

**Sarbanes-Oxley Act Best Practices**  
**March 31, 2005**  
**(Presented to Board of Regents, State of Iowa May 4, 2005)**

**Background.** This is a follow up status report to the Audit/Compliance committee regarding the efforts of the three Regents Universities in adopting best practices related to Sarbanes-Oxley Act requirements.

The Sarbanes-Oxley Act of 2002 defines “corporate responsibility” related rules for the accounting professions, auditor/client relationships, and governance of publicly traded US companies. Regent institutions as public entities, though not subject to Sarbanes-Oxley, may benefit from implementing Best Practices associated with Sarbanes-Oxley requirements.

The Regent universities jointly conducted a Gap Analysis of the Sarbanes-Oxley provisions and adopted an action plan having three primary areas of focus:

1. Refinement/development of a business code of conduct
2. Development of a confidential reporting mechanism with anti-retaliation provision
3. Refinement of financial certification practices

At its November 2004 meeting, the Regents Audit /Compliance Committee endorsed this approach. The Committee specifically directed the three Regents Institutions to form a single committee to explore best practices and to also consider development of a single hotline reporting mechanism.

A committee consisting of Johnny Pickett, Associate Vice President and Controller, Iowa State University; Dennis M. Domsic, Associate Vice President, University of Iowa; and Gary Shontz, Controller, University Secretary and Treasurer, University of Northern Iowa was established and given this charge.

**Report of Institutional Efforts**

**1. Code of Conduct:**

The committee has drafted a uniform code of business and fiduciary conduct (copy attached) that is being reviewed by each University’s executive officers. The Code is not a new policy or a restatement of existing policy but provides the overarching ethical context for policy

It is proposed that each Regent University will publish on a policy web site and/or in print the following:

- a. A letter from the University President setting the tone of conduct expectation for all employees
- b. The Code of Business and Fiduciary Conduct

- c. Summary list and appropriate links to each University's and Regents related policies eg. conflict of interest, conflict of commitment, anti-retaliation, etc.
- d. Hotline phone number and list of other phone numbers employees may access to report concerns

## **2. Development of a confidential reporting mechanism with anti-retaliation provision**

The three Regents Universities have jointly evaluated three hotline vendor products-My Safe Workplace, Global Compliance Systems, and EthicsPoint. Each vendor product offers both a web based and a 24 hour 7 days per week telephone center reporting system for Sarbanes-Oxley concerns along with a web based software system for report management. The committee unanimously recommends the use of the EthicsPoint system. The committee evaluation ranks EthicsPoint the highest based on the sophistication of the reporting system, its ability to be customized to meet individual academic institutional needs, experience with other academic institutions, excellent confidentiality reporting mechanism and price competitiveness. Reference checks further supported this recommendation. Product testing to date likewise has been very satisfactory.

A single vendor product designed to serve all three Regents University is expected to cost approximately \$30,000. This would include an annual operating fee plus initial set up and employee marketing cost.

The three institutions are proceeding with negotiation of a contract with the vendor and establishment of appropriate management protocols.

Closely related to the confidential reporting mechanism mandated by Title III of the Sarbanes-Oxley Act is the requirement noted in section 806 (Title VIII) for whistleblower protection. Anti-retaliation for reporting of wrongdoing or bringing forward complaints has been a strong tradition at the Regent universities, and all three institutions have policies in place reflecting this tradition.

## **3. Refinement of financial certification practices**

At the November 2004 Regent Audit/Compliance Committee meeting, the Regents Universities reported that evidence indicated that the current required State Auditor management representation letter exceeded Sarbanes-Oxley requirements. Given the high cost of external audit of internal controls a decision was made to not hire consultants to review internal controls. Instead an incremental approach was recommended which involved increasing awareness of existing internal controls through staff training and evaluation of sub-certification requirements for senior staff having financial reporting responsibilities. This approach was endorsed by the Regents Audit and Compliance Committee.

## **Next Steps**

The three Regent Universities will adopt the common statement of values related to fiduciary and business responsibilities. Each institution will publish it along with references to existent related policies at each institution.

The three Regent institutions will jointly negotiate a contract with EthicsPoint, proceed with development of report management protocols for reports received via the hotline, install the system and develop a summary report mechanism for the Regents Office. The report mechanism will be marketed to faculty and staff along with the provision for anti-retaliation.

The three Regents Universities will proceed with finalizing sub certification requirements for relevant management and staff having financial reporting responsibilities.