

**THE UNIVERSITY OF TENNESSEE BOARD OF TRUSTEES  
AUDIT COMMITTEE  
SEPTEMBER 19, 2008, MEETING MINUTES**

Audit Committee members present: Chairman Mr. James Hall, Mr. Waymon Hickman, Mr. Douglas Horne

Absent: Mr. D. Crawford Gallimore, Mr. James Murphy

UT: Mr. Mark Paganelli, Mr. Charles Peccolo, Mr. Ron Maples, Dr. Gary Rogers, Dr. Susan Martin, Mr. John Fox, Ms. Judy Burns, Mr. Bill Moles

State Audit: Mr. Bob Hunter

Mr. James Hall called the meeting to order in Knoxville. Mr. Hall discussed minutes of the last meeting. There were no additions or corrections. A motion was made by Mr. Hickman to accept the minutes; the motion was seconded by Mr. Horne, and the minutes were approved unanimously.

**Knoxville Academic Program Review** – Dr. Susan Martin, interim provost and vice chancellor for academic affairs at the Knoxville campus, presented an overview of the academic program review process at UTK. The process began in 1974 with a systematic review of graduate programs and was expanded in 1979 to include all academic programs. It is the primary means of assessing the quality of teaching, research, and service at the university. The program is structured -so that every department is fully evaluated every 10 years, with a mid-cycle review three years after the full review.

The review addresses numerous indicators of program quality, including factual information about the number of faculty, degrees, and publications. The review team consists of two external reviewers (chosen from similar programs or of better quality, by looking at national rankings) and three internal reviewers. The process spans 2 ½ days and includes meeting with students, faculty/staff, collegiate deans, and administrators.

The team's report identifies the strengths and weaknesses of the program, and the review coordinator follows up on the findings with the dean and department head. The recommendations are important because the academic review produces a substantive set of documents related to every program which is used in planning at all levels. The review is submitted to THEC for performance funding. Three years later, the mid-cycle review is conducted. This gives the department enough time to act on the recommendations. In the mid-cycle review, one of the external evaluators and three internal evaluators spend 1 ½ days preparing a report addressing the issues from the first review and present any new issues.

The process has been very useful in providing a systematic, uniform way of reviewing every department on the basis of common data gathered in a similar fashion. It also allows external insight and helps in planning and establishing priorities for the annual budget process.

Mr. Horne asked if costs were reviewed as part of this process. Dr. Martin advised that total budget, research funding, and student/teacher credit-hour ratios are included in the review.

Mr. Hall inquired about the length of time to perform the review. Dr. Martin explained that a department may spend up to a year gathering data and performing a self-study. Mr. Hall asked if the external evaluators are paid, to which Dr. Martin responded they are paid \$500 for 2 ½ days' work. He asked if

external rankings are reviewed, and Dr. Martin said they review rankings of both graduate and undergraduate programs, national research council rankings, and what peers are doing.

Mr. Hall asked if performance for faculty and staff is included in the review. Dr. Martin explained the review focuses more on faculty performance than on support staff. Mr. Horne asked if recent grads are part of the review process. Dr. Martin responded that grads are not sufficiently independent, but the review does look at job placement and how graduates are doing.

**Compliance Update** – Mr. Bill Moles, director of compliance, presented an overview of the new institutional compliance program and proposed governing structure and responsibilities for this office. He explained that he is currently the only staff member in the office and he reports to the Audit Committee through Audit and Consulting Services. It is proposed that the compliance function report to an Executive Committee of senior management which can address concerns identified. Mr. Moles explained that pockets of compliance professionals exist throughout the university and he will coordinate efforts with them and inform senior management of risks they identify. Mr. Hall asked if written reports on compliance will be submitted to the committee and was advised that was not the intent, but compliance updates will be a standing agenda item at the Audit Committee meetings. Mr. Moles also explained that this office would monitor and evaluate current compliance efforts. Mr. Hall asked how one person would accomplish this, and Mr. Moles explained that working committees of current employees will be assembled to address problems and that priorities will be established to focus on the higher risk areas. Mr. Hall requested a timeline on this effort at some point and asked the Memphis compliance office to provide an overview at the next Audit Committee meeting.

**UTMG Discussion** – At the last meeting, the committee authorized the university to request proposals for a consulting firm to examine the relationship between UTHSC and the UT Medical Group (UTMG). A proposal was developed and sent to 10 consulting firms. Three bids were received, and ECG Consulting in Boston was selected. Their work will be on an hourly basis, with the amount not to exceed \$247,500. Mr. Hall stated he feels this review is extremely important and was pleased we have selected someone and hopes we can move forward and have a report, or at least a preliminary report, for the next meeting in Memphis. The timeframe listed in the proposal was 12 weeks. Mr. Hall requested information on three Tennessee studies the firm listed in their proposal.

Mr. Horne indicated that, as chairman of the cost study, he wants to become more familiar with the UT Health Science Center's operations and plans to visit East Tennessee State (ETSU) and UTHSC in Memphis. He asked why ETSU receives a larger percentage of their budget from state funds. Dr. Gary Rogers explained it is partly because ETSU is primarily a medical school. He stated the Health Science Center has the full range of health professions, including dentistry, pharmacy, and allied health, so the two operations are distinct and different operations of different sizes.

**State Audit Report** – Mr. Bob Hunter, audit manager with the State Comptroller's office, advised that they are midway through the audit process that began in May. He said last year's finding regarding the over-award of financial aid in Memphis seems to be corrected. State Audit has a separate group studying the UTMG concern, but he feels the university is headed in the right direction. He stated the only current concern involves pledge accountability, but they are still reviewing this matter. Mr. Hall asked if they are getting all the cooperation needed, and Mr. Hunter responded that they are. Mr. Horne asked who is responsible for collecting pledges and was advised that the Development offices were assigned this task.

**Risk Assessment** – The university’s chief business officers recently updated their financial risk assessment, and the results were presented to the committee. The new risks identified related to reduced funding and inability of the university, its students, or vendors to obtain credit.

**Internal Audit Staffing** – At the last meeting, Mr. Hall asked how UT Internal Audit staff compares with universities of similar size. Mr. Paganelli presented a comparison of other systems of higher education and other southeastern schools to the committee. The comparison was based on assets, budget, and number of employees. Mr. Paganelli stated a vacant position was eliminated last year and in the budget shortfall in 2004 the Martin Internal Audit office was eliminated, with two people laid off.

Mr. Paganelli advised that a study commissioned by the University of California system, the Association of College and University Auditors, and the Institute of Internal Auditors is being conducted to create criteria for determining the staff size of an internal audit department. After the study is completed, Mr. Paganelli will use it to benchmark the staff and present to the committee. Mr. Hickman stated the UT Internal Audit office is responsible for five campuses and all 95 counties and did not feel they were overstaffed. Mr. Hall stated he would like to continue to monitor the staffing, particularly now that the number of auditors has been reduced. Mr. Hall asked how the assets were calculated for the comparison of schools and was told the data was taken from their balance sheets. Mr. Horne asked how auditors are evaluated, and Mr. Paganelli indicated they are evaluated after each audit, and then again annually.

**Exceptions in Travel Expenditures** – The only travel exception noted for the president’s staff was for Ms. Joan Cronan, director of Women’s Athletics, who took three non-dependent guests at the university’s expense to the Women’s Final Four. Dr. Rogers stated this exception was approved.

**Housing Exception Report** – No exceptions were reported.

**President’s and Chancellors’ Discretionary Expenditures** – No exceptions were noted.

With no further agenda items, the meeting was adjourned.

Respectfully Submitted,

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Mark A. Paganelli, CPA, CIA  
Executive Director, Internal Audit  
The University of Tennessee