

Minutes of the Audit Committee of the University of Louisville
Board of Trustees

In Open Session

The Audit Committee of the University of Louisville Board of Trustees met on Monday, November 26, 2001, in the Mary Bingham Room of the University Club with the Committee members present and absent as follows:

Present: Mr. J. Chester Porter, Chairman
Mr. Kevin Cogan
Mr. Nathaniel Green
Ms. Mary A. Yarmuth

Absent: Mr. Grant Helman
Ms. Sandra Metts Snowden

Trustees

Present: Dr. Rick Feldhoff
Ms. Melissa Long Shuter

From the

University: Dr. Carol Garrison, Provost
Mr. Larry L. Owsley, Vice President for Finance & Administration
Mr. David F. Barker, Director of Audit Services
Mr. Michael J. Curtin, Director, Planning and Budget
Ms. Angela Koshewa, University Counsel
Ms. Terri Rutledge, Assistant Vice President for Administration
Ms. Susan Wilhelm, Manager, University Accounting & Financial Reporting
Ms. Cheri Jones, Audit Services
Ms. Rae Goldsmith, Associate V. P. for University Relations
Mr. John Drees, Director of Public Information
Ms. Kathleen M. Smith, Assistant Secretary, Board of Trustees
Ms. Debbie Dougherty, Board Liaison, President's Office

Also Present: Mr. Bernie Backert, Deloitte & Touche
Mr. James Carpenter, Deloitte & Touche
Ms. Mary McKinley, Deloitte & Touche

I. Call to Order

After determining a quorum present, Chairman Porter called the meeting to order at 10:20 a.m.

- Minutes for July 23, 2001 Combined Audit and Finance Committees Meeting

Mrs. Yarmuth made a motion, which Mr. Green seconded, to approve the minutes of the July 23, 2001 combined audit and finance committees meeting. The motion passed.

II. Report from Director of Audit Services

Mr. Barker, Director of Audit Services, reviewed a summary of activities of the Office of Audit Services, noting that all levels of management had cooperated in the audit and provided unrestricted access to data required to perform the audit service. Mr. Barker noted that since the last meeting his office has hired a student intern. During the last four months, his staff completed the following audits (copy of report attached):

- HR and Payroll
- Information Technology Disaster Recovery Plan
- Employee Expense Reporting
- Peoplesoft Application Security

Mr. Barker discussed the audits in progress:

- Employee Special Pay Process
- Procurement Process
- Student Housing
- Dental Clinic

Mr. Barker discussed additional activities:

- Deloitte and Touche External Audit Assistance
- Special Project – Institutional Image Committee

In response to Trustee Feldhoff's question concerning an operational action plan for Human Resources, Mr. Barker answered that the intent was to enhance or improve on the current process. He further noted that the current procedure for hiring new employees is to hire at the minimum salary of that range; that practice will change to allow the business/hiring unit to use its discretion to offer between the minimum and mid range without requiring additional paperwork.

In response to Trustee Feldhoff's concern regarding the Human Resources reclassification procedure, Mr. Barker advised that part of the action plan was to develop a method to make that process more expedient and less time consuming. Vice President Owsley commented that recommendations from the PriceWaterhouseCoopers survey, which is in its final stages, will significantly improve this process.

In response to Trustee Feldhoff's question whether the audit included a review based on fund sources (e.g. hard money vs. soft money), Mr. Barker noted the scope of the audit did not address this issue. Vice President Owsley reported that the current procedures for research grants is under review. Vice President Owsley further noted the cooperation of and positive interaction with the Human Resources staff.

III. Approval of Audited Consolidated Financial Statements

Vice President Owsley introduced the Deloitte and Touche audit staff, Jim Carpenter, Bernie Backert and Mary McKinley. Vice President Owsley acknowledged the complete and thorough review of the audit statements at the October Finance Committee meeting; noting the focus today was on audit review and process.

Mr. Carpenter noted the auditors report on the FY 01 financial statements is a clean, unqualified report (copy attached).

Mr. Backert briefed the committee regarding changes occurring in the 2002-2003 financial statements due to the Governmental Accounting Standards Board (GASB) No. 34, which specifically applies to college and university accounting. Under this change, state appropriations will be considered as non-operating revenues.

Mr. Backert discussed the other change required by GASB: colleges will need to record depreciation on fixed assets, which will significantly reduce overall balances. This accounting practice change makes college accounting more comparable to that of commercial businesses. Mr. Backert further noted that GASB requires management discussion and analysis of the financial results, noting that his staff and Finance and Administration staff are reviewing the process of implementing the new requirements of the GASB.

In response to Trustee Green's question concerning the impact these changes may have on requesting funds for maintenance purposes, Mr. Carpenter said it could possibly help, noting that if there isn't a plan for funding replacement of fixed assets, the university could use the process similar to that used by hospitals.

In response to the impact the change of accounting practice may have on the first year of implementation, Vice President Owsley reported some items are fully depreciated, some are at 90% depreciation, a specific figure could be provided at a later date.

Mr. Carpenter noted the full cooperation provided by University management and staff during the course of the audit. He further reported that University management did not engage Deloitte & Touche to perform any management advisory services during 2001. Mr. Green made a motion which Mr. Cogan seconded to approve the

President's recommendation that the Board of Trustees accept the audit report for the University for the year ended June 30, 2001, as prepared by Deloitte & Touche.

The motion passed.

IV. Review of NCAA Audit

Mr. Carpenter discussed the review with respect to booster organizations, noting this review is in accordance with National Collegiate Athletic Association requirements. The ULAA Board has received this information as well. There were no questions concerning this review.

V. Auditors Report of Compliance with House Bill 622

Mr. Carpenter reported that Deloitte & Touche conducted its audit on compliance with House Bill 622 (KRS 163A.555 to 164A.630) based on the audit of the financial statements. The results of the tests disclosed no instances of noncompliance with Government Auditing Standards and the Minimum Audit Scope Compliance of House Bill 622.

VI. Other Business

Trustee Green noted the excellent nature of the audit services information.

VII. Adjournment

Mrs. Yarmuth made a motion, which Mr. Green seconded, to adjourn the meeting at 11:30 a.m. The motion passed.

BOARD ACTION:

Passed X

Did not pass

Other

Asst. Secretary- *Katalin M. Smith*