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EmoryReport

June 7, 2004

For-profit legislation has effect on Emory

By [Eric Rangus](#)

In response to new legislation arising from recent corporate accounting scandals, Emory is strengthening its financial reporting system by adopting several practices from the for-profit world, and the changes should be in place by the end of this fiscal year.

Chief among them is that President Jim Wagner and Mike Mandl, executive vice president for finance and administration, will sign future University audit report certifications; Michael Johns, executive vice president for health affairs, and John Fox, president of Emory Healthcare (EHC), will do the same for EHC certifications, taking accountability for the validity of the University's financial numbers.

The Sarbanes-Oxley Act of 2002 was passed to improve the accuracy and reliability of corporate financial disclosures, thereby protecting investors. The act mandates the independence of auditors and calls for codes of ethics for business practices, as well as several other "good-governance" standards.

"Today the act doesn't apply to colleges and universities, but it is inevitable it will in the future and we should get out in front and adapt as many of these good-governance policies as make sense," Mandl said.

That was the thought last fall when the Board of Trustees (BOT) asked several upper-level administrators to look into streamlining Emory's financial reporting. According to Bill Mulcahy, chief audit officer, many board members deal with Sarbanes-Oxley in their for-profit businesses, so they are familiar with the guidelines.

"We're taking things like ethics, conflict-of-interest policies and auditor independence very seriously," Mulcahy said. "There is no reason we shouldn't do the same things for-profit businesses do."

Emory used an advisory report by the National Association of College and University Business Officers (NACUBO) to help determine best practices. The University already engages in many of them (ensuring the independence of its financial auditor, KMPG, is a longtime business practice), but the audit committee's examination revealed some activities that can be streamlined.

The new certification process includes more than upper administrators. The process also includes subcertification, where financial managers from across campus will

sign off on their financial reports. Mulcahy, along with members of Mandl's office, have been hosting training sessions for these financial managers.

"We live in a very decentralized, distributed internal-control system," Mulcahy said. "Many people outside the central administration are the ones actually doing the work and are responsible for things."

The subcertification process doesn't change any financial processes, but the addition of a signature gives the signer ownership of the work. "Many people's reaction is, 'If I have to sign that, I need to take a closer look,'" Mulcahy said. "This is kind of a pyramid for internal controls. The top administrative people sign off, but they need a basis for that signature."

"I don't think I could ask anyone to do something I wouldn't be willing to do myself," Mandl said about signing Emory's final financials. "This raises everyone's responsibility."

These new documentation processes will be reviewed over the summer, so that any necessary changes can be input before fiscal-year end, Aug. 31. The audit reports that are finalized by Oct. 10 will include everyone's signatures.

On May 26, financial managers held a question-and-answer meeting in Woodruff Library's Jones Room. The informative session generated a great deal of discussion, and Mulcahy is compiling a FAQ for distribution.

Other efforts in response to Sarbanes-Oxley include developing a written code of ethics for investment and financial managers, and expanding an EHC auditing/accounting/internal controls complaint hotline (sometimes known as "whistleblowing") to cover the rest of the University community. Financial experts also will be identified for both the University and EHC audit committees. These efforts are planned for an Aug. 31 rollout as well.

"Emory is not a public company, but we are asking people to invest in us," Mandl said. "They should be assured that we have ethical management and quality financial reporting."

One bonus of these changes is that most come free of charge. Significant costs would only occur if Emory chooses to audit internal controls—something required of many for-profit companies, but which to date no university has performed. Mulcahy said while Emory, along with several other schools, is at the forefront of instilling the best practices brought on by Sarbanes-Oxley, there is no intention to be a pioneer in the area of costly internal-control auditing. But, he added, Emory will keep an eye on the wider academic community, and if it becomes an accepted practice, the University may follow suit.

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