

Minutes of the Meeting of the Audit Committee of the
University of Louisville Board of Trustees
March 19, 2001

In Open Session

The Audit Committee of the University of Louisville Board of Trustees met on Monday, March 19, 2001 at 3:30 p.m. in the Jefferson Room of Grawemeyer Hall with members present and absent as follows:

Present: Mr. J. Chester Porter, Chair, Presiding
Mrs. Sandy Metts Snowden, Vice Chair
Mr. Kevin D. Cogan
Mr. Nathaniel Green
Mr. Grant M. Helman
Ms. Mary Yarmuth

Trustees

Attending: Mrs. Linda Cauble
Dr. Richard Feldhoff
Ms. Jessica Loving
Ms. Angela Richie
Mrs. Joyce Schifano
Mrs. Melissa Long Shuter
Mrs. Elizabeth Worland

Trustees

Absent: Mr. Ulysses L. Bridgeman, Jr.
Mr. William Mulloy, Sr.
Mrs. Ann Ford Cobb
Mr. Milton M. Livingston
Mr. William Mulloy, Sr.
Mr. Darryl T. Owens
Mr. T. W. Samuels, Jr.

From the

Foundation: Mr. Malcolm Chancey
Mr. Burt J. Deutsch

From the

ULAA

Finance &

Budget

Committee:

Mr. Robert R. Benson, Jr.
Mr. Joseph Beyel
Mr. Michael Edwards
Ms. Olga S. Peers
Dr. Elaine O. Wise

From the
ULAA Board

Of Directors: Mr. Henry S. Enck
Dr. Bruce Kemelgor
Mr. Owsley B. Frazier

From the
University:

Dr. John W. Shumaker, President
Dr. Carol Garrison, University Provost
Mr. Larry Owsley, Vice President for Finance & Administration
Mr. Tom Jurich, Athletic Director
Mr. David F. Barker, Director of Internal Audit
Mr. Thomas H. Lyons, University Counsel
Mr. R. Kevin Miller, Department of Athletics
Mr. Kenny Klein, Department of Athletics
Mrs. Terri Rutledge, Associate Vice President for Finance & Administration
Mrs. Rae Goldsmith, Associate Vice President, Communications & Marketing
Mr. Terry Gossom, AVP, Health Affairs
Dr. Mark Pfeifer, Health Affairs
Dr. Eugene Gilchrist, Special Assistant to the President
Mr. Neil Brooks, Compliance Office, Department of Athletics
Mr. John Drees, Assistant Director, News & Public Information
Ms. Trisha Wolf, Board Liaison, President's Office
Mrs. Kathleen M. Smith, Assistant Secretary, Board of Trustees
Mrs. Debbie Dougherty, Board Liaison, President's Office

From
Deloitte &

Touche, LLP: Mr. Bernie Backert
Mr. Jim Carpenter

I. Call to Order

Chair Porter welcomed the members of the Trustees Finance Committee, as well as the Finance & Budget Committee of the UofL Athletic Association, to the meeting. He asked them to feel free to ask questions, as needed, during the Update on the Athletics Budget Situation (Item No. III).

- Minutes of November 15, 2000

Mrs. Yarmuth made a motion, which Ms. Metts seconded, to approve the minutes of the November 15, 2000 meeting (copy attached). The motion passed unanimously.

II. Review of the A133 Audit (Federal Awards Program)

Vice President Owsley introduced the Deloitte & Touche audit team, and asked Mr. Backert to lead the review of the A133 Audit. Mr. Backert noted no issues of internal control or material weaknesses. The review had a good result. Mrs. Yarmuth made a motion to accept the report, which Ms. Metts seconded, and the motion passed unanimously. (copy attached)

III. Update on Athletics Budget Situation

Dr. Shumaker indicated that Mr. Jurich would propose to the ULAA Board of Directors tomorrow a correction in the athletic budget to reflect the tremendous changes in the Department's activities. This was a result of the President's request for a comprehensive review of the ULAA funding situation, after the close of FY 2000, to determine appropriate budget strategies needed to support the level of activity in the Athletic Department. President Shumaker began his presentation with a few contextual issues:

- The University opened Papa John's Cardinal Stadium (PJCS) in 1997. Since then, the Athletic Department has had an opportunity to monitor how well the Stadium's operational projections tracked actual expenses and revenues. The trend data support a revision in the budget for the Stadium. The PJCS has become a treasured community asset and now has an expanded vision, as well as a realization, that it offers more to the Louisville area than sports entertainment.
- Dr. Shumaker noted the change in the leadership of in the football program has had dramatic impact. With John L. Smith as Head Coach, the sport has grown significantly, has achieved three post-season bowl performances, and has the Conference Title for the past season.
- Dr. Shumaker observed that in response to the excellent gender equity study led by Judge Peers, compliance with Title IX regulations and implementation of the recommendations of the Peers' study became top priorities of the Department. UofL recruited top-notch leadership staff to oversee compliance (Neil Brooks) and Olympic sports (Julie Hermann). When the ULAA Board accepted the recommendations of Judge Peer's committee, it directed that Olympic Sports would compete at a national level. Lamar Daniels, the gender equity consultant working with the Department, indicated that the University's facilities and staffing were unprepared to compete for top student athletes.
- Based upon the ULAA Board's policies, the Athletic Department implemented strategies to improve the Olympic Sports Programs. UofL asked Owsley Frazier to chair a fundraising campaign to make Cardinal Park a reality. Some of the best coaches in the nation and top student-athletes joined UofL's teams. The Athletic Department has had substantial success in turning around the image that Mr. Daniels reported.
- The President had asked Malcolm Chancey to work as an independent advisor to chair a team of Kevin Miller, Vice President Larry Owsley, and Dave Barker (Director of Audit Services) to develop a realistic revenue and expense projection and budget strategy that could support the planned directions of the University's intercollegiate athletic programs. The successes of the past were too important to lose. Before the strategy could be developed, however, the President wanted Malcolm to evaluate objectively the factors contributing to the budget stress.
- Dr. Shumaker reported that the ULAA has a \$33 million reserve, roughly equivalent to the operating budget of the Department. The basketball program has had some ordinary seasons that have produced unmet revenue projections. The President indicated that fundamental to the reserve strategy was an expectation that some day there might come a time when the revenue sports would be unable to contribute to the bottom line. Before transferring additional funds from the Reserve, however, he asked Malcolm to review operations and, working with his

team, to develop a long-term proposal that would correct the budget and support the direction that the ULAA Board has adopted.

Dr. Shumaker then introduced Malcolm Chancey and asked him to lead the Committee through the rest of the discussion regarding the budget situation.

Mr. Chancey noted the charge to the group from President Shumaker. He appreciated the commitment and support he has received from Mr. Miller, Mr. Owsley, Mr. Barker and their respective staffs. Because Board of Trustees policy dictates that the Department will receive no university subsidy, athletic revenues provide the funds for operations. Mr. Chancey presented revenue and expense data for the Department over a period of several years to show trend data for the cost centers within the Athletic Department. (report attached)

During his review, he noted that the Athletic Department has subsidized the development activity of the University through waiving revenue associated with donor seating and suite rentals. Mr. Chancey recommended that because these opportunity costs were real to the Athletic Department he proposed to President Shumaker that the University reimburse the ULAA for this expense. President Shumaker supported this recommendation, and along with Mr. Chancey, would take a recommendation to the UofL Foundation to implement this reimbursement.

Mr. Chancey also recommended that each cost center within the Athletic Department implement a “zero base” budget review when it builds its budget request for the next fiscal year. This is necessary so that cost centers can segregate their expenses, project their revenues, and account for variances during the new fiscal year. Mr. Chancey indicated that the Department has grown so fast and outpaced the administrative support of a centralized operation. This decentralized approach will allow better monitoring of budget variances and accountability for meeting revenue projections.

He noted the Brown & Williamson Club has become a treasured community asset. Although the plans originally did not propose the Club would operate year-round, it basically has served the event needs of the community throughout the year. Because of an under-pricing strategy, the Club has a substantial operating deficit (approximately \$900,000) that Mr. Chancey believed could be corrected with a revised pricing structure. He also noted that it would be delicate because the community has come to expect the availability of the B&W Club at this subsidized level, and implementing a breakeven strategy might be the initial tactic. Mr. Chancey indicated that the team discovered no impropriety with the funds or any hint of malfeasance.

Mr. Helman made a motion, which Mr. Cogan seconded, **that the Trustees Audit Committee recommend to the ULAA Board of Directors that the President’s proposal for 2001-02 be approved as policy. The Trustees Audit Committee supports the directions presented at this meeting.** The motion passed unanimously.

Dr. Shumaker expressed his personal appreciation to Mr. Chancey for accepting this assignment.

IV. Report from Director of Audit Services

- Audit Activities: November 2000 – February 2001

Director Barker expressed appreciation for the University's support of Audit Services. The Department had just completed a review of Metropolitan College. The audit's focus was on the following factors: improve cash flow; increase revenue; and identify efficiencies.

Mr. Barker indicated that the draft Audit Plan and Risk Assessment, discussed with the Committee in November, has guided the Department. He expects to present to the Committee at its next meeting a refined plan.

Mr. Barker introduced Bruce Edwards, CISA, who has joined the Department as the Computer Information Systems Auditor. He expected to have Cheri Jones join the Department next month as the Associate Director, and is still recruiting for the Senior Auditor to complete the staffing needs of the Department.

V. Executive Session

Before adjourning the open session of the meeting, Mr. Porter thanked the members of the ULAA Finance & Budget Committee for coming to hear the presentation on the athletic budget situation. Then, he asked for a motion, which Ms. Metts made and Mr. Cogan seconded, to go into Executive Session.

VI. Open Meeting Reconvenes

Chair Porter reconvened the open session of the Audit Committee at 5:15 p.m. He reported that the committee discussed personnel matters.

VII. Adjournment

Mr. Green made a motion that Ms. Metts seconded, which passed unanimously, to adjourn the meeting at 5:15 p.m.

BOARD ACTION:

Passed X

Did not pass

Other

Asst. Secretary_ *Katalin M. Smith*