

THE UNIVERSITY OF TENNESSEE
BOARD OF TRUSTEES

MINUTES OF THE AUDIT COMMITTEE

May 8, 2012
Knoxville, Tennessee

A meeting of the Audit Committee of the Board of Trustees of the University of Tennessee was held at 1:00 p.m., EDT, May 8, 2012, in the 8th floor conference room of Andy Holt Tower.

I. CALL TO ORDER

Mr. James E. Hall, chair, called the meeting to order.

II. ROLL CALL

Mrs. Sandy S. Jansen, executive director, called the roll, and the following Audit Committee members were present:

Mr. D. Crawford Gallimore
Mr. James E. Hall
Mr. Waymon Hickman, external member
Mr. Douglas A. Horne
Mr. Don C. Stansberry Jr., ex officio

Mrs. Jansen announced the presence of a quorum of the committee. Other members of the administrative staff were also present.

III. APPROVAL OF MINUTES FROM LAST MEETING

Trustee Hall asked for any corrections to the December 16, 2011, minutes. Hearing none, Trustee Gallimore moved approval of the minutes as presented. Trustee Stansberry seconded the motion, and it carried unanimously.

Trustee Hall asked for any corrections to the January 27, 2012, minutes. Hearing none, Trustee Gallimore moved approval of the minutes as presented. Mr. Hickman seconded the motion, and it carried unanimously.

IV. STATE AUDIT UPDATE

Mr. Robert D. Hunter Jr., CPA, audit manager for the Division of State Audit, presented the financial and compliance audit report for the University of Tennessee (Exhibit 1). The state auditors issued an unqualified opinion for the year ended June 30, 2011. There were no accounting or reporting audit findings; however, four findings related to federal compliance were presented. The first finding was a result of principal investigators at the UT Health Science Center (UTHSC) and UT Knoxville not ensuring that obligations charged to federal awards were allowable. The federal questioned costs were \$18,096.03. Mr. Hunter indicated the state auditors will follow up on the finding during the next fiscal year audit.

The second finding involved the financial aid staff not properly performing Title IV return-of-funds calculations. The federal questioned costs were \$13,344.38. The state auditors will follow up on this finding to ensure that the university performs this calculation correctly.

The last two findings did not result in questioned costs. One finding concerned the Registrar's office at UTHSC not properly reporting enrollment data, and the other was the result of the Financial Aid office not performing direct loan reconciliations. Management concurred with the findings and has developed plans to ensure compliance. Mr. Hunter indicated the state auditors will follow up to ensure that corrective actions have been implemented.

Mr. Hickman asked about the length of time the university has operated under the federal direct loan program. Mr. Hunter explained that this was the first year under the program and that the university was not aware of the reconciliation requirements.

Trustee Hall and Trustee Gallimore requested information on the number of students with student loans, the average amount of debt, and the default rates for the campuses.

V. FINANCIAL STATEMENTS FOR THE UNIVERSITY'S ATHLETICS DEPARTMENTS

Mrs. Jansen and Mr. Hunter presented the university's Athletics departments' agreed-upon procedures and financial statements (Exhibit 2). They indicated the state auditor performs the agreed-upon procedures as stipulated by the

NCAA. This engagement is not an audit and the state auditors do not issue an opinion on a set of financial statements.

Mr. Phil Dane, athletic director at UT Martin, provided a trend analysis for 2007–2011. He stated most of the revenue variance resulted from an increase in the student activity fee in 2007. He explained that 35 percent of the fee was designated for facility improvements and that the department experienced operating and staffing increases. Mr. Dane also presented 10 items the Audit Committee may not know about UT Martin Athletics.

Trustee Hall asked about oversight of sports camps. Mr. Dane stated Athletics does not provide oversight because all camps are administered by a department in Student Affairs.

Mr. Matt Pope, senior associate athletic director at UT Chattanooga (UTC), presented financial information. He began by discussing the ‘comprehensive excellence’ vision for the department. He said the mission is to guide, encourage, and support student-athletes in their quest for comprehensive excellence— academically, athletically, and socially. He stressed that they prepare students for productive and meaningful lives. He then presented the six core values of integrity, respect, positive attitude, premier service, accountability, and continuous improvement.

Mr. Pope presented a financial trend analysis for 2007–2011. He described normal growth and inflationary expenses. He explained that there had been a concerted effort in the academic, advising, compliance, and fundraising areas, resulting in increased expenses for those areas. He noted the nice return for ticket sales and marketing of programs and discussed decreases in travel, recruiting, and supplies expenses over the same period.

Trustee Gallimore asked about guarantees in the next few years. Mr. Pope explained that the substantial guarantees usually are for football. He discussed some upcoming guarantees for football as well as for the basketball program. There was also discussion on the source of revenue and amounts generated from student fees and how much is generated by Athletics.

Trustee Hall asked about oversight of sports camps. Mr. Pope indicated that UTC is looking to the Southern Conference for policies and procedures to provide more oversight of sports camps. Mr. Hall asked for an update in the future regarding progress on oversight of sports camps and development of policies and procedures.

Mr. Bill Myers, senior associate director of Athletics at UT Knoxville, presented the revenue and expense trends from 2007-2011. Mr. Myers explained that revenues are up about 9 percent in the last five years. The increases are mainly from three sources: increased football ticket prices, added premium contribution levels in the football stadium and basketball arena, and new bowl and television packages. He provided a brief update on the expenses. The majority of the money is primarily going to four areas: student scholarship increases, salary increases, facilities, and transfers back to the campus and institution.

Trustee Stansberry asked about indirect support. Mr. Myers explained that, in the past, indirect support was included in the financials as part of the agreed-upon procedures; however, the University of Tennessee was the only university in the SEC reporting any indirect support. This past year, UT Knoxville did not report indirect support. This practice is consistent with the other SEC athletics departments.

Trustee Gallimore asked about television contracts and the impact that Texas A&M and Missouri will have on the contracts. Mr. Myers indicated that the conference expects to see growth in those contracts in two to three years, but they will be flat for now.

Trustee Gallimore also asked about ticket sales and debt service on the facilities. Mr. Myers indicated there is an overall downward trend in season ticket sales for UT Knoxville and the industry as a whole. He explained that the football training complex should be the last component of debt to be incurred and Athletics does not anticipate incurring further debt.

Trustee Hall asked about oversight provided for sports camps. Mr. Myers stated he feels they have adequate controls. Because of Mr. Dave Hart's (director of Athletics) leadership, Athletics is strengthening controls and reviewing enhanced processes to implement.

VI. AUDIT REPORT ON THE UNIVERSITY OF TENNESSEE FOUNDATION

Mrs. Jansen presented the audit report on the UT Foundation (Exhibit 3). The auditors issued an unqualified opinion for the year ending June 30, 2011.

VII. AUDIT REPORT ON THE UNIVERSITY OF TENNESSEE
RESEARCH FOUNDATION

Mrs. Jansen presented the audit report on the UT Research Foundation (Exhibit 4). The independent auditor issued an unqualified opinion for the year ending June 30, 2011. Mrs. Jansen highlighted deficiencies in internal controls noted in the audit report. Trustee Hall asked who is responsible for following up on items noted in the report. Mr. Hickman responded that he chairs the UT Foundation and that they have formed an audit committee.

VIII. AUDIT REPORT ON THE UNIVERSITY OF CHATTANOOGA
FOUNDATION

Mrs. Jansen presented the audit report on the University of Chattanooga Foundation (Exhibit 5). The independent auditors issued an unqualified opinion for the year ended June 30, 2011.

IX. AUDIT REPORT ON UT MEDICAL GROUP (UTMG)

Mrs. Jansen presented the audit report on UTMG (Exhibit 6). The independent auditors issued an unqualified opinion for the year ended June 30, 2011. Mr. Tony Ferrara, vice chancellor for finance and operations at UTHSC, responded to Trustee Horne's question regarding the tax from UTMG. Mr. Ferrara stated UTHSC bills and receives payments quarterly.

X. AUDIT REPORT ON UT LE BONHEUR

Mrs. Jansen presented the audit report on UT Le Bonheur (Exhibit 7). The independent auditors issued an unqualified opinion for the period from inception ending June 30, 2011.

Mr. Ferrara responded to questions on practice plans and discussed changes in the plans, including moving Pediatrics out of UTMG under a separate plan with UT Le Bonheur. He also discussed the evolving practice plan at Chattanooga. The Health Affairs Committee of the Board of Trustees will review evolving practice plans.

XI. UPDATE ON INSTITUTIONAL COMPLIANCE

Mr. Bill Moles, director of institutional compliance, and Dr. Wes Hines, head of the Nuclear Engineering department and chair of the UT Knoxville

Compliance Committee, provided an update on compliance accomplishments (Exhibit 8).

Dr. Hines said the committee identified 380 compliance issues applicable to UT Knoxville. Members identified and held training for 75 compliance officers who are each assigned one or more compliance issues.

Dr. Hines stated the committee identified two focus areas, environmental and health safety and sponsored projects accounting, because of the number of high-priority risks. Most of the work will involve ensuring that UT Knoxville has proper training programs in place. He said they are working toward a stronger safety culture on campus.

Because the committee is focused on training, members are also considering several enforcement methods to ensure that employees attend required training. They have considered computer lockout so that, if employees do not attend training, they are unable to log onto their computers. Members have also considered the impact on annual evaluations and potentially on raises. He indicated the committee is finalizing plans for training and enforcement to present to the chancellor's cabinet. After the presentation, they will begin implementing the feedback. They will also continue identifying and prioritizing high-risk activities and developing mitigation strategies. He stressed that this work will be an ongoing process on the campus. The committee will always need to identify new risks and determine how to best mitigate them.

Mr. Moles also provided an update on compliance work at UTHSC. All compliance officers have been trained and the risk assessment is underway. Once the assessment is complete, a committee will be formed to start addressing the issues that surfaced.

XII. 2011 ANNUAL REPORT FROM INTERNAL AUDIT

Ms. Judith A. Burns, assistant director and former interim executive director, presented Audit and Consulting Services' annual report (Exhibit 9) for the committee's information.

XIII. ACS STAFFING UPDATE

Mrs. Jansen reported that the department is actively recruiting for two UTHSC auditors and two performance auditors, one IT auditor, and one associate

auditor for Knoxville. She provided information on future plans to work with the Accounting departments at UT Martin and UT Knoxville to continue to have and to grow opportunities for student auditors.

XIV. 2012 AUDIT PLAN

Mrs. Jansen presented the audit plan for approval. Trustee Stansberry moved approval of the 2012 audit plan as presented (Exhibit 10). The motion was seconded by Mr. Hickman, and it carried unanimously.

XV. TRAVEL EXCEPTION REPORT

Mrs. Jansen presented the travel exception report (Exhibit 11) and discussed two exceptions noted.

XVI. HOUSING EXCEPTION REPORT

Mrs. Jansen presented the housing exception report (Exhibit 12), noting no exceptions.

XVII. OTHER BUSINESS

The chair called for any other business to come before the committee. There was none.

XVIII. ADJOURNMENT

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

Respectfully Submitted,


Sandy S. Jansen, Executive Director
Audit & Consulting Services