

The Director of Regents Fleet Management would oversee development of an RFP for a Regent wide overflow rental agreement. Establishing a Regent wide rental agreement in addition to local contracts will likely result in further volume discounts. A combined contract would be expected to provide additional savings through either lower rates or fewer claims against the Regents motor vehicle liability pool. Claims would be minimized by incorporating liability and collision damage waiver coverage in the contract. All local commercial rentals would be coordinated through the Motor Pool dispatcher to determine availability of existing fleet resources. This would provide for maximum use of existing pool vehicles and allow the pool to be economically sized using total demand data.

A single fleet management department has the potential benefits outlined above. The cost of fleet services should improve although existing cooperative and joint programs have already brought about significant savings and efficiencies. This proposal as well as any others for joint interinstitutional management should take advantage of pooling risks, costs and benefits. However in so doing there needs to be consideration of disproportionate savings or costs attached to individual institutions due to factors unique to that institution.

<u>Summary</u>

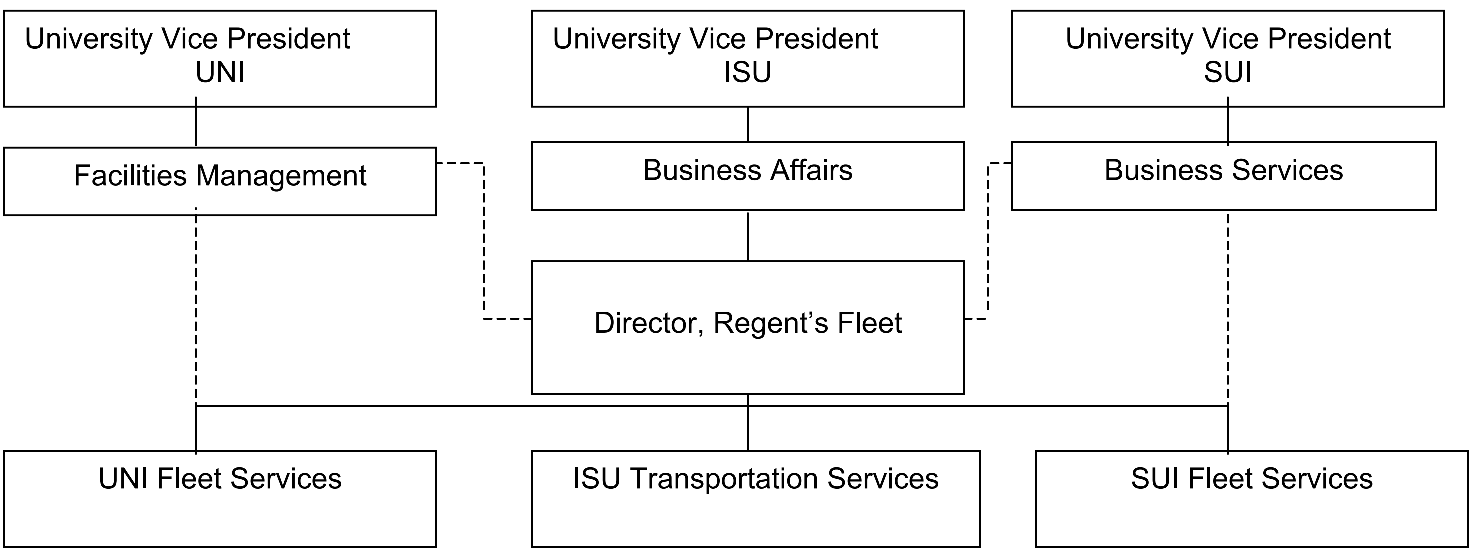
Other advantages of this organizational structure include the establishment of rental rates consistently calculated by all Institutions. There would be improved vehicle utilization moving vehicles between Institutions to meet new requirements. There would be improved opportunity to seek cost savings from national contracts on maintenance and parts.

In addition, the changes should result in better communication, coordinated fleet operations and coordinated reporting tools which will benefit the institutions and the Board of Regents. Through collective action, further opportunities for cost savings and increased efficiencies will be identified. These opportunities will be possible within the organizational structure outlined above, and following specific plans for improvement as outlined in Section IV. Fleet initiatives designed to reduce cost, while providing high levels of customer service satisfaction are the key to maximizing institutional resources. Savings associated with the improved operational efficiencies would be passed on to institutional customers, since fleet enterprise operations are self-supporting and receive no state or general university funding.

V. CONCLUSIONS/RECOMMENDATIONS

The individual institutions' fleet operations have structured their services to reflect client needs and the larger organizational environment in which they operate. Each has met their clients' needs and served their institution efficiently with well-run programs. As proposed there is an opportunity to further improve the overall combined operational efficiency of the fleet and enhance collaboration through the establishment of a Director of Regents Fleet Management to oversee fleet operations. There likely will continue to be unique campus based operations such as Cambus or specialized equipment associated with maintenance and facility operations that will need to be operated on a campus basis.

Regents Fleet Management
Organization Chart
11/04



Synopsis of Fleet Operations Proposal

Expected outcomes	• Collaboration and consistency in Regents fleet safety programs • Consistency in rate setting and chargeback methodology • Development of joint Regent contracts for parts and overflow vehicle rental • More effective utilization of fleet vehicles • Modification of vehicle liability pool rate setting to equally share risks across all vehicles • Examination of potential synergies with local government and nonprofit organizations • Consistency in fleet disposal, evaluation, and reporting parameters • Lowest possible cost per mile and high quality service in support of institutional transportation needs • Establishment of integrated systems and uniform consolidated reporting of information • Better communications, coordinated fleet operations, and coordinated reporting tools • Maximizing institutional resources while reflecting customer needs
Cost efficiencies / savings/improvements	• Development of RFP for overflow rental agreement and coordinate commercial rentals • Potential savings from national contracts on maintenance and parts • Pooling of risks, costs, and benefits • Savings to result in lower costs to customers
Proposed organizational changes	• Consolidate fleet management into one Regent Director of Fleet Management reporting to the Director of Business Affairs at Iowa State University • Maintain strong fleet management presence on each campus, but campus based fleet staff will report to the Director of Fleet Management
Implementation Issues	• Identify benchmarks • Track costs and quality • Denote extent of usage of best practices • Address disproportionate savings/costs to institutions

As submitted by the Universities:

Internal Audit Services– Regents Institutions

Overview and Proposal

Internal Audit – Scope and responsibilities and background

Definition of Internal Auditing

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Auditor's Perspective of the Regents' Institutions

Three Universities
- University of Iowa
- Iowa State University
- University of Northern Iowa

University of Iowa Hospitals and Clinics
(UI has consolidated its two internal audit functions – one for UIHC and one for the non-health care delivery portion of the University).

Two Special Schools
- Iowa School for the Deaf (internal audit services performed by UI)
- Iowa Braille and Sight Saving School (internal audit services performed by ISU)

Internal Audit Services	Management of Risks
Audits (Assurance) ------------------------------------	Detective
Advising Services (Internal) ------------------------	Proactive/Preventive
Investigations ---	Remedial

Annual Audits

Internal Auditors
- Operational audits – designed to measure the health of the internal control environment and to make suggestions to strengthen those controls when appropriate
- Compliance reviews

External Auditors – State Auditors
- Annual financial audits

External Auditors – Various
- Bond and enterprise audits
- Federal agency audits by Inspector General, USDA, HHS and DOE of government grants and contracts and contractor operations.

Audit Subjects

- Academic departments and programs

- Administrative units
- Auxiliary activities (e.g., housing, dining, athletics, bookstore, library, museums, parking)
- Specialized healthcare processes, departments and systems
- Cross functional processes (e.g., payroll, procurement)
- Major activities/events (e.g., construction, sponsored programs)
- Information and communication (e.g., data centers, systems development)
- Policies and procedures
- Business issues (e.g., HIPAA readiness, conflict of interest)
- Senior management concerns (e.g., delegation of authority)
- Financial data and reports
- Other reported matters

Professional Standards

- Standards for the Professional Practice of Internal Auditing
- Code of Ethics of the Institute of Internal Auditors

Proposal for Change

This paper outlines proposed consolidation of the internal audit departments at the Regents' institutions into a single department that will serve all Regents' institutions.

A single audit department has the following potential benefits:
- Collaboration on risk assessment and enterprise-wide risks
- Similar reporting mechanisms
- Consolidated and consistent communications to the Board of Regents
- More effective use of scarce resources (i.e., IT auditors)
- A reallocation of human resources from audit management to auditing
- Improved coordination with the Auditor of State staff and Regents external auditors

The cost for internal audit services will likely not decrease, but savings should help fund the need for additional auditors. In addition, better communication, coordinated risk assessments, and consolidated reporting tools are expected to result in benefits for the institutions and the Board of Regents. When considering audit efficiency it is important to consider all audit costs including those of external audit, financial and bond audits and Auditor of State. This paper does not address the cost of external audit services but suggests that these costs be considered under a separate review.

This proposal as well as any others for joint interinstitutional management should take advantage of pooling risks, costs and benefits. However, in so doing there needs to be consideration of disproportionate savings or costs attached to individual institutions due to factors unique to that institution.

Organizational Structure

Each university has unique missions, issues and risks. Internal auditors, as part of due diligence and standards of the profession, must learn the business of their constituencies and build relationships of trust with management. Because of this, it is important for the internal audit group to have a strong presence on each campus as well as the trust and confidence of institutional leaders. This proposal recommends the following organizational structure:

- The Director of Internal Audit will report to the President of the University of Iowa and will work closely with all three university Presidents and with the Board office and the Regents' Audit and Compliance Committee.
- The Director of Internal Audit is responsible for identifying institutional risks, providing necessary support and guidance to auditors as they plan and perform audits, oversight and review of all audit recommendations and reports, and follow-up resolution of issues.

The Director of Internal Audit has line responsibility for the entire audit function. All campus-based auditors will report to the Director of Internal Audit but will maintain effective communication and work closely with institutional leaders of the campus to which they are assigned. This will be accomplished through adherence to a matrix structure to be developed by the Director and the institution heads to assure a consultative process that does not sacrifice the close communications, presidential involvement, and management support of a campus-based internal audit organization. The matrix process will assure close consultation on critical issues of goal setting, evaluation and compensation of key personnel.

Risk Assessment and Annual Audit Planning

Risk assessment, as a part of annual audit planning will be conducted within and across the three universities and two special schools. Methodology and criteria will be determined jointly. Unique or significant factors may be considered at each institution in the course of development of its annual audit plan.

Execution of the Audit

The audit director will assign audit projects based on the audit plans. A library of audit programs will be compiled. These programs can be adapted, as appropriate, to new audits.

Auditors will not be asked to regularly travel to other university sites to conduct audits unless that auditor has a specific skill or knowledge that will improve the outcome of the audit. Sharing individual expertise will occur within the audit schedules of each institution.

Reporting

Report format will be standardized among the Regents institutions.

Follow-up reviews

Methodology and reporting will be consistent among the Regents institutions.

Tools

System tools will be investigated particularly in the area of automated workpapers, timekeeping and data extraction and analysis.

Staff

Staff at all three institutions are highly qualified auditors; most have certifications such as Certified Public Accountant (CPA), Certified Internal Auditor (CIA), Certified Information Systems Auditor (CISA), and Certified Management Accountant (CMA). As directed by the professional standards of the Institute of Internal Auditors, internal auditors are required to participate in continuing education in that field. Additionally, it is important that each auditor have the opportunity to interface with other university and healthcare auditors on a regular basis to discuss common issues and to build a network of peers that can be called upon when there is a need to discuss common issues. Training schedules will be created to assure that the opportunity to attend needed training sessions is created. A mechanism will be developed for feedback on "lessons learned" to all Regents university internal audit staff.

Special Projects

When possible, internal audit should co-ordinate efforts on special projects across all three universities. During the past year, internal audit and finance/treasury departments developed a cash handling training program together. Finance/treasury is now managing the roll-out of the process. An area of focus during the next fiscal year will be on Sarbanes-Oxley best practices. Although it is not appropriate for internal audit to independently develop and own policies and/or procedures, they can serve as advisors to the team that does the development.

The special schools, Iowa School for the Deaf and Iowa Braille and Sight Saving School, will be components of the overall annual audit plan.

Management

The Director of Internal Audit will be responsible for all internal audit functions across all three universities. This includes responsibility for developing audit plans, accomplishing the audit plans, oversight including workpaper review, and discussing recommendations with institutional management.

The Director of Internal Audit is responsible for evaluating the performance of and making salary increase recommendations for all audit staff as well as leading and administering searches for new audit staff when necessary. Consultation on hiring, goal setting, performance review and compensation will involve the institution head or designee when it impacts personnel from that campus.

An annual operating budget will be developed by the Director appropriately distributing any joint costs among all the Regents institutions based upon the services provided. The budget will be submitted to the Presidents for review and approval and included in the annual budgets submitted to the Board for approval.

Benefits and Costs

The benefits of consolidating the three internal audit departments into one include:

- Regent-wide risk assessment integrated with institutional risk assessment.
- Common reporting formats which will assist the Board of Regents in reviewing the issues presented
- Elimination of the need for involvement of Board of Regents office staff in preparing reports to the Board. {EXCEPTION NOTATION)
- Consolidated communications to the Board of Regents.
- Special schools audit services provided by the department.
- The elimination of up to two director-level positions should enable reallocation to auditors/auditing. An appropriate level of professional expertise will need to be maintained on each campus to support effective risk assessment and consulting with campus administrators.

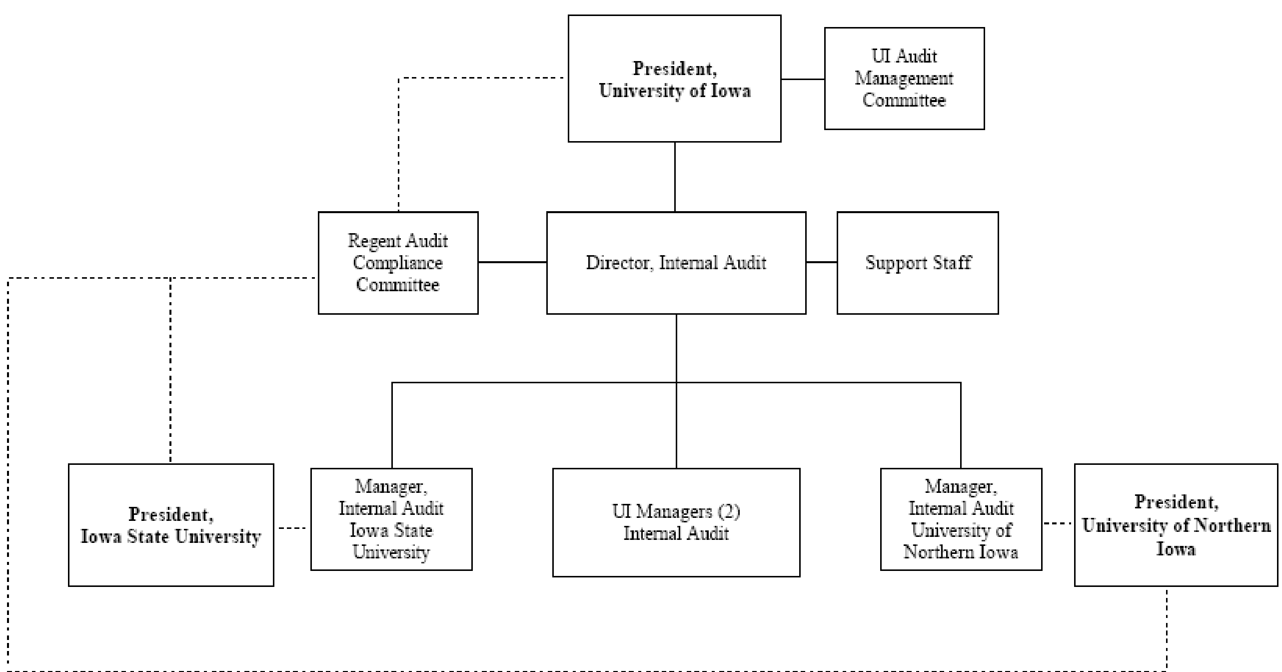
Revised

Summary

The greatest value that internal audit brings to an institution is to impart awareness of and respect for a sound internal control structure within processes, systems, departments and projects. Internal audit is no longer the watchdog but rather is an advisor and stimulator for positive change. During audits, auditors look for insufficient internal control and potential risk of something going wrong. They then work with management to improve the controls in a way that is sound and cost-effective. During the entire process, auditors strive to grow in understanding complex institutional processes and to build trust with the audit client. The auditors' knowledge base increases with each audit and includes how to access related information systems, who is the right person to talk to about a specific subject, and how cross-functional processes inter-relate.

It is because of the above circumstances that it is important to keep a strong internal audit presence at each university while providing the benefits of inter-institutional planning, coordination and reporting to the Board. This proposal recommends ways that internal audit processes and reporting to the institutional management and the Audit and Compliance Committee can be improved and made as efficient as possible. Collective action and central coordination of the internal audit planning and reporting processes can help achieve these goals. The methods to accomplish this are listed within the report. Critical among these are a strong internal audit presence at each university, the establishment of a single director of internal audit, and better inter-institutional collaboration on risk assessment and audit reporting processes.

Proposed Regent Internal Audit Organization



Synopsis of Internal Audit Proposal

Expected outcomes	• Regent-wide risk assessment integrated with institutional risk assessment • Common reporting formats • Consolidated communications • Provision of special schools audit services • Better use of scarce resources
Cost efficiencies / savings/improvements	• Eliminate two director-level positions • Reallocate resources to auditors/auditing • Initial savings invested in more internal audit coverage • Collaborate on risk assessments and enterprise-wide risks • Library of audit programs
Proposed organizational changes	• Consolidate auditing into one Regent department reporting to the President of the University of Iowa • Maintain strong internal audit presence on each campus, but all campus based auditors will report to the Director of Internal Audit
Implementation Issues	• Address all required internal audit responsibilities in Board policy (See page 2.) • Identify benchmarks • Track costs and quality • Denote extent of usage of best practices • Address disproportionate savings/costs to institutions • Develop one annual internal audit plan with five components • Consider future role of Board Office in preparation/discussion of internal audit reports

As submitted by the Universities:

Regents Risk Management

I. INTRODUCTION

The purpose of this paper is to outline proposed consolidation of the risk management departments at the Regents' institutions into a single department that will serve all Regents' institutions.

II. BACKGROUND

The Scope of Risk Management

The Essentials of Risk Management, published by the Insurance Institute of America, defines risk management as "the process of making and implementing decisions that will minimize the adverse effects of accidental and business losses to an organization."

The focus of traditional risk management has been the purchase of insurance for property and liability risks, most often covering buildings, equipment and income, professional and product liabilities, motor vehicle risks, workers compensation, employment practices, errors and omissions, environmental risks, occupational health and safety risks and within universities student related risks.

The risk management climate has changed significantly since 1989, when the Regents first established a formal risk management policy. Increasing concern about student safety, homeland security, employment practices, facilities maintenance, workforce injuries, event management, and research technology, to name only a few, drive the new regulations and create a higher level of responsibility and compliance that universities must meet. When these factors are combined with the fact that universities are also facing increasing public accountability and severe budget constraints, it creates major challenges in managing risks.

Regents Risk Management

Before 1989, the Board of Regents had no formal risk management program. The only Regents-wide program was a self-insurance pool for motor vehicle liability. Each Regents institution was responsible for identifying and analyzing its exposures to loss, purchasing insurance, implementing safety programs, and many other risk management activities.

In 1988 the Board of Regents retained ARMTech, Inc. a risk management consulting firm, to audit the institutions' exposures and recommend an appropriate policy that "defines objectives and establishes the structure and direction of a comprehensive risk management program for the Board and its institutions".

The Board approved ARMTech's recommended Risk Management Policy Statement in September 1989 which established the first Regents risk management policy. As to the administrative structure, the consultant's recommendation and the Board's preference was the appointment of an institutional risk manager (SUI Risk Manager) as coordinator for the Risk Management Committee.

The Committee members included representatives from each of the five institutions and the Board Office. The first task of the Committee was refinement of the initial Policy Statement to include a joint property and liability loss program with the state. The liability loss program was successfully implemented in 1990 through an interagency agreement (28E Agreement for the Resolution of Tort Liability Claims).

Institutional Risk Management Programs

Currently risk management functions are managed independently at each Regent institution. The size, complexity and missions of ISU and SUI have generated the need for risk management departments. Reporting relationships and the use of professional agents and brokers are similar to all institutions. An integrated approach has the potential for costs savings.

SUI, UNI and ISU and the Board Office all utilize insurance agents and brokers. Some institutions have long-standing relationships and extended broker/agent contracts. The Director of Regents Risk Management will review these contracts to determine whether further consolidation is appropriate.

Risk management staff at all the Regents institutions report to their respective business managers or their vice president of finance.

The following outlines each institution's risk management staffing:

- SUI has six full-time and two part time staff, and serves as Regents Coordinator.
- UIHC and the UI Carver College of Medicine rely on legal and individual staffs for health care related liability risk management due to the special regulatory environment of hospitals and health care.
- ISU has three full-time and one part-time staff
- UNI, IBSSS and ISD business, legal and/or finance staff have risk management responsibilities

III. IMPROVING REGENT RISK MANAGEMENT

The following sections outline various alternatives for improving the Regent risk management functions that have been explored. It is difficult to quantify cost savings in areas of loss prevention. To quote Alan Greenspan, "You never get credit for the calamity you avert."

Centralization

1) Centralized Administrative Oversight

ARMTEch's review in 1989 considered both centralized and decentralized structures for the Regents risk management programs. Initially, the consultant recommended hiring a full-time dedicated Administrator to be located either at the Board Office or on one of the campuses. However, ARMTech's recommendation also required the continuance of campus risk management programs, resulting in substantial additional cost.

It is for that reason and the fact that the larger institutions could readily undertake the activity of risk management coordination on campus that the ARMTech consultant recommended the "Coordinator-Committee" model that was adopted by the Board. This model affirmed the Board's preference for a policy-making role rather than an administrative role, and recognized the importance of campus risk management functions as well as the value of better coordination.

The conclusion was centralized risk management systems do not eliminate the need for campus risk management staff, thus establishment of a central administration for risk management was not likely to result in significant savings from personnel reduction and could be more costly overall to sustain. Yet it was clear the institutions could gain from joint planning and actions.

2) Centralization of Risk Management Services

Campus risk management programs, to be effective, must have the ability to provide regular assistance specifically suited to the needs and programs of the institution. Senior campus risk management personnel provide guidance and expertise in such areas as risk financing, risk transfer, contract terms, special events and campus operations. Advantages to the campus programs include:

- Strong knowledge of individual campus operations, personnel and community
- Resources to implement programs, policies and procedures
- Timely response to critical issues
- Familiarity with institutional rules, regulations and culture
- Greater accessibility for meetings and involvement with program officials
- Timely responses to losses/investigations
- Proactive participation in event planning
- More effective claims resolution

<u>Centralized Programs</u>

The scope of risk management encompasses much more than insurance procurement. There are functions common to all Regents institutions' risk management areas that warrant consideration for more centralized administration or consolidation. Included are:

- Purchase of property insurance
- Processing liability claims under Chapter 669 of the Iowa Code (Tort Liability)
- Managing selected liability exposures through new insurance or self-insurance programs (, motor vehicle accidents, professional liabilities, event liabilities, etc.)
- Developing standardized insurance requirements
- Developing standardized loss prevention programs (environmental, occupational health and safety, workers compensation, and fleet safety).

Actual figures are difficult to project without more in-depth analysis; however, the following examples of a more centralized, coordinated approach could generate cost savings:

- Property Insurance:
- Vehicle Claims Management:

IV Recommendations for Improvement

The Regents risk management program model which was adopted in 1989 has adequately served the institutions. While the risks facing the institutions continue to evolve, the reasons behind the campus-based administrative model remain unchanged. If it is to continue providing best practices and reinvigorating programs, more institutional action is needed.

Risk Management Committee

The Regents Risk Management Committee membership would continue as originally established; i.e. representation from each of the Regent institutions. The Committee's responsibilities would include:

- Identifying and analyzing the common loss exposures of the Regents institutions and selecting the best alternative for management of those exposures.

- Determining when insurance and self-insurance or alternative financing programs are necessary and purchasing or developing such programs, including the establishment of reserves as required and setting financial and program incentives for effective loss control.

- Developing and promulgating standardized insurance requirements in contracts and bid specifications, loss control protocols and programs, manuals and templates, claim processes and procedures for institutions to implement and follow.

- Establishment of integrated risk management information systems, maintaining data and records necessary to reasonably administer the risk management programs, including loss and incident data, litigation, regulatory citations, policies and premium schedules, and information commonly used for actuarial purposes and institutional financial planning.

- Develop and implement, as appropriate, a cost allocation system including methods for equitable, experience-based premium charges that consider costs for claims as well as administrative overhead and other operating expenses.

- Annual budget and financial reports would continue to be prepared by each institution and be made available to the Board through the Director of Risk Management. The format and essential information requests would be defined through the committee.

Regents Risk Management - Proposed Committee Changes and Specific Work Plan

To achieve the efficiency of central coordination with savings from consolidation, the following Committee responsibilities are:

a. Develop and implement a central risk management claims and information system in FY 2005.
b. Develop standardized insurance requirements in common agreements, purchase orders, and professional services contracts by the end of CY 2005
c. Consolidate administration of motor vehicle claims now performed by the State beginning in FY 2005 and place with appropriate institutions.
d. Establish common fleet safety programs to improve driver and passenger safety and reduce accident costs.
e. Evaluate potential savings and identify acceptable program changes associated with implementing a Regents-wide property insurance program that addresses both general and non-general fund supported property exposures.
f. Establish written understandings with the State regarding its and the Regents obligations for uninsured property loss and administration of liability losses by the end of 2005.

V. Proposal for Change

Organizational and Management Structure

Each university has unique missions, issues and risks. Because of this, it is important for the risk management group to have a strong presence on each campus as well as the trust and confidence of institutional leaders. This proposal recommends the following organizational structure:

● The Director of Risk Management will report to the Vice President for Finance and Operations at the University of Iowa and will work closely with all institutional chief business officers and with the board office.

● The Director of Risk Management will be responsible for risk management functions across all three universities. This includes responsibility for Regent risk management programs, administering central risk management information systems, providing periodic reports to the Inter-institutional Risk Management Committee and the institutions, as required, discussing recommendations with institutional management and other programs and tasks identified in III, above.

● Campus-based risk management staff will report to the Director of Risk Management but will maintain effective communication and work closely with institutional leaders of the campus to which they are assigned. The Director of Risk Management is responsible for evaluating the performance of and making salary increase recommendations for all risk management staff as well as leading and administering searches for new risk management staff when necessary. In the case of institutional staff who have risk management responsibilities as part of their overall duties, the Director of Risk Management will provide to the campus supervisor input on performance evaluation and salary increase recommendations. Consultation on hiring, goal setting, performance reviews and compensation will involve the respective vice presidents when it impacts personnel from that campus. This will be further accomplished through adherence to a matrix structure to be developed by the Director and the institution vice presidents to assure a consultative process that does not sacrifice the close communications, university senior management involvement, and management support of a campus-based risk management organization. The matrix process will assure close consultation on critical issues of goal setting, evaluation and compensation of key personnel.

● This proposal as well as any others for joint inter-institutional management should take advantage of pooling risks, costs and benefits. However, in so doing there needs to be consideration of disproportionate savings or costs attached to individual institutions due to factors unique to that institution.

●An annual operating budget will be developed by the Director appropriately distributing any joint costs among all the Regents institutions based upon the services provided.

<u>Claims Management</u>
The proposed structure would discontinue payment to the Department of Administrative Services for motor vehicle claims administration and return the function to the Regent institutions. Initially, ISU campus staff would handle claims for ISU, IBSSS and ISD. SUI campus staff would handle claims for SUI, UNI and UIHC. The Director of Regents Risk Management will undertake a review to determine if further consolidation should occur.

Risk Management Information Systems

A centralized on-line system can achieve process efficiencies. SUI currently has RMIS software capable of web access for use by all Regent institutions, for administering motor vehicle and liability claims and capturing the relevant loss data. A centralized, consolidated data management information system can provide:

- More accurate and consistent reports
- Better data use in analyzing loss trends and experience
- Improved information to use in designing loss prevention programs
- Ability to structure insurance deductibles as incentives for risk reduction

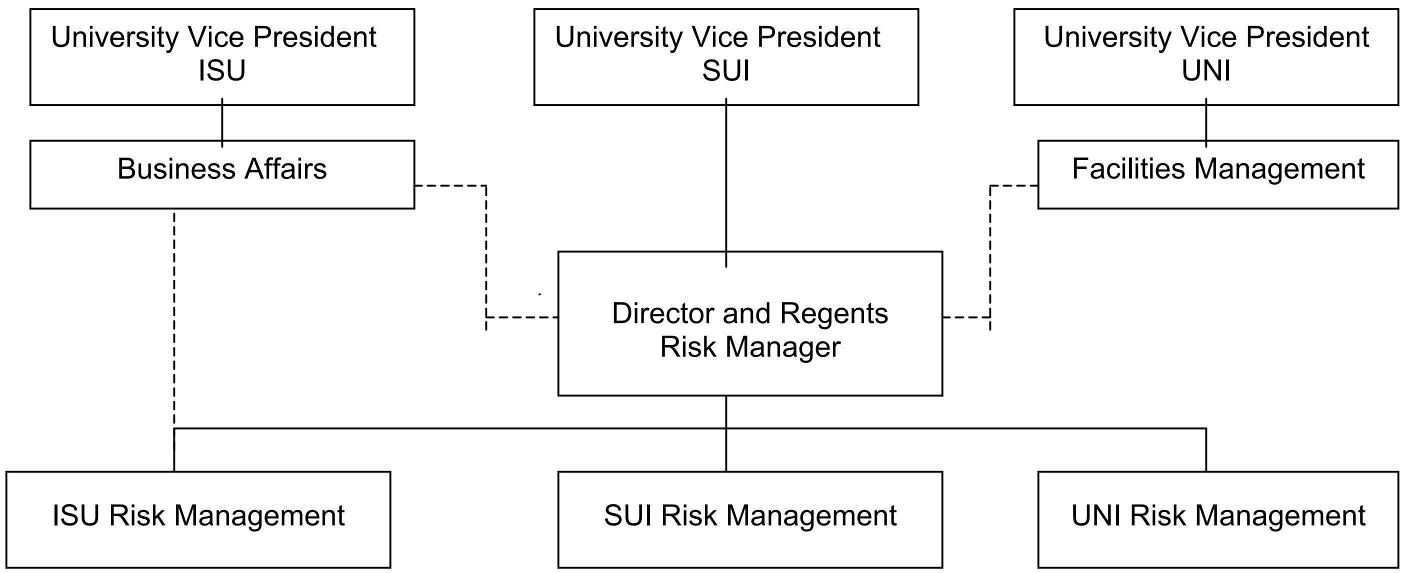
VI. SUMMARY

A single risk management department has the potential benefits outlined above. The cost for risk management services may not decrease, though it is likely that savings may be achieved through efficiencies such as consolidated purchase of insurance. In addition, the changes should result in better communication, coordinated risk assessments, and coordinated reporting tools which will benefit the institutions and the Board of Regents. Through collective action, further opportunities for cost savings and increased efficiencies will be identified. Revamping the claims systems, program consolidation, joint insurance purchases and process standardization are all potential areas for review. These opportunities will be possible using collective coordination within the organizational structure outlined above, and following specific plans for improvement as outlined in Section IV.

Alternative External Review

Based on review of the 1989 ARMTech Report, conducting another external assessment does not appear necessary at this time. The ARMTech study was comprehensive in nature and specific in its recommendations and the ARMTech Report can serve as the guiding document for the Regent Risk Management Advisory Committee to plan strategically and meet Regent-wide goals and objectives.

Regents Risk Management
Organization Chart
11/04



Synopsis of Risk Management Proposal

Expected outcomes	• Review current insurance agent and broker contracts for possible consolidation. • Purchase of property insurance • Processing of liability claims under Iowa Code Chapter 669 • Managing selected liability exposures through new insurance or self-insurance programs • Developing standardized insurance requirements • Developing standardized loss prevention programs • Re-establishment of the Regents Risk Committee with Board Office participation
Cost efficiencies / savings/improvements	• Property insurance • Vehicle claims management • Centralized management information system • Better communications, coordinated risk assessments, coordinated reporting • The universities indicated that the cost for risk management may not decrease, though it is likely that savings may be achieved through efficiencies such as consolidated purchase of insurance
Proposed organizational changes	• Consolidate risk management into one Regent Director of Risk Management reporting to the Vice President for Finance and Operations at the University of Iowa • Maintain strong risk management presence on each campus, but campus based risk management staff will report to the Director of Risk Management
Implementation Issues	• Address all required risk management responsibilities in Board policy (See page 3.) • Identify benchmarks • Track costs and quality • Denote extent of usage of best practices • Address disproportionate savings/costs to institutions