

**MINUTES**  
**JOINT MEETING**  
**FINANCE AND CONSTRUCTION COMMITTEES**  
**UNIVERSITY OF SOUTHERN INDIANA**  
**BOARD OF TRUSTEES**

**March 6, 2003**

The Finance and Construction Committees of the University of Southern Indiana Board of Trustees met in joint session on Thursday, March 6, 2003, at the Bayou Grill and Conference Center in New Harmony, Indiana. Present were Chair G. Patrick Hoehn and Trustees Tina M. Kern-Raibley, Thomas F. McKenna, and James L. Will Sr. Also present were President H. Ray Hoops, Vice President for Business Affairs and Treasurer Robert W. Ruble; Vice President for Governmental Relations Cynthia S. Brinker; Vice President for Student Affairs Robert W. Parrent; Director of Facilities Operations and Planning Stephen P. Helfrich; and Internal Auditor Diana Biggs.

Mr. Hoehn called the meeting to order at 10:00 a.m.

(CONSTRUCTION)

**1. REPORT ON THE STATUS OF THE RESIDENCE HALL NO. 4 PROJECT**

Mr. Helfrich reported that the architectural firm of Veazey Parrott Durkin and Shoulders is updating the building plans for Residence Hall No. 4. The firm of Biagi, Chance, London, and Titzer is surveying the building site and the lake site. A legal description is being updated in anticipation of the transfer of approximately 45 acres of property from Southern Indiana Higher Education, Inc. to the University of Southern Indiana. When the perimeter of the lake and building site can be marked, Mr. Fred Hadley, a timber consultant, will present a proposal on tree removal. Mr. Helfrich reported that the law firm Kahn, Dees, Donovan, and Kahn is preparing the architectural contract.

**1.a. DISCUSSION OF POTENTIAL PARKING STRUCTURE**

Vice President Ruble reported on recent discussions regarding the feasibility of constructing a parking structure on campus. He remarked that when the library construction begins, the pay parking lot, the only easy access for visitors to Carter Hall, will be eliminated. In order to accommodate University guests to events in the University Center and Carter Hall, a project is being considered to construct a small parking garage adjacent to Carter Hall. Vice President Ruble noted that all discussion is very preliminary at this time and that his report is to make the committee aware that this project is under consideration. Early estimates indicate that the cost for a garage to park 228 cars would be approximately \$3.0 million.

(FINANCE)

**2. DISCUSSION OF THE SARBANES-OXLEY ACT OF 2002 AND THE ESTABLISHMENT OF THE FINANCE/AUDIT COMMITTEE**

The Sarbanes-Oxley Act of 2002 is regarded as an opportunity to enhance institutional accountability and responsibility. The Sarbanes-Oxley requirements, USI's current practices, and recommended best practices are summarized in Attachment A. It is recommended that the Finance Committee consider formally assuming the responsibilities of an audit committee and becoming the Finance/Audit Committee. The proposed responsibilities of the Finance/Audit Committee are outlined in Attachment B.

## **Overview of Sarbanes-Oxley Act of 2002**

- President Bush signed the legislation July 30, 2002.
- Act prompted by the numerous corporate fraud and corruption allegations that began with the collapse of Enron Corporation.
- Applies to public companies that register securities with the Securities and Exchange Commission (SEC).
- Many companies that do not fall under the act are examining and changing procedures where practical to comply with the spirit of Sarbanes-Oxley.
- Sarbanes-Oxley is regarded as an opportunity to enhance institutional accountability and responsibility.
- Specific areas of the act that can be adapted and adopted by higher education include
  - creating and following a code of ethics,
  - full disclosure in financial reporting,
  - certification of financial statements,
  - improving and documenting internal controls,
  - establishing an independent audit committee, and
  - restricting external auditor non-auditing activities.

### **Code of Ethics**

*Sarbanes-Oxley Act Requirement:* A code of ethics must be in place for senior financial officers.

*Current practice:* The USI faculty has adopted a *Statement of Professional Ethics*, which can be found in the University Handbook, but a similar code for the administrative and support staff does not exist. There is a conflict of interest statement, but its existence and purpose are not widely known beyond the trustees and officers.

*Recommended best practice:* The University should develop a code of conduct, including the conflict of interest statement and a code of ethics, that applies to the Board of Trustees, faculty, and all administrative and support staff. This code should be signed annually by those it covers.

### **Full Disclosure in Financial Reports**

*Sarbanes-Oxley Act Requirement:* Financial statements must be complete and accurate and include appropriate disclosure of significant transactions, including off-balance sheet financing.

*Current practice:* USI's financial statements have adequate disclosures as defined by the Governmental Accounting Standards Board (GASB) standards that apply to higher education. These standards are not as stringent as required for SEC companies.

*Recommended best practice:* Strive for more disclosure than the minimum required by GASB, being mindful of the user's level of understanding of accounting practices and principles.

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### **Certification of Financial Statements**

*Sarbanes-Oxley Act Requirement:* The chief executive officer and chief financial officer must review the financial reports; certify they are true and do not omit material facts; certify they are fairly presented in all material respects; certify they are responsible for internal controls and disclose significant deficiencies in them, as well as any knowledge of fraud; and disclose if there are any changes in internal controls that could subsequently affect their assessment of the financial reports or internal controls overall.

*Current practice:* A recently issued American Institute of Certified Public Accountants (AICPA) auditing standard requires auditors to ask chief executive officers and chief financial officers about the existence of fraud which applies to all entities. All other certifications are made in a management letter addressed to the external auditor exclusively.

*Recommended best practice:* Include a statement in the annual financial report (Management's Discussion and Analysis section) of management's responsibility for the completeness and accuracy of the report as well as for the underlying system of internal controls.

### **Internal Controls**

*Sarbanes-Oxley Act Requirement:* Management is responsible for establishing and maintaining an effective system of internal controls.

*Current practice:* USI generally has good internal control structures in place, but they could be better documented. Related policies and procedures need to be updated and improved.

*Recommended best practice:* Define, document, and communicate all policies and procedures as well as a comprehensive system of internal controls.

### **Audit Committees**

*Sarbanes-Oxley Act Requirement:* All SEC entities are required to have audit committees with oversight of accounting and financial reporting practices. The audit committee should be independent of the entity and include at least one member who is a financial expert.

*Current practice:* The Finance Committee of the Board of Trustees informally acts as the audit committee for USI. Many universities have a formally established audit committee and the internal audit department reports functionally to that committee.

*Recommended best practice:* Create a formal audit committee within the Finance Committee of the Board of Trustees. Define the audit committee duties and responsibilities as a revision to the Finance Committee responsibilities. Authorize the USI internal audit department to report functionally to the Finance/Audit committee to maintain independence in its operations.

### **Restrict External Auditor Non-Auditing Services**

*Sarbanes-Oxley Act Requirement:* The external auditors cannot also provide non-auditing services, specifically bookkeeping, financial system design and implementation, appraisal or valuation services, actuarial services, internal audit outsourcing, management or human resource functions, broker-dealer or investment advisement, and legal or other expert services unrelated to the audit.

*Current practice:* USI is required by state law to use the State Board of Accounts for its external auditing services. USI has never engaged the State Board of Accounts to provide non-auditing services and never will.

*Recommended best practice:* When non-auditing services such as those named in the Sarbanes-Oxley Act are required, USI should request proposals from appropriate professional organizations.

**SUMMARY:** The Sarbanes-Oxley Act generally applies only to publicly traded companies, but regulatory agencies with jurisdiction over colleges and universities are recognizing that the constituents (donors, bond underwriters, students, employees, etc.) have a very real stake in the integrity – financial and ethical – of these organizations. Adopting compliance with the most relevant provisions of this act would enhance USI's accountability and responsibility.

Of the recommended best practices for USI, only one needs to be addressed by the Trustees: establishing an independent audit committee of the Board of Trustees. Specifically, it is recommended that the Finance Committee should formally assume the additional responsibilities of an audit committee and become the Finance/Audit Committee. See Attachment B for an outline of responsibilities and functions of an audit committee. As changes occur in accounting principles or auditing standards, the nature and scope of the Finance/Audit Committee could change as well.

### **Proposed Finance/Audit Committee Responsibilities**

The Board of Trustees will assign audit-related responsibilities to the Finance/Audit Committee as follows:

1. The Finance/Audit Committee will approve the initial mission statement and charter of the internal audit function of the University and update or revise it as needed.
2. The Finance/Audit Committee will provide a structured reporting line for internal audit and facilitate the maintenance of the independence of the internal audit function.
3. At least annually, the Finance/Audit Committee will meet with the director of Internal Audit to:
  - a. discuss and approve an annual work plan of the internal audit function;
  - b. review internal audit activities and reports of previous periods;
  - c. assess management's responses to recommendations contained in audit reports;  
and
  - d. consider the adequacy of the University's financial reporting, accounting, and internal control procedures.
4. The director of Internal Audit may contact the chair of the Finance/Audit Committee to discuss emergency items. A decision will be made at that time whether to convene the full Finance/Audit Committee.
5. The Finance/Audit Committee will periodically review and confirm the organizational structure of the internal audit function.
6. The Finance/Audit Committee will be encouraged to review the scope of the external auditors' (State Board of Accounts) examination periodically and to request clarification of any areas not fully understood.
7. The chair of the Finance/Audit Committee will be invited to attend the annual financial audit exit conference and the federal audit exit conference conducted by the State Board of Accounts. Many times both exit conferences are held simultaneously.
8. The Finance/Audit Committee will perform such other functions as may from time to time be assigned to the committee by the Board of Trustees.



## BUDGET APPROPRIATIONS, ADJUSTMENTS, AND TRANSFERS

### 1. Additional Appropriation of Income

From:	Unappropriated Current Operating Funds		
To:	1-10102	College Achievement Program Personal Services Supplies and Expense	400 739
To:	1-10200	School of Liberal Arts Personal Services Supplies and Expense	66,525 5,901
To:	1-10300	School of Science and Engineering Personal Services Supplies and Expense	25,200 2,715
To:	1-10400	School of Nursing and Health Professions Personal Services Supplies and Expense	28,950 2,214
To:	1-10610	Bachelor of General Studies Program Personal Services	399
To:	1-10700	School of Business Personal Services	300
To:	1-10910	Continuing Education Supplies and Expense	370
To:	1-10100	Academic Affairs Supplies and Expense	4,790
To:	1-16200	President's Office Supplies and Expense	1,000
From:	Unappropriated Designated Funds		
To:	2-20100	Student Programs Capital Outlay	3,475
To:	2-23100	Faculty Development Travel Supplies and Expense	8,618
To:	2-23130	Faculty Enhancement – Science and Engineering Supplies and Expense	4,138
To:	2-23180	Faculty Enhancement – Education and Human Services Personal Services Supplies and Expense	948 29
To:	2-23300	School of Business Revolving Account Supplies and Expense	41
To:	2-23305	Center for Business and Economic Research Supplies and Expense	7,225

From:	Unappropriated Auxiliary Funds		
To:	3-30200	University Center Supplies and Expense	2,384

**2. Transfer and Appropriation of Funds**

From:	2-20050	Student Services Operations	
To:	2-20760	International Programming Supplies and Expense	1,825

From:	2-23310	Accounting Department Revolving Fund	
To:	1-13200	Library Capital Outlay	1,345