

**THE UNIVERSITY OF TENNESSEE BOARD OF TRUSTEES
AUDIT COMMITTEE
OCTOBER 29, 2009, MEETING MINUTES**

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

UT Board Members: Mr. Charles Wharton, Mr. George Cates

UT: Mr. Mark Paganelli, Mr. Bill Moles, Dr. Jan Simek, Mr. Tony Ferrara, Dr. Kennard Brown, Dr. Steve Schwab, Mr. John Fox, Ms. Judy Burns, Mr. Charles Peccolo, Dr. David Seaberg, Dr. Jim Neutens, Mr. Tim Mashburn, Mr. Brian Gard, Mr. Bill Miller, Mr. Steve Bamburg, Dr. Roger Brown, Dr. Philip Oldham.

State Audit: Mr. Bob Hunter

UTMG: Mr. Steve Burkett

Others: Mr. Russell Ingram

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. Murphy, and the minutes were approved unanimously.

Dr. Roger Brown, chancellor of UT Chattanooga, welcomed the committee and gave a brief overview of initiatives and accomplishments at the UTC campus. The committee and guests then toured the new aquatic and recreation center.

UTMG Review – The audit committee previously hired the consulting group ECG, whose consultants made 31 recommendations for improving the University of Tennessee Medical Group's (UTMG) operation. Drs. Steve Schwab and Kennard Brown provided an update on ECG's 10 recommendations with the highest priority, showing that significant progress had been made. The Health Science Center also engaged ECG to advise campus administration on future relationships with Le Bonheur children's hospital in Memphis and Erlanger hospital in Chattanooga. For Le Bonheur, ECG recommended forming a separate pediatric physicians practice plan. They stated that Le Bonheur was willing to make a substantial investment in such a plan in return for participating in its governance. The plan would remove a large part of UTMG's operations to a separate, stand-alone practice group. Mr. Steve Burkett, president and CEO of UTMG, stated he endorsed this recommendation. For Erlanger, ECG recommended forming a multi-specialty physicians practice plan, enabling the College of Medicine at Chattanooga to better align itself with Erlanger hospital and provide the physicians needed. Mr. Hall motioned that the audit committee endorse ECG's recommendations for moving forward with agreements with Le Bonheur and Erlanger. Mr. Murphy seconded the motion, and it was approved unanimously.

State Audit Report – Mr. Bob Hunter, audit manager with the State Comptroller's office, reported they feel comfortable with the steps taken to resolve the two findings in the prior audit. The Knoxville Athletics department is now processing its gifts through the ANDI system, so there are no longer two separate systems to reconcile. He also noted Advancement Services developed a write-off policy and the office has been performing quarterly write-offs since January 2009. He said \$5.2 million in delinquent receivables has been written off. Regarding the current audit, Mr. Hunter stated his office is in the middle of the fiscal-year 2009 audit and is on schedule, adding they have encountered very few problems and currently have no issues.

Review of Emergency Management Plans – Mr. Jerry Jackson, former UT Board member, requested through the Board’s Executive Committee that Audit and Consulting Services (ACS) review the emergency management (preparedness) plans on each campus. Ms. Judy Burns, assistant director of ACS, oversaw this effort and provided an update. She stated the plans from the university’s five campuses were submitted to the Tennessee Emergency Management Agency for a desk review and they provided a written report summarizing their review. Ms. Burns provided the committee an overview of the strengths and weaknesses of each campus’s plan. One overall weakness for most campuses was the lack of actual drills or live exercises. Mr. Hall asked about the resources devoted to this and was advised that each campus has a representative devoted to emergency preparedness, but the representatives also have other university responsibilities. Mr. Brian Gard, director of Special Events, was introduced to the committee and explained his role as the emergency management coordinator for the UT system. Mr. Hall asked if the responsible staff could provide an update at the next audit committee meeting. He felt this is an important area that needs the appropriate attention and resources.

Compliance Update – Mr. Bill Moles, director of UT’s Institutional Compliance office, provided an update on his work. The office is developing an online risk assessment tool that will allow compliance officers from across the UT system to report significant risks. This information can then be used to request additional resources and/or take corrective action to mitigate the risks. A revised code of conduct has been reviewed by general counsel and is awaiting approval from the campus Human Resources officers before it can be finalized and communicated to the university community.

Capital Projects Review – At a recent Board of Trustees retreat, concerns were expressed about the university’s capital projects process. President Jan Simek has requested Audit and Consulting Services to review this area and provide recommendations. Mr. Mark Paganelli, ACS executive director, informed the committee that the office is in the preliminary stages of this review.

2010 Internal Audit Plan – The 2010 audit plan was presented to the audit committee. The plan included required projects such as audits of the chancellors’ offices, public radio stations, NCAA compliance, and the annual self-assessment of controls. The plan emphasizes reviews of the federal stimulus funding and operational/program audits of purchasing, surplusing equipment, capital projects, and the UTC arena. ACS also plans to have a peer review conducted of its operations by internal auditors from other universities. Mr. Paganelli requested approval of the plan. Mr. Gallimore motioned for approval; Mr. Murphy seconded the motion, the committee unanimously approved it.

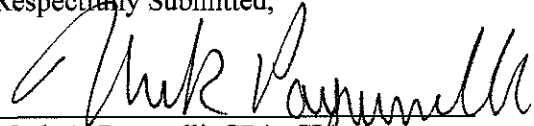
President’s and Chancellors’ Discretionary Expenditures – No exceptions were noted.

Exceptions in Travel Expenditures – No exceptions were noted.

Housing Exception Report – No exceptions were noted.

With no further agenda items, the meeting was adjourned.

Respectfully Submitted,



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