

THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION

ACTION REQUEST

EXH	MOTION <i>McHowan</i>
	SPECIAL <i>Dutch</i>
	APPROVED BY THE REGENTS
DATE	FEB 17 2005

Subject: Revisions to Committee Charters and Regents' Bylaw 1.07

Action Requested: Approval of revised charters and bylaws for Compensation and Personnel Committee and Finance, Audit and Investment Committee

Background

At the February 2002 meeting, the Regents voted to amend the Bylaws to create the Compensation and Personnel Committee and the Finance, Audit and Investment Committee. At the December 2002 meeting, the Regents approved the initial charters for the Compensation and Personnel Committee and the Finance, Audit and Investment Committee.

Over time, the Board has refined and expanded the role of the Compensation and Personnel Committee to include additional responsibilities. This redefinition of the committee's role will require a revision to Regents' Bylaw 1.07 and to the Compensation and Personnel Committee charter. Upon approval of the revisions to the bylaw and the charter, the committee's name will change to the "Personnel, Compensation, and Governance Committee."

With respect to the Finance, Audit and Investment Committee, the Board has been working to explicitly incorporate into the committee's charter its fiduciary responsibilities as defined by the University's recently-completed Sarbanes-Oxley Act "Gap Analysis" and proposed best practices in financial controls. Codifying these responsibilities will require a revision of the Finance, Audit and Investment Committee charter.

Recommendation

The proposed revisions to the committee charters and Bylaw 1.07 have been posted in *The University Record* as described in the Regents' guidelines for bylaws revisions and are now submitted for approval.

Proposed Revised Bylaws and Charters (Additions are underlined; deletions are crossed out.)

Regents' Bylaws Sec. 1.07. Committees (revised ~~February 2002~~ February 2005)

A. Committee of the Whole

When the Board ~~shall~~ resolves itself into a committee of the whole, the chair of the Board ~~shall~~ will serve as chair of the committee.

B. Committees

The chair may appoint committees of the Board and the Board ~~shall~~ will prescribe their duties and functions. The president of the University or the president's designee ~~shall~~ will serve as an ex officio member without vote of all such committees. Board membership on any committee ~~shall~~ will consist of less than a quorum of the membership of the Board.

C. Standing Committees

There ~~shall~~ will be two standing committees of the Board of Regents, each composed of three members of the Board selected by the chair. These committees ~~shall~~ will advise the Board of Regents on matters pertaining to their subject areas and ~~shall~~ will present

periodic reports and recommendations, but ~~shall will~~ not have the power to bind the Board of Regents on any matter. These committees ~~shall will~~ determine the frequency, time and place of their meetings, in consultation with other members of the Board.

1. The Finance, Audit and Investment Committee

This committee ~~shall will~~ provide assistance to the Board in fulfilling its responsibilities relating to the adequacy and effectiveness of the University's internal controls and financial reporting and investment policies and practices. This committee ~~shall will~~ review, at its discretion, matters that may include the annual audit, financial statements and reporting, investments, and compliance with applicable laws and regulations.

2. The Personnel, Compensation and Personnel Governance Committee

This committee ~~shall provide assistance to~~ will assist the Board in evaluating the performance of and determining the ~~appropriate level of~~ compensation for the president. It ~~also shall will~~ advise the president on the performance of and compensation for the executive officers, and will, from time to time, ~~The committee shall, at its discretion,~~ review compensation-related data in order to maintain and enhance the University's competitive status in higher education. The Committee will review the University leadership's progress on diversity. It will be responsible for matters related to governance and Board performance, and will advise the Board on University-wide conflict of interest policies, performance goals and evaluations, market data, salary studies, and other relevant information.

Personnel, Compensation and ~~Personnel Governance~~ Committee Charter

The Personnel, Compensation and ~~Personnel Governance~~ Committee will review all policy matters regarding the evaluation and compensation of the president of the University and will make recommendations to the Board of Regents regarding all such matters. Periodically, the committee will review with the president the procedures and methods used in the evaluation of the executive officers, and will advise the president on the performance of and compensation for the executive officers. The committee will, from time to time, review salary studies, market data and other relevant compensation-related information for executive officers, faculty, and staff in order to maintain and enhance the University's competitive status in higher education. It will, from time to time, review the University's progress on faculty and staff diversity. The Committee will be responsible for matters related to Board governance, and will direct an annual self-assessment of the Board's functions and performance. The Committee will recommend University-wide conflict of interest policies to the Board and, from time to time, will review compliance.

Finance, Audit and Investment Committee Charter

Replace current charter approved December 12, 2002 with revised charter:

~~Finance, Audit and Investment Committee~~

~~The Finance, Audit and Investment Committee will review and make recommendations to the Board on the following matters:~~

~~Finance: Including but not limited to the University's financing plans, financial condition, borrowing and investment policies, annual operating budgets, insurance and risk management programs, capital investment criteria and financial reporting practices.~~

~~Audit: Including but not limited to the University's annual external audit, internal audit plan and reports, internal controls and the selection of an external auditor. Any matters material financial and/or compliance risk to the University.~~

~~Investment: The University's investment performance and investment reporting practices.~~

~~("University" includes the Ann Arbor, Dearborn, and Flint campuses, the University of Michigan Health System, and the Department of Intercollegiate Athletics.)~~

Revised Finance, Audit and Investment Committee Charter

I. Finance, Audit & Investment (FAI) Committee Responsibilities

The FAI Committee provides oversight for the Board of the financial, audit and investment performance, policies and practices of the University. ("University" includes the Ann Arbor, Dearborn, and Flint campuses, the University of Michigan Health System, and the Department of Intercollegiate Athletics.) The FAI Committee responsibilities include:

- (1) oversight of the University's financing plans, financial condition, borrowing and investment policies, annual operating budgets, insurance and risk management programs, capital investment criteria and financial reporting practices.
- (2) oversight of the quality and integrity of the University's accounting, auditing, external financial reporting, and compliance practices.
- (3) oversight of the University's investment function and investment reporting practices, and
- (4) any other responsibilities as assigned by the Board.

II. Composition and Meetings

The FAI Committee is composed of less than a quorum of the membership of the Board and is appointed by the chair of the Board. The chair of the Board will appoint the chair of the FAI Committee. The FAI Committee will advise the Board on matters pertaining to its oversight areas and will present periodic reports and recommendations but will not have the power to bind the Board on any matter. The FAI Committee is deemed independent because the Board is publicly elected and the Regents are bound by law regarding conflict of interest (State Law, MCL 15.301 and Bylaw 1.14).

The FAI Committee may meet as often as necessary but not less than four times in a calendar year.

In appointing members to the FAI Committee, the chair of the Board will, if practical, select one or more Board members with accounting or financial management expertise. The FAI Committee may, at its discretion, hire financial expertise from outside the University.

III. The Responsibilities of the FAI Committee

A. Finance Responsibilities

The following are the financial responsibilities of the FAI Committee:

- Review the overall financial health of the University and financial policies.
- Review the General Fund budget, including projections of the outlook, strategy, tuition and appropriation assumptions.
- Review, as needed, the strategy, operating and capital plans of major auxiliary units, business units or affiliates (e.g., the Hospitals and Health Centers, the Life Sciences

Institute, the University of Michigan Press, the Department of Intercollegiate Athletics, M-CARE, etc.).

- Review capital needs and the related debt program, including its capacity, structure, policies and strategy.
- Review tax compliance and exposure management.

B. Audit Responsibilities

The following are the audit responsibilities of the FAI Committee, which may be modified or supplemented as appropriate:

- Be directly responsible for the appointment, compensation and retention of the University's independent auditor, and evaluate annually the qualifications and performance of the independent auditors; ensure the independent auditor assigns the appropriate industry experts to the audit engagement; and give the independent auditor direct access to the FAI Committee.
- Review with the administration and the independent auditor judgments about: the quality, not just the acceptability, of the University's accounting principles; the consistency in the application of accounting policies; the reasonableness of significant judgments; the degree of aggressiveness or conservatism in applying the accounting principles; and the clarity and completeness of the financial statements and related disclosures.
- Confirm with the administration and the independent auditor that the annual financial statements disclose all material off-balance sheet transactions, arrangements, obligations, and other relationships of the University with unconsolidated entities or other persons, that may have a material current or future effect on financial condition, changes in financial condition, results of operations, liquidity, capital expenditures, capital resources, or significant components of revenues or expenses.
- Review and approve the annual financial statements of the University and the audit report on federal awards received by the University as required by federal law or regulation, including OMB Circular A-133.
- On an annual basis, assess the independence of the independent auditor by reviewing a letter issued by the independent auditor under Independence Standards Board Standard No.1, or the current industry standard, and discuss any relationships disclosed that may impact auditor objectivity and independence.
- On an annual basis, obtain a report from the independent auditor regarding required communications under Statement of Auditing Standards No. 61, as amended, or the then current industry standard. Review with the independent auditor:
 - 1) Any significant difficulties encountered during the course of the audit, any restrictions on the scope of work or access to required information, and any significant disagreements among management and the independent auditor in connection with the preparation of the financial statements.
 - 2) Any formal communications between the audit team and the auditor's national office regarding auditing or accounting issues.
 - 3) Any letters issued addressing internal controls, business process improvements or other recommendations and the schedule of unadjusted differences (if any) prepared by the auditor.
 - 4) Important accounting policies and practices used by the University, all alternative treatments of financial information within generally accepted accounting principles, the ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor.

- 5) Developments and emerging issues in higher education including ways to improve operations or business practices.
- The committee or its chair will pre-approve all audit and non-audit services provided by the independent auditors. The independent auditor is prohibited from performing the following non-audit services:
 - 1) Bookkeeping
 - 2) Financial information systems design, implementation or operation
 - 3) Appraisal or valuation services, fairness opinions or contribution-in-kind reports
 - 4) Actuarial services
 - 5) Internal audit outsourcing services
 - 6) Management functions or human resources
 - 7) Broker or dealer, investment advisor, or investment banking services
 - 8) Legal services and expert services unrelated to the audit
 - 9) Preparing the indirect cost proposal or cost allocation plan
 - 10) Other services that would violate the U.S. General Accounting Office Independence Standard, or the then current standard.

Services approved by the chair of the FAI Committee should be reported to the committee at its next scheduled meeting.

- Ensure proper rotation of the lead and concurring audit partners of the University's engagement.
- Review new and significant accounting pronouncements, and understand their impact on the University's financial statements.
- Review compliance with governmental laws and regulations as it relates to the audit.
- Obtain and review an annual internal control certification letter signed by appropriate University personnel.
- Review and appraise the organizational structure, adequacy of resources, qualifications, independence and activities of the University's internal audit department.
- Review and approve the internal audit plan.
- Review and concur with the appointment, compensation, reassignment or termination of the executive director of University audits.
- Review periodically the University's Internal Audit charter for necessary changes.
- Receive a summary of findings from completed internal audits and the status of implementing related recommendations.
- Receive a progress report on the internal audit plan, with explanations for any deviations from the original plan.
- Review the University's procedures for the receipt, retention, and treatment of complaints regarding accounting, internal accounting controls or auditing matters, including procedures for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters. Review the president's travel and hosting expenses and those of any family members. Review and approve policies governing loans to employees of the University and receive reports on at least a quarterly basis of all such loans granted.
- Review with appropriate University personnel, the internal auditor, and the independent auditor the significant financial, operational, compliance and reputational risks facing the University. These risks are defined as follows:
 - 1) Financial – Loss of assets or resources. This includes the reliability of the University's internal and external reporting.

- 2) Operational – Effectiveness and efficiency of the University’s operations and use of resources.
- 3) Compliance – Compliance with laws and regulations as well as compliance with University policies and procedures relating to auditing.
- 4) Reputational – Risks that affect the University’s reputation and public relations matters.

Assess the steps the University has taken to mitigate such risks or exposures.

- Obtain reports concerning any financial fraud resulting in losses in excess of \$10,000 or involving University officers, deans or vice presidents.
- Provide oversight regarding the University’s conflict of interest and code of conduct policies and related procedures.
- Review and assess the adequacy of this Charter on a three-year basis or more frequently if deemed necessary.

The above-described audit responsibilities supplement the audit responsibilities of the executive vice president and chief financial officer, the executive director of University audits, and ultimately the president, who are responsible for, among other things, planning or conducting audits or determining that the University’s financial statements are complete, accurate and in accordance with generally accepted accounting principles. These officers are also responsible for the preparation, presentation, and integrity of the University’s financial statements and for the appropriateness of the accounting principles and reporting policies used by the University. Independent auditors retained by the University are responsible for auditing the University’s financial statements.

C. Investment Responsibilities

The following are the investment responsibilities of the FAI Committee, which may be modified or supplemented as appropriate:

- Review investment policies including investment goals, model asset allocation, distribution policies and performance benchmarks.
- Review investment costs, including cost of internal management, fees to outside managers, custodial, reporting and brokerage fees.
- Review performance of investments compared to relevant benchmarks or indices.

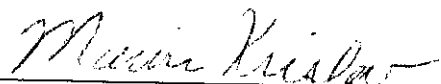
IV. Resources and Authority

The FAI Committee may investigate any matter brought to its attention with full access to all books, records, facilities, and personnel of the University. The FAI Committee may engage independent counsel and other advisors as it determines necessary to carry out its duties at University expense.

V. Adoption of Charter

The Board of Regents has adopted this charter on _____, 2004.

Respectfully submitted:



Marvin Krislov
acting as Vice President and Secretary of the University

February 2005