

Connecticut State University System

Developing a State of Minds

BR#05-52



RESOLUTION

concerning

THE CONNECTICUT STATE UNIVERSITY SYSTEM  
POLICY REGARDING BEST PRACTICES BASED ON THE  
SARBANES-OXLEY ACT OF 2002

July 22, 2005

WHEREAS, The Sarbanes-Oxley Act of 2002 (SOX) is legislation passed to protect shareholders and the general public from accounting errors and fraudulent business practices, and

WHEREAS, SOX does not apply to non-profit institutions and governmental institutions, including public and private higher education, and

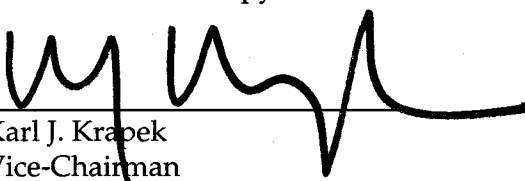
WHEREAS, Many higher education institutions, both public and private, are pursuing the installation of "best practices" which adopt in a modified fashion certain provisions of SOX, and

WHEREAS, The National Association of College and University Business Officers (NACUBO) has put forth recommendations for institutions of higher education concerning best practices based on SOX, and

WHEREAS, CSU supports the implementation of best practices to ensure the highest degree of integrity in its financial reporting and ethical standards, therefore be it

RESOLVED, That the Board of Trustees for the Connecticut State University System formally adopt the attached Policy regarding Best Practices based on the Sarbanes-Oxley Act of 2002.

A Certified True Copy:

  
Karl J. Krapek  
Vice-Chairman

## **Policy regarding Best Practices based on the Sarbanes-Oxley Act of 2002**

The Connecticut State University System is committed to providing the highest degree of ethics and integrity in all of its practices, including all financial dealings and financial reporting. It is imperative that any financial reports provided by CSU elicit the highest degree of public trust possible.

To ensure that CSU is taking all possible steps to ensure the effectiveness of its internal controls, audit procedures, and ethical practices, the following shall be adopted as best practices based on the Sarbanes-Oxley Act of 2002:

- CSU's independent auditors are prohibited from providing the following non-audit services: bookkeeping or other services related to the accounting records or financial statements; financial system design and implementation; appraisal or valuation services, fairness opinions, or contribution-in-kind reports; actuarial services; internal auditing outsourcing services; management or human resource functions; broker or dealer, investment advisor, or investment banking services; legal services and expert services unrelated to the audit; and any other service that may be determined, by regulation, to be impermissible.
- The CSU Audit Committee of the Board shall pre-approve work (both audit and non-audit) performed by any external auditing firm.
- The lead partner for CSU's independent audit engagement shall be rotated every ten years, with a timeout of two years.
- The following information shall be disclosed by CSU's independent auditors to the Audit Committee of the Board when the financial statements are presented: all critical accounting policies and practices used by CSU that have been discussed with CSU management; all alternative treatments of financial information, ramifications of such use, and treatment preferred by CSU's independent auditors; and other material written communications between CSU's independent auditors and CSU management, such as the management letter or schedule of unadjusted differences.
- The audit engagement letter shall be addressed to the Audit Committee of the Board; at its discretion, the Audit Committee may designate the CSU Chief Financial Officer as signatory on the letter.
- If CSU or any of its universities wishes to employ a Vice President for Finance and Administration (VPFA), Chief Financial Officer (CFO), or Controller who has worked for the firm that conducted CSU's external audit within the past year, the hiring manager shall document the justification for the selection, and the hire shall be approved by the Audit Committee.

- CSU Management shall provide the Audit Committee of the Board with an evaluation of the performance of CSU's external audit firm annually, following completion of the audit.
- As part of the selection process of an external auditing firm, the Audit Committee of the Board shall interview the firm recommended for hire by the selection committee, so that they may endorse or veto the firm prior to contract award.
- The System Chancellor and CFO shall sign a representation letter at the end of the audit certifying, 1. They have reviewed the report; 2. Based on their knowledge, the report does not contain any untrue statement of a material fact or omission of a material fact that makes the statements misleading; 3. Based on their knowledge, the financial statements present in all material respects the financial condition and results of operations; 4. They are responsible for establishing and maintaining internal controls; 5. They have disclosed to the auditors and the audit committee all significant deficiencies and material weaknesses in the internal controls that could adversely affect the company's ability to record, process, summarize and report financial data; 6. They have indicated in the report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of their evaluation, including any corrective actions. In addition, the University Presidents and VPFA's shall also sign representation letters pertaining to their individual universities.
- The CSU Chancellor shall promptly inform the Audit Committee of the Board of any known complaint involving accounting, internal control, or auditing matters, as well as of the disposition of such complaints.
- CSU shall follow current and appropriate accounting standard guidance, as provided by the Governmental Accounting Standards Board and other applicable authoritative bodies.
- The CFO/VPFA of each individual university shall be responsible for filing any applicable university tax returns; the CFO of the System shall be responsible for filing any applicable Systemwide returns

**ITEM**

The Connecticut State University System Policy regarding Best Practices based on the Sarbanes-Oxley Act of 2002

**BACKGROUND**

The Sarbanes-Oxley Act of 2002 (SOX) is legislation passed in response to the high profile Enron and WorldCom financial scandals to protect shareholders and the general public from accounting errors and fraudulent business practices. The Sarbanes-Oxley Act introduced stringent new rules "to protect investors by improving the accuracy and reliability of corporate disclosures made pursuant to the securities laws". The legislation came into force in 2002 and introduced major changes to the regulation of financial practice and corporate governance. Named after Senator Paul Sarbanes and Representative Michael Oxley, who were its main architects, it also set a number of deadlines for compliance.

**ANALYSIS**

SOX does not apply to non-profit institutions and governmental institutions, including public and private higher education. Nonetheless, many higher education institutions, both public and private, are pursuing the installation of "best practices" which in essence adopt in a modified fashion certain provisions of SOX. The reasons for this are many:

- The attorneys general of three states have discussed the idea of introducing legislation with SOX-like elements applicable to not-for-profits. It is reasonable to assume that this trend will continue, with other states joining in. Two of the three states referenced above (Massachusetts and New York) are direct neighbors to Connecticut.
- Many trade associations and advocacy groups, such as the National Association of College and University Business Officers (NACUBO), are recommending such action.
- The financial markets are looking for enhanced corporate governance. For example, Fitch Ratings Service recently issued a report specifically addressing the applicability of SOX to the higher education market, stating that enhanced corporate governance reflects positively on management, which could affect bond ratings. Similarly, Moody's has recently issued a rating methodology brief, in which they state, "The assessment of governance and management is an important component of Moody's rating methodology for higher education and nonprofits." Standard & Poor's is no doubt taking a similar approach.

NACUBO has put forth recommendations for institutions of higher education concerning best practices based on SOX. CSU supports the implementation of best practices to ensure the highest degree of integrity in its financial reporting and ethical standards.

**CHANCELLOR'S RECOMMENDATION**

**STAFF REPORT**

**AUDIT COMMITTEE**

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That the Board of Trustees for the Connecticut State University System formally adopt the proposed Policy regarding Best Practices based on the Sarbanes-Oxley Act of 2002.