

POLICY NO. 413

Area: Finance

Adopted: April 7, 2004

Certified by _____

Dr. Adolphus Andrews
Executive Vice President and
Chief Financial Officer

Revisions Approved:
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Subject: MAINTAINING INSTITUTIONAL FINANCIAL ACCOUNTABILITY AND RESPONSIBILITY (The Sarbanes-Oxley Act)

1. General

This policy addresses recommendations of the National Association of College and University Business Officers (NACUBO) with respect to issues raised by the Sarbanes-Oxley Act of 2002. While the Act does not apply specifically to institutions of higher education or other public or not-for-profit entities, the concerns it covers are universal. They are in the forefront of issues many governing board members deal with in their corporate activities. This policy and procedural checklist address how Central State University will deal with the following issues: auditor independence, corporate responsibility, enhanced financial disclosures, accountability, and certification of financial results.

This policy provides emerging best-practice direction for Central State University. The Sarbanes-Oxley Act is a framework to help evaluate overall financial risks, and not simply comply with accountability. Although colleges and universities are not subject to the Act's provisions, it is relevant to institutions of higher education and Central State University for the following reasons:

- Trustees of colleges and universities may expect institutions to adopt certain aspects of the Act as best practices.
- Several states are considering adopting variations of the Act and applying it to certain not-for-profit organizations domiciled in the state.
- Bond-rating agencies and directors and officers' liability insurers may consider governance aspects of the Act in their underwriting and/or pricing policies.
- Colleges and universities that receive federal funding must adhere to new General Accounting Office standards that are in some cases more restrictive than the standards in the Act.
- CSU continually seeks to enhance institutional accountability and responsibility.

This policy summarizes and discusses relevant provisions of the Act that apply to the following groups involved in CSU business practices:

- Independent auditors
- Audit committees
- Senior management

a. **Independent Auditors**

The Act imposes specific requirements to ensure that auditors remain independent.

The GAO issued new independence standards in January 2003 that also limit the services an independent auditor can provide. The GAO uses two "overarching principles:"

- Auditors should not perform management functions or make management decisions.
- Auditors should not audit their own work or provide non-audit services in situations where the amounts or services involved are significant/material to the subject matter of the audit.

Higher education institutions that receive federal funding must follow the GAO government auditing standards, or their annual A-133 audit reports will not be accepted.

To ensure auditor independence:

- The CSU Board's Audit Committee, in its role as the university audit committee, will receive the audit engagement letter and take direct responsibility for appointing, compensating, and overseeing the audit.
- Central State University will prohibit its independent auditors from providing non-audit services barred by the Act. When extenuating circumstances exist, the Audit Committee will approve such non-audit services in advance. The Act requires the audit committee to approve audit or non-audit services (e.g., actuarial services, bookkeeping services, internal audit outsourcing services, and system implementation services) before they are rendered. Discussions about the use of external auditors for non-audit services might include:
 - What is management's rationale for using the firm?
 - Is this an exclusive service that other firms cannot provide?
 - Was the work competitively bid?
 - Could the work impair the auditor's ability to provide the external audit?
 - Might an objective third party conclude that the audit firm is not independent?
- The lead audit partner will be rotated every five years, with a timeout of two years.

b. Senior Management

The Act requires a code of ethics for senior financial officers to address:

- honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- full, fair, accurate, timely, and understandable disclosure in all financial reports;
- compliance with applicable government laws, rules, and regulations;
- the prompt reporting of code violations to an appropriate person or persons identified in the code; and
- accountability for adherence to the code.

NACUBO adopted a code of ethics in 1993 in recognition of the role that business officers play in ensuring high standards of accountability for the resources society entrusts to higher education. CSU will comply as follows:

- CSU's senior financial managers (President; Executive Vice President and Chief Financial Officer; Controller; Budget Director; and Director of Facilities, Business Services & Capital Development) will adopt a code of ethics and ensure compliance (see attached University Official Signature Form).
- The University's Internal Auditor will develop and maintain a confidential complaint mechanism to enable employees to communicate concerns about accounting, auditing, or internal control processes.
- The University will assess the need for disclosures required by section 302 of the Act. Section 302 requires the chief executive officer (CEO) and the chief financial officer (CFO) to assert that the financial statements have no material misstatements or omissions and that they have evaluated "disclosure controls and procedures."
- Section 404 of the Act addresses internal controls, which are fundamental to sound financial reporting. Accordingly, CSU's Office of the Controller will develop and maintain business practices to document and evaluate internal controls over a planned time period.

c. Audit Committee

The Act sets very high expectations concerning the background and responsibilities of the audit committee of the Board of Trustees. The audit committee is required to take direct control of independent auditors; be responsible for appointing, compensating, and overseeing them; and pre-approve all services. The Act requires the audit committee to be independent. Management or employees may not serve on the committee. Members of the committee may not receive consulting, advisory, or other fees from the institution. The CSU Board Chairperson will appoint the Board's Audit Committee.

At least one member of the audit committee is expected to possess financial expertise. Recently issued final rules from the SEC require that this person have the following attributes:

- an understanding of generally accepted accounting principles and financial statements;
- the ability to assess the general application of such principles in connection with the accounting for estimates, accruals, and reserves;
- experience in preparing, auditing, analyzing, or evaluating financial statements that present a breadth and level of complexity of accounting issues generally comparable to the issues reasonably expected to be raised by the registrant's financial statements (or experience actively supervising one or more persons engaged in such activities);
- an understanding of internal controls and procedures for financial reporting; and
- an understanding of audit committee functions.

Audit committee members might acquire this expertise through:

- education and experience as a principal financial officer, principal accounting officer, controller, or public accounting auditor;
- experience actively supervising the above positions;
- experience overseeing or assessing the performance of companies; or
- other relevant experience.

The Act suggests that the entire Board of Trustees determine whether the designated financial expert possesses the necessary expertise.

NACUBO recommends that colleges and universities lacking separate audit committees assign requisite responsibilities to an existing committee such as the finance committee. However, such a committee must take on audit committee composition and accountability. For equivalent or combined committees, the name should be changed to reflect the audit oversight function (e.g., "Finance and Audit Committee"). Assigning these duties to a committee does not relieve the whole board of oversight responsibility. Boards that do not operate using a committee structure should assume direct responsibility for oversight of audits. CSU will consider the following factors to ensure sufficient expertise on the audit committee:

- familiarity of committee members with estimates, accruals, and reserves relevant to higher education;
- training audit committee members and retaining financial expertise;
- recruiting financial experts;
- current committee members' longevity and experience with a given institution; and
- other relevant experience.

The CSU Board will consider rotating the individual in the role of financial expert when feasible.

CSU selects the following course of action:

- The Board's Audit Committee will exercise direct control over external auditors.
- Members of the Audit Committee must be independent, and management should not be voting members of the Audit Committee.
- The Audit Committee should have a charter that includes role and authority language.
- At least one financial expert should be included on the Audit Committee, and this individual in the role of financial expert should be rotated when feasible.

2. Conclusion

This policy considers elements of governance, ethics, business process, and accountability raised by the Sarbanes-Oxley Act of 2002 that are relevant to institutions of higher education. The CSU Board of Trustees has carefully considered the substance of the Act and adopted those elements in this policy, selecting actions which best suit the University.

Central State University
UNIVERSITY OFFICIAL CODE OF ETHICS
Reference: Policy 413 - Maintaining Institutional Financial Accountability and Responsibility
(The Sarbanes-Oxley Act)

Central State University is entrusted by society with great resources and, commensurately, great responsibilities for creation, dissemination, and preservation of knowledge. Central State University officials play a key role in assuring that high standards of ethical practice attend to the custody and use of these resources. Each University official's personal and professional conduct reflects on Central State University, the collective profession, and the higher education enterprise at large. To guide University officials in setting and practicing high standards of ethical conduct, the National Association of College and University Business Officers has devised the following Code of Ethics. Central State University embraces the values expressed in this Code and advocates their observance by its officials.

University officials' conduct should be characterized by integrity and dignity, and these officials should expect and encourage such conduct by others.

The University official should adopt and be faithful to personal values that:

- accord respect to self and others;
- preserve honesty in actions and utterances;
- give fair and just treatment to all;
- accept intellectual and moral responsibility;
- aspire to achieve quality;
- refuse conflict, or the appearance of conflict, between personal and institutional interests; and
- engender forthright expression of one's own views and tolerance for the views of others.

The University official should act with competence and should strive to advance competence, both in self and in others.

The University official should understand and support Central State University's objectives and policies, should be capable of interpreting them within and beyond the institution, and should contribute constructively to their ongoing evaluation and reformulation.

The University official should communicate to institutional colleagues the content of this Code of Ethics and should strive to ensure that the standards of professional conduct contained therein are met.

In discharging their duties in accordance with this Code of Ethics, University officials should enjoy the following rights:

- the right to work in a professional and supportive environment;
- the right to have a clear, written statement of the conditions of their employment, procedures for professional review, and a job description outlining duties and responsibilities;
- within the scope of their authority and policy, the right to exercise judgment and perform duties without disruption or harassment; and
- freedom of conscience and the right to refuse to engage in actions that violate the ethical principles contained in this Code or provisions of law.

I, _____, hereby affirm that I have read the Central State University statement and policy on maintaining institutional financial accountability and responsibility. By my signature below, I understand and agree to adhere to the standards contained in Policy 413 - Maintaining Institutional Financial Accountability and Responsibility Code of Ethics and those outlined above. I understand that the original signed copy will be placed on file in the Office of Human Resources.

Signature: _____

Date: _____