

The University Senate of Michigan Technological University

PROPOSAL 18-04

SENATE REQUEST FOR FINANCIAL EXPERTISE BY NEW BOARD OF CONTROL APPOINTEE

The University Senate wishes to communicate to the Administration and the Board of Control a request that they ask the Governor to choose an appointee with financial expertise when filling the current vacant Board of Control position. This expertise should match the spirit of the Sarbanes-Oxley Act as interpreted by the National Association of College and University Business Officers (NACUBO) presented below. If possible this person should have experience in university finance.

Background

The Sarbanes-Oxley Act of 2002 (Act) was passed in response to failed financial control and oversight procedures in American corporations. The Act sets high standards for a variety of business practices including the actions of boards of directors. Although the Act does not apply to not-for-profit institutions of higher education, NACUBO has adopted recommendations that closely parallel the provisions of the Act for higher education institutions.

The NACUBO recommendations for audit committees and, implicitly, governing boards transcribed from the report follows.

Audit Committees

The Act sets very high expectations concerning the background and responsibilities of the audit committee of the board of directors. The audit committee is required to take direct control of independent auditors; be responsible for appointing, compensating, and overseeing them; and preapproving 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.

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
- an understanding of audit committee functions

The Act suggest that the entire board of trustees determine whether the designated financial expert possesses the necessary expertise, including:

- 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
- other relevant experience

The Act suggests that the entire board of trustees determine whether the designated financial expert possesses the necessary expertise. NACUBO recommends colleges and universities that do not have 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, for example, the "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. Higher education institutions should 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 can be considered "other relevant experience"

Colleges and universities should also consider rotating the individual in the role of financial expert when feasible.

Adopted by Senate: 11 February 2004