

THE UNIVERSITY OF TENNESSEE
BOARD OF TRUSTEES

MINUTES OF THE AUDIT COMMITTEE

April 27, 2015
Nashville, Tennessee

The Audit Committee of The University of Tennessee Board of Trustees met at 9:30 a.m. CDT on April 27, 2015, in the offices of Bradley Arant Boult Cummings in Nashville, Tennessee.

I. CALL TO ORDER

Mr. D. Crawford Gallimore, Chair, called the meeting to order.

II. ROLL CALL

Ms. Sandy S. Jansen, Executive Director, called the roll, and the following Audit Committee members were present:

Mr. D. Crawford Gallimore
Mr. Spruell Driver
Mr. Waymon Hickman, external member
Mr. James L. Murphy
Mr. Tommy Whittaker

Mr. Hickman was not present at the time of the Roll Call but arrived shortly thereafter. Ms. Jansen announced the presence of a quorum of the Committee. Members of the administrative staff were also present.

III. APPROVAL OF MINUTES FROM LAST MEETING

Chair Gallimore asked for any corrections to the December 8, 2014, minutes. Hearing none, Trustee Driver moved approval of the minutes as presented, and Trustee Whittaker seconded, and the motion carried unanimously.

IV. DIVISION OF STATE AUDIT

Mr. Bob Hunter, Division of State Audit, presented the Financial and Compliance Audit of The University of Tennessee (Exhibit 1) and the Agreed-Upon Procedures for the University's Athletics Departments (Exhibit 2).

V. AUDIT COMMITTEE CHARTER

Ms. Sandy Jansen presented the revised Audit Committee Charter (Exhibit 3). Trustee Whittaker moved approval of the charter as presented, and Trustee Driver seconded, and the motion carried unanimously.

VI. ATHLETICS DEPARTMENTS' FINANCIAL TRENDS

Mr. Julio Freire, Director of Intercollegiate Athletics for The University of Tennessee at Martin (UTM), presented the financial trends for UTM Athletics (Exhibit 4).

Dr. Joe DiPietro, University President, asked about the 11 percent decrease in student fees. Mr. Freire explained how the decrease aligns with the decrease in enrollment at UTM and how to balance the budget with an increase in student fees or an increase in student enrollment.

Mr. David Blackburn, Vice Chancellor and Director of Athletics, and Mr. Rob Robinson, Associate Athletics Director, both of The University of Tennessee at Chattanooga (UTC), presented the financial trends for UTC Athletics (Exhibit 5).

There was discussion on student fee increases, and Chair Gallimore asked whether Athletics had achieved student government buy-in on increases. Mr. Blackburn indicated the increases occurred before his arrival; however, he understood there was support from student government.

Dr. DiPietro asked about ticket sales revenue, and Mr. Blackburn explained that increased attendance is driving up revenue.

Mr. Brett Huebner, Senior Associate Athletics Director, presented the financial trends for The University of Tennessee, Knoxville (UTK) (Exhibit 6).

The Committee discussed the SEC Network revenue forecasts, and Mr. Huebner anticipates that Athletics will receive an early distribution affecting the 2015

financial statements. Chair Gallimore asked about home game guarantees and discussed opportunities for UTK to play other schools in the UT System.

Trustee Driver asked Mr. Huebner to elaborate on direct institutional support. He explained that the direct institution support was used to fund the football coaching transition and to cover severance payments.

There was also discussion about indirect institutional support. Mr. Huebner indicated peers in the conference had not been reporting indirect support because it is difficult to ascertain. The University changed how it reports indirect support and no longer reports an amount.

Trustee Driver asked about terminations of coaches and contract provisions related to buyouts. There was discussion on this issue. Dr. DiPietro indicated Matthew Scoggins, Deputy General Counsel, has been able to improve the current coaches' contracts.

VII. IT SECURITY ASSESSMENT ACTION PLANS

Mr. Robert Ridenour, Executive Director, provided an update on the progress related to the recommendations in the BerryDunn report for the Institute of Agriculture (Exhibit 7).

Chair Gallimore asked Mr. Ridenour to detail how much of the work was in progress before the BerryDunn assessment. He responded that work had started on the survey process, but awareness training had not begun and incident response was not statewide before the assessment. Based on Chair Gallimore's question, Mr. Ridenour commented that his biggest concern is changing the culture related to information technology security and the end-user. The Institute of Agriculture has focused efforts to change the culture for end-users.

Mr. Scott Gordy, Chief Information Officer, provided an update on the progress related to the recommendations in the BerryDunn report for the Institute for Public Service (Exhibit 8).

Chair Gallimore asked Mr. Gordy which issues caused him the most concern. Mr. Gordy indicated he is most concerned about what might have been missed through the work he and his team conducts.

Mr. Brent Hobby, Chief Information Security Officer, provided an update on the progress related to the recommendations in the BerryDunn report for The University of Tennessee System (Exhibit 9).

Dr. DiPietro asked about consequences for end-users who do not attend security training. Mr. Hobby explained that certain campuses have tighter controls to ensure attendance at training. Mr. Hobby also commented that he wants to help UT maintain leadership and focus on IT security and encouraged the Committee to continue IT security updates.

Additional written reports were submitted by UTK (Exhibit 10), UT Health Science Center (Exhibit 11), UTC (Exhibit 12), and UTM (Exhibit 13).

VIII. INSTITUTIONAL COMPLIANCE

A written report was submitted by Mr. Bill Moles, Director of Compliance, regarding the status of Institutional Compliance (Exhibit 14).

IX. AUDIT AND COMPLIANCE STAFFING

Ms. Sandy Jansen presented an update on audit staffing. There was discussion of Memphis positions, the competitive market for auditors in Memphis, and recruitment strategies.

X. 2015 AUDIT PLAN UPDATE

Ms. Jansen presented an update on the audit plan (Exhibit 15). Chair Gallimore asked about the information technology audits, which were slated for cancellation. Ms. Jansen responded that, because of staff turnover in the IT audit area, two projects were cancelled and will be considered for the upcoming year's plan.

XI. OFFICE OF AUDIT AND COMPLIANCE ANNUAL REPORT AND MEASURES

Ms. Judy Burns, Associate Director, presented the Office of Audit and Compliance's performance metrics (Exhibit 16) as part of the ongoing quality assurance program and the 2015 Report of Accomplishments (Exhibit 17).

Trustee Murphy asked whether the audit team felt that controls are catching issues sooner. There was discussion about some of the areas with strong controls

in place and the focus on departmental audits to review controls at the departmental level. The team also discussed the plan to implement and promote a hotline system.

XII. EXTERNAL AUDIT REPORTS

Ms. Jansen presented the external audit reports included in the meeting materials (Exhibit 18). All external audit reports received an unmodified opinion.

XIII. TRAVEL EXCEPTION REPORT

A written report was submitted by Mr. Charles Peccolo, University Treasurer, regarding travel exceptions (Exhibit 19). There were five minor exceptions.

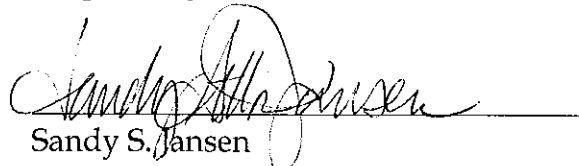
XIV. OTHER BUSINESS

The Chair called for any other business to come before the Audit Committee. There was none.

XV. ADJOURNMENT

There being no further business to come before the Audit Committee, the meeting was adjourned.

Respectfully Submitted,


Sandy S. Jansen
Executive Director
Audit and Compliance