

Recommendations approved by the Best Financial Practices Task Force and adopted by the Board of Governors at the November 2005 meeting.

Establishment of a Board of Governors' Audit Committee

The Board of Governors should form a permanent Audit Committee that would meet four times a year. The Audit Committee must contain at least one member with significant financial knowledge and experience. The Audit Committee would be responsible for the following.

- Developing and maintaining a system-wide code of ethics. The Audit Committee should ensure that each constituent institution annually reminds each employee of the code of ethics and provides continuing education to ensure adherence to ethical standards.
- Developing a charter to define roles and responsibilities.
- Reviewing the annual financial reports prepared by the State Auditor for each of the sixteen constituent institutions and affiliated entities of the University.
- At the beginning of the audit cycle, reviewing and approving a summary of the annual internal audit plans for the sixteen constituent institutions and providing guidance, through the Vice President for Finance, to campus internal auditors on specific issues that should be incorporated in their audit programs.
- Reviewing an annual summary of the work performed by the Audit Committees of the institutional Boards of Trustees, including a report of the work of the campus internal auditor which indicates any identified material reportable conditions and how they were addressed.
- Reviewing an annual report on University-associated entities.
- Reviewing an annual financial report for the entire University.
- Meeting with the State Auditor or a designated representative annually.
- Participating in training sessions to better understand aspects of University finances.

Audit Committees of Boards of Trustees

The Task Force on Best Financial Practices recommends that the Board of Governors require that each campus Board of Trustees have an active Audit Committee, or alternatively a committee with the word "audit" in its title that reports to the Board of Trustees and the Board of Governors annually on its activities. This Committee would be responsible for the following.

- Meeting with representatives of the State Auditor's office to review the institution's annual audit report and discuss corrective actions if needed.
- Reviewing audit reports of University-associated Entities.
- Receiving quarterly reports from the University's internal auditor.
- The internal auditor will report to the chancellor but will also have a reporting relationship to the chair of the Audit Committee to enable the auditor to freely discuss professional issues with the Committee chair.

- Developing a charter to define roles and responsibilities. One of the responsibilities is the assurance that the institution is performing self assessments of operating risks and evaluations of internal controls on a regular basis.
- Internal audit functions will be carried out in a way that meets professional standards.
- At the beginning of the audit cycle, reviewing and approving a summary of the annual internal audit plan for the campus. At the end of the cycle, reviewing a comparison of the plan advanced to the internal audits performed.
- Prepare and forward to the Board of Governors an annual summary of the work performed by the Audit Committee, including a report of the work of the campus internal auditor which indicates any identified material reportable conditions and how they were addressed.

It will be the responsibility of the Board of Governors to insure that trustee appointments on each campus include individuals who understand financial data and can serve on the Audit Committee.

University-associated Entities

An internal working group with representatives from six campuses and the Office of the President has, under the leadership of Vice President and General Counsel Leslie Winner, drafted a set of required elements that should exist in the relationships between the University and university-associated entities. The Task Force on Best Financial Practices endorses the work of this internal working group and recommends that the President issue regulations to ensure that the constituent institutions adhere to the required elements (Attachment A).

Background Checks for Senior Officers

The Task Force on Best Financial Practices believes that senior officers in the university should be offered positions contingent upon successful criminal background investigations. Campuses should adopt guidelines to prevent them from hiring senior officers whose background indicates that they cannot be relied on to maintain the fiscal integrity of the institution.

Personal Loans

The Task Force on Best Financial Practices believes that neither campuses nor university-associated entities should make personal loans to trustees or executive officers regardless of the funding source. Any loans to other employees should only be from funds restricted for that purpose by donors. Loans to employees should be monitored by the Chief Financial Officer of the campus even if the loan is from a University-Associated Entity.