THE UNIVERSITY OF TENNESSEE
BOARD OF TRUSTEES

MINUTES OF THE AUDIT AND COMPLIANCE COMMITTEE

April 17, 2019
Knoxville, Tennessee

The Audit and Compliance Committee of The University of Tennessee Board of Trustees met at 2:00 p.m. EDT on April 17, 2019, in the Andy Holt Tower in Knoxville, Tennessee.

I. CALL TO ORDER

Ms. Amy Miles, Chair, called the meeting to order.

II. ROLL CALL

Ms. Judith A. Burns, Interim Chief Audit and Compliance Officer, called the roll, and the following Audit and Compliance Committee members were present:

Ms. Amy Miles
Mr. D. Crawford Gallimore (by telephone)
Mr. Decosta Jenkins (by video)
Mr. John Compton (by telephone)

Ms. Burns announced the presence of a quorum. In compliance with the Open Meetings Act, Mr. Compton, Mr. Gallimore, and Mr. Jenkins indicated no others were present at their locations. In addition, participating by telephone were members of the Division of State Audit, including Ms. Deborah Loveless, director, and Mr. Brent Rumbley, information systems audit manager. Those present in Knoxville included Mr. Bob Hunter, audit manager in the Division of State Audit; Mr. Anthony Ferrara, UT Health Science Center (HSC) vice chancellor for finance and operations; and members of the UT administrative staff.

III. APPROVAL OF MINUTES FROM LAST MEETING

Chair Miles asked for any corrections to the March 15, 2019, minutes. Hearing none, Mr. Gallimore moved approval of the minutes as presented, and Mr. Jenkins seconded. A roll call vote followed, and the motion carried unanimously.

IV. UTHSC PRACTICE PLANS

Mr. Ferrara discussed the University's affiliation agreements with several hospitals and physician practice plans as described in the meeting materials. He stated that because HSC does not own a hospital, no hospital revenues are available to support academic and research growth. He explained though HSC created a practice plan in the mid-1970s to provide clinical practice opportunities for faculty physicians, significant changes in health care in the late 2000's led HSC to create additional practice plans, in part, to develop a sustained revenue stream to support HSC's mission. Mr. Ferrara said each of the practice plans is unique, though all are intended to support the academic mission with no financial risk to the University. Referring to charts in the meeting materials, he noted the net patient revenue generated by the practice plans is not part of HSC's budget and is under joint oversight of HSC and each plan. The mission support payments, he continued, are most important, though he cautioned that the entire amount of the mission support payment from Le Bonheur Children's Hospital, which is the largest of these payments, is used to cover deficits for the UT Le Bonheur Pediatric Specialists (ULPS), the pediatric practice plan.

Mr. Gallimore commented that UT is one of the few academic medical centers that does not own a hospital. Mr. Ferrara observed that medical centers began divesting themselves of hospitals 20-25 years ago—as UT did with the UT Medical Center at Knoxville and the Bowld Hospital in Memphis.

Chair Miles asked about the governance structure for the practice plans and the reason each is structured differently. Mr. Ferrara stated that all of the governing boards contain representation from HSC. Typically, he explained, each board includes two of the following officials: the UTHSC chief business officer (Mr.

Ferrara's position), the executive vice chancellor and chief operating office, the executive dean of the college of medicine, or the chancellor. The unique structure of each plan—for example, a limited liability company or a 501(c)(3) corporation—depended on past practice of the affiliated hospitals.

Chair Miles also asked how the Committee should think about risk with regard to these plans, given the myriad of governing structures and financial arrangements. Mr. Ferrara reiterated that each affiliation agreement limits the University's financial liability and, therefore, poses no financial risk. He noted that even though the affiliation agreement with ULPS (the pediatric practice plan) requires HSC to share any practice plan losses with the affiliated hospital, it contains a provision that the University will not be obligated to reimburse the plan any amount above what the affiliated hospital provides the University through a mission support payment.

Chair Miles then asked about other types of risks. UT Board Secretary Catherine Mizell responded that the Committee should consider reputational risk because all of the agreements involve the University's brand.

Referring to Mr. Ferrara's statement that the original practice plan (formerly known as UT Medical Group and now as University Clinical Health) historically had little campus oversight, Secretary Mizell asked about the current governance structure, given that the original plan has been streamlined and renamed. Mr. Ferrara explained the plan has a board that includes the HSC executive vice chancellor and chief operating officer and the executive dean of medicine.

The Secretary asked whether there is a new affiliation agreement with University Clinical Health since the restructuring. Mr. Ferrara replied that HSC needs to update the agreement because it was last updated in 2009. The Secretary inquired whether the 2009 agreement clearly states that the University is not liable for the plan's financial losses, and Mr. Ferrara stated that he did not know. The Secretary commented that, unlike the newer practice plans, University Clinical Health does not involve a partner hospital to share in any losses. She referred to a significant loss the University had covered before UT Medical Group was restructured into

University Clinical Health. Mr. Ferrara explained that loss resulted from a past HSC administration's failure to collect "the dean's tax" from the plan. Ms. Burns noted that this failure required the University to seek approval from the State Comptroller to write off over seven million dollars.

So that the Committee could understand the reason for reviewing external audit reports for the practice plans, Chair Miles asked whether the contractual agreements limiting the University's financial liability are the reason none of the plans are included on the UT System internal audit plan. Mr. Ferrara responded that it is because the University has no ownership in the plans. Mr. Ron Maples, University Treasurer, added that the plans are considered affiliated entities rather than component units of the University that would have to be included on the financial statements.

Mr. Maples asked whether the University has representation on the board for Methodist Le Bonheur Healthcare. Mr. Ferrara responded that Methodist bylaws provide for the HSC chancellor and a member of the UT Board of Trustees to serve on the Methodist board. UT Board Chair John Compton stated that the requirement of a UT Board member should be reviewed and suggested that the UT Board should appoint an individual to the Methodist board, though this individual would not have to be a member of the UT Board, especially now that the size of the UT Board has been significantly reduced.

Trustee Jenkins asked how risks related to employee conduct are handled, and Mr. Ferrara explained that malpractice insurance is handled by the practice plans. He stated that faculty physicians are responsible for complying with the codes of conduct for the University and the hospitals or practice plans, and the entities work together when issues arise.

V. NCAA AGREED-UPON PROCEDURES

Chair Miles noted this item and the three that follow consisted of written reports; therefore, no presentations would be made, but she would ask for questions. Hearing none from other members, she asked Mr. Hunter, whose office performs the agreed-upon procedures, to confirm whether the National Collegiate Athletic

Association (NCAA) requires them and, if so, whether the association had revised its requirements in recent years. Mr. Hunter confirmed the NCAA required these procedures and occasionally modified items. For example, he noted that a couple of years ago, the NCAA dropped the requirement to perform procedures when revenues or expenses for a given item were less than four percent of the totals.

VI. 2019 AUDIT PLAN UPDATE

Chair Miles asked Ms. Burns whether she is comfortable with the status of the 2019 audit plan. Ms. Burns responded that she is, but noted that with two vacancies in Knoxville and one upcoming at the Martin campus, some audits on the plan may need to be postponed or their scopes reduced. She stated she would discuss these issues with the new Chief Audit and Compliance Officer once he arrives in June.

VII. 2019 OUTSTANDING AUDIT ISSUES

Chair Miles asked for questions on the report of outstanding audit issues, and Trustee Jenkins noted the issue involving the UT System Administration's (UTSA) need to update the information technology (IT) security risk assessments by April 30 and asked whether the updates are on schedule. Ms. Burns noted the UTSA information security office has made significant progress toward this goal, and the audit staff would be following up after the end of the month to determine the status. Chair Miles noted that information security would be a topic at a future Committee meeting this year. Ms. Burns added that OAC's IT audit manager would be discussing progress in IT security at each campus during the September Committee meeting.

VIII. TRAVEL EXCEPTION REPORT

Chair Miles asked for questions on the written report of travel exceptions submitted by Mr. David Miller, Chief Financial Officer. Hearing none, she continued to the next item.

IX. OTHER BUSINESS

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

X. ADJOURNMENT

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

Respectfully Submitted,

Judith A. Burns
Interim Chief Audit and Compliance Officer