

THE UNIVERSITY OF TENNESSEE BOARD OF TRUSTEES
AUDIT COMMITTEE
APRIL 30, 2010, MEETING MINUTES

Audit committee members present: Chairman Mr. James Hall, Mr. D. Crawford Gallimore, Mr. Waymon Hickman

Audit committee members absent: Mr. Doug Horne, Mr. Jim Murphy

UT: Mr. Mark Paganelli, Mr. Tony Ferrara, Dr. Kennard Brown, Mr. John Fox, Ms. Judy Burns, Mr. Charles Peccolo, Mr. Brian Gard, Mr. Ron Maples, Mr. Bill Myers, Mr. Tyler Johnson, Dr. Katie High, Ms. Gina Stafford, Mr. Anthony Haynes, Campus Safety Officers

State Audit: Mr. Art Hayes, Mr. Bob Hunter, Mr. Chaz Taplin, Mr. Ed Burr

Mr. James Hall called the meeting to order. Mr. Hall discussed the minutes from 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. Gallimore, and the minutes were approved unanimously.

Financial Statements for the Athletics Department – Mr. Bill Myers and Mr. Tyler Johnson, with the UTK Athletics department, reviewed the department’s financial information for fiscal year 2009. The financial statements are prepared each year by the State Audit office in accordance with agreed-upon procedures prescribed by the NCAA. Mr. Myers stated it was a difficult year for two reasons: the economy and a coaching change. He said revenues exceeded expenses by approximately \$3 million. He stated Athletics would have increased reserves for the year except the coaches’ buyouts, totaling \$6.5 million, had to be recorded in this fiscal year even though they will be paid in the next several years.

Mr. Hickman asked about the CBS contract; Mr. Myers responded it will take effect in 2010, an approximate increase of \$5 million. Mr. Hall asked about the \$10 million in student aid; Mr. Myers stated the aid is comprised of all funds paid on behalf of the male and female student-athletes in the program and contributions to the university for scholarships to non-student-athletes.

Mr. Hall inquired about the “guarantees” expenditure and was informed it is the amount non-conference schools are paid to participate in a UT Knoxville (UTK) home football game. He also asked about the student fees; Mr. Myers responded they are funds assessed to the UTK students and \$1 million is earmarked for Women’s Athletics.

Mr. Myers then explained facilities and administrative support. He stated this amount is comprised of the cost of using facilities and buildings on campus, the use of Knoxville offices such as Human Resources, and the use of UT system administration offices such as the General Counsel’s and Treasurer’s offices. Mr. Myers stated UT is one of the few universities that reports this item on its financial statements.

Mr. Gallimore asked if funds would be recovered from Coach Kiffin and/or his staff, to which Mr. Myers replied steps are being taken to recover some funds in accordance with their contracts. Mr. Hall requested an explanation of the long-term debt. Mr. Myers said he realizes it is rising to a level of concern. He explained that a large increase will occur in the next five years because Athletics is attempting to pay off portions of the stadium renovation in a five-year period using commercial paper. Mr. Myers felt confident in Athletics’ ability to do this, saying they have revenue streams committed to retire this debt.

Mr. Paganelli reported that direct institutional support of \$4.8 million was provided to UT Chattanooga (UTC), \$3.6 million to UT Martin (UTM), and none to UTK since it is self supporting. Mr. Hall asked

Mr. Paganelli to arrange for the UTC and UTM Athletics departments to be represented next year to discuss their financial statements.

Review of Emergency Management (EM) Plans – Mr. Brian Gard, of UT’s Event Management, presented a progress report on developing the emergency management (preparedness) plans on each UT campus. Each campus representative was available for feedback or questioning. The basis for the EM plans is the Tennessee Emergency Management Agency (TEMA) review. Mr. Gard reported that all plans have been updated to meet the review’s recommendations, but more needs to be done. Mr. Hall asked if any college association provides such support, guidance, or training, but no one knew of anything developed for a university.

Some highlights from the last 12 months are: UTM and UTK had law enforcement training in cooperation with local first responders; UTC provided leadership awareness training; UT Health Science Center (UTHSC) held Campus-Community Emergency Response Team training; and emergency services coordinators attended two-day TEMA training, with EM training for all.

The emergency management staff is aware that the operational and planning requirements have rapidly outgrown their best efforts to keep up. UTC hired an emergency management specialist; UTHSC is hiring a contractor to update plans; UTK has a search in progress for a director of emergency management; UTM’s EM duties were assigned to Scott Robbins, director of Campus Police. The UT system administration does not plan to add additional staff, depending on what is expected. Mr. Gard felt resources could be better used at the campuses.

Campuses are also applying for a U.S. Department of Education Emergency Management grant.

Mr. Hall suggested that the campuses learn from each other and use each other as peer reviewers. Mr. Gard confirmed they were sharing best practices but felt they could do better. Mr. Hall stressed having a chain of command in place for worst-case scenarios and recommended reviewing a Virginia Tech parent’s lawsuits to use for a checklist because it would likely list all of the things the campus failed to do. Each campus was asked its primary concern: UTK stated the railroads; UTC stated a fire in the non-sprinkler buildings; UTHSC stated the majority of its buildings not being able to withstand an earthquake. Mr. Hickman voiced a concern of offsite computer backups, and the campuses felt confident in their progress in that area.

Update on Physician Practice Plans – Dr. Ken Brown, UTHSC executive vice chancellor and chief of staff, reported that the campus has begun to systematically restructure UT Medical Group (UTMG). The first step is forming a partnership between pediatrics and Le Bonheur hospital, part of the Methodist system. UTHSC has just received approval from General Counsel on the structure and is ready to submit it to the State Attorney General’s office. They have also asked the Comptroller’s office to review from a financial perspective. They continue to do background work for removing pediatrics from UTMG. They felt they are on track and that the flow of funds from this future agreement will create new revenue for the university.

Dr. Brown stated a different scenario exists with the Erlanger faculty practice. He said UTHSC has taken two steps forward and one back in multiple instances. Dr. Brown explained that, due to the varying opinions of the parties involved, they might need Mr. Hall to help them determine the best course of action for the College of Medicine in Chattanooga regarding a practice plan.

Dr. Brown added that UTHSC assumed responsibility for the UTK Speech and Audiology program, which was not doing a good job collecting money. Money was owed to them by insurance companies and other entities. They have since started to collect those revenues. He stated plans are being developed to sell hearing aids so that the Audiology Clinic can compete in the open market, much like the UTMG,

which will create additional revenue. They felt confident they are moving the program toward sound financial footing.

Financial Statements from UT Foundation, University of Tennessee Research Foundation, University of Chattanooga Foundation, and UT Medical Group – Mr. Paganelli noted these statements are informational items prepared for the committee. The audits are performed by private CPA firms, and all have clean opinions. They were reviewed by Mr. Ron Maples, Mr. Charles Peccolo, and Mr. Paganelli. The foundation's investments declined, and Mr. Hickman felt that it was important that the foundations be audited and the results reported to their boards.

Internal Audit Staff – Mr. Paganelli presented a summary of the accomplishments by the UT Internal Audit department for 2009. He stated the department's staff has more than 230 years of audit experience, an average tenure of 9 years with the department, and several certified public accountants and internal auditors on staff. He stated Internal Audit was asked to cut 19 percent of the budget, resulting in a vacant position being eliminated, and 3 positions will be cut on June 30, 2011. During the year, auditors performed 35 audits, 22 investigations, 4 information technology reviews, 5 management studies, 66 procurement card audits, and 22 equipment audits. An overview of the more significant reviews was provided. In addition to conducting the audits, the staff provided training and served on committees. Mr. Gallimore asked what kind of support the department receives from the campuses, and Mr. Paganelli reported that Internal Audit has a good working relationship with each campus.

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

Exceptions in Travel Expenditures – Three minor exceptions were noted.

Housing Exception Report – No exceptions were noted.

Respectfully Submitted,

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