BUSINESS AFFAIRS SUB-COUNCIL

October 20, 2004

MINUTES

The meeting began at 9:00 a.m. in the TBR Board room. Present were Mr. John Cothern (Chair, MTSU); Ms. Debra Bauer (NSCC); Ms. Cynthia Brooks (TSU); Mr. Horace Chase (JSCC); Ms. Beth Cooksey (VSCC); Dr. David Collins (ETSU); Dr. Ashok Dhingra (STCC); Mr. Bill Fuqua (RSCC); Mr. Mike Gower (MTSU); Mr. Ken Horner (COSCC); Dr. Charles Hurley (CLSCC); Mr. Al Irby (APSU); Dr. Rosemary Jackson (WSCC); Mr. Charles Lee (UOM); Ms. Linda Maxwell (TTU); Mr. Mike Posey (MSCC); Ms. Renee Proffitt (PSTCC), Mr. Terry Rector (TTU); Mr. Mitch Robinson (APSU); Dr. Claire Stinson (NSTCC); Ms. Tammy Swenson (CSTCC); Ms. Velma Travis (DSCC); Mr. Greg Wilgocki (ETSU); Mr. David Zettergren (UOM); Dr. Bob Adams, Ms. Kathy Crisp, Ms. Tammy Gourley, Ms. Angela Gregory, Ms. Deanna Hall, Mr. Mike Hamlet, Ms. Debbie Johnson, Mr. Maurice Pittman, Ms. Ann Rutland, Mr. Ron Simmons, Ms. Renee Stewart and Ms. Nancy Washington. (TBR).

Dr. Adams introduced Angela Gregory and Tammy Gourley as the Director of Purchasing and Contracts and the Director of Systemwide Internal Auditing, respectively. Dr. Adams introduced Beth Cooksey as the Vice President of Finance at VSCC.

BUSINESS

1. ERP Update

Mr. Tom Danford discussed the ERP RFP. Twenty-one companies received the request for proposal, eleven submitted an intent to bid, and three companies responded to the RFP. Of the three responses received, one was noncompliant, one was late, and only one bid, SCT's, complied with the RFP's requirements. Product demonstrations were held in the three state regions and the evaluations were good.

Mr. Danford discussed the calendar of actions taken to date. On September 27, an intent to award letter was sent to the three respondents. The 10 day challenge period expired without a challenge to the bidding process. On October 11, the Board ad hoc committee reviewed the proposals. On October 14, the Executive Steering committee received its charge and process instructions. The Executive Steering committee includes the Chancellor and eleven presidents.

Mr. Danford discussed the five items that will heavily impact the ERP cost. These cost drivers include:

A. Implementation principles – Includes customization of software. While the current software allows institutions to customize as needed, this becomes an issue each time updates are issued.

B. Hardware deployment – Hardware is currently located on all campuses. The current hardware is not powerful enough to run parallel systems during the transition period. Additional hardware must be purchased, but whether it is needed on all campuses or not must be determined.
C. Software portfolio – Includes supply chain management software, luminus system, etc.
D. Implementation methodology – Three methods were discussed: 1) 19 separate implementations, 2) geographic implementations, and 3) implementations grouped by type of institution (research, masters, community college).
E. Schedule – What and who goes first.

The Executive Steering Committee will discuss these cost drivers at their next meeting. A presentation on how the ERP will improve business processes will also be on their agenda.

SCT's proposal included three pricing schedules. If we choose 19 individual implementations, the cost is $44 million. If we choose the geographic implementation, the cost is $27 million, and if we choose the implementations grouped by type of institution, the cost is $33 million. The costs cited above do not include the supply chain management software, which is an additional $4 million. The Board ad hoc committee strongly supports consolidating and regionalizing as much as possible.

Mr. Danford stated that regardless of which method is ultimately chosen, each campus will need two servers. Centralization or regionalization can occur where data is warehoused, therefore, 19 sites do not necessarily mean we need 19 database administrators. He also discussed disaster recovery capabilities as a factor when considering consolidation and regionalization.

Mr. Danford briefly discussed the TN SCT conference held October 18th and 19th. He stated that personnel who attended may return to campus with suggestions on business analysis and gap analysis. He defined gap analysis as the comparison of SCT's recommended processes to our actual processes.

Mr. Danford will begin sending email updates to all chief business officers, academic officers, and information technology officers.

Mr. Danford, Ms. Gregory, and Ms. Crisp are reviewing the current software contract to determine which provisions should be included in the new contract.

Mr. Cothern encouraged the business officers to provide input to their presidents during this process.

The BASC inquired as to implementation dates. Mr. Danford replied that implementing the financial component at the beginning of the fiscal year, the student component at the beginning of the academic year, and the human resource component at the beginning of the calendar year is the most cost effective schedule. He further stated that July 1st would be an ambitious implementation schedule.

2. Report of the Finance Committee

Dr. Collins highlighted the following issues from the October 6, 2004, Finance Committee meeting.

A. Policy 4:01:07:02 Foundations

The Finance Committee recommended revising the policy on foundations to allow the institution to transfer endowments to the foundations with the written approval of the donors (see Attachment A).

B. Policy 4:03:03:00 General Travel Policy

The Finance Committee discussed the changes in travel rates recently adopted by the State and effective November 1, 2004. The Committee recommended incorporating the new rates into the TBR policy (see Attachments B and C). To ensure a November 1, 2004, effective date, the new rates will be processed as an interim action item.

C. Management Representation Letter

Dr. Adams discussed the revised management representation letter (see Attachment D). Dr. Adams worked with Mr. Charles Peccolo, University of Tennessee, and Mr. Art Hayes, State Audit, in developing language regarding fraud representations that is acceptable to the institutions and State Audit. Institutions should ensure that only the revised letter is signed by management.

D. Issues Related to Separate Accounts for Foundations

The Finance Committee discussed whether the foundations are eligible to participate in LGIP and can require collateralization. Some institutions have established LGIP accounts for their foundations as a sub-account of the university/community college. The rationale used is as follows: If the foundations are so inter-related with the institutions that they are required to be reported on the face of the institutions' financial statements, then they meet the eligibility requirements of LGIP participation.

Collateralization cannot be required for foundation accounts. Banks are prohibited from providing collateralization for entities other than governments. The college's FEIN cannot be used to circumvent this prohibition. ETSU stated that they ensure that their foundations' accounts never exceed the FDIC balance by depositing any funds in excess of $100,000 in the foundation's LGIP account.

E. Issues Related to the Use of Unrestricted Funds for Private Fundraising Events

The Finance Committee discussed the recent audits of the presidents' expenses. The expenses included items such as tickets to charitable events that were paid from unrestricted accounts of the institution. Some presidents felt that tickets to charitable events were community service and an appropriate use of state funds. The Committee recommended not using unrestricted accounts of the institution for tickets or contributions to charitable events. It would be more appropriate to use foundation funds or the president's unaccountable expense account for these types of expenses.

The Finance Committee discussed whether state funds could be used for golf tournaments that supported other TBR institutions. The Committee agreed that golf tournaments in support of other TBR institutions would <u>not</u> be an appropriate use of state funds.

F. October Bonus

Dr. Adams discussed the request for the date the October Bonus would be paid. The TSEA received two formal complaints that TBR institutions did not pay the October Bonus on October 1st. A response to the complaints was forwarded to TSEA explaining that all eligible TBR employees would receive a bonus sometime during the month of October.

The Finance Committee minutes were approved.

3. <u>Report of the Human Resources Officers Committee</u>

Debbie Johnson introduced Mike Hamlet as the Director of Employee Benefits and highlighted the following issues from the October 13, 2004, Human Resource Officers meeting.

A. Educational Assistance Programs

The HR Officers have appointed a sub-committee to review Guideline P-130 Educational Assistance Programs. Any suggested revisions or interpretation issues should be forwarded to this group.

B. Benefits Enrollment – Fall 2005 Transfer Period

Ms. Johnson and Mr. Hamlet attended one of the State's training sessions on benefit changes. The open enrollment period is October 15^{th} to November 15^{th}. Training sessions on retirement programs will be held on each campus.

C. Charitable Giving Drives

Ms. Johnson presented the Charitable Giving Campaign brochure and stated that the brochures are funded by the charitable organizations, not Tennessee taxpayers.

D. Update on Status of Request for Proposals for Long-term Disability, Flexible Benefits

Ms. Johnson discussed the proposed calendar for these two systemwide RFPs. Two long-term disability contracts are planned – one for exempt employees and one for non-exempt employees. This may be jointly bid with the UT system. Dr. Dhingra inquired if all employees were allowed to purchase disability insurance during the open enrollment period. Ms. Johnson stated that employees may be asked to provide proof of physical health.

Affirmative action software was discussed. While some campuses have already purchased affirmative action software, HR is considering a systemwide bid. The due date for the affirmative action report is April 1^{st}; therefore, a systemwide purchase would need to occur quickly. Ms. Johnson stated that the RFP would include all institutions, but only those interested would actually purchase the software. She estimated the total cost at approximately $10,000 to $15,000.

E. Revision of TBR Policy 5:01:04:00 and Guideline P-100 Law Enforcement and Security Personnel

The HR Officers recommended revisions that bring Policy 5:01:04:00 and Guideline P-100 into compliance with Chapter 766 of the Public Acts of 2004. The legislation provides for three officer categories: campus police officer, public safety officer, and campus security officer. The definitions found in TBR policy specify which categories are commissioned officers and the basic authority for each category. Ms. Johnson suggested that all institutions review their job titles for this area. The new titles are now on-line and have been provided to all HR Officers.

F. Non-Exempt Class Comp Plan

Ms. Johnson discussed the timeline in implementing the new skill levels. Very few campuses included these salary increases in the proposed budget. Some campuses are waiting until July 2005, which is the last implementation date. Campuses waiting until July 2005 cannot retroactive the salary increases back to July 1, 2004.

G. Revised Budget Guidelines 2004-05

Ms. Johnson stated that U-80 screens are due November 9, 2004. The class comp changes will be reported in the equity section of the U-80 screen.

The Human Resource Officers Committee minutes were approved.

4. Report of the Council of Buyers

Ms. Gregory highlighted the following issues from the October 5, 2004, meeting of the Council of Buyers.

A. Small Business and Minority-Owned/Women-Owned/Disabled-Owned Business Report

The Senate Bill regarding changes to the Small Business and Minority-Owned/Women-Owned/Disabled-Owned Business Report was discussed. Each institution will need to contact vendors previously categorized in multiple classifications to determine which classification should be used. It is the vendor's interpretation, not the institution's interpretation, which is authoritative.

Ms. Gregory stated that the disabled-owned business classification has been eliminated and is no longer required.

B. Horizon Resource Group

Ms. Gregory informed the BASC that the group purchasing report has been submitted to the Comptroller's Office, as required by statute. The report revealed that institutions had saved approximately $68,000 using Horizon vendors and had saved approximately $66,000 by not using Horizon vendors.

Horizon has requested that we mail all written bids for Horizon vendors to

Horizon instead of directly to the vendor. Horizon will route the bid request to the vendor, who will then respond directly to the institution. Ms. Gregory is planning to visit Horizon soon to review documents and vendor contracts.

C. Library Database Purchasing Subcommittee

Ms. Angela Gregory summarized the work of this Subcommittee to date. Master agreements for electronic databases are being developed for systemwide use.

D. GovDeals.Com

Ms. Gregory has confirmed with the Tennessee Department of Revenue that institutions are not required to collect and remit sales tax for anything sold through GovDeals.com.

E. Other

The Council of Buyers expressed interest in an annual joint meeting with UT representatives. Ms. Gregory will contact UT representatives. Additionally, the Central Office TTC Department will be contacted for a TTC representative to attend Council of Buyers' meetings.

The Council of Buyers' minutes were approved.

5. Report of Internal Audit

The Internal Audit Committee has not met since the July BASC. The following internal audit issues were discussed.

Ms. Gourley discussed proposed revisions to Guideline B-050 Internal Auditing (see Attachment E). The revisions incorporate into the guideline the Audit Committee of the TBR Board and the TBR Director of Systemwide Internal Auditing position. The BASC recommended forwarding the proposed revisions to the Presidents Council for approval.

Ms. Gourley discussed the fraud brochure developed in response to the Higher Education Accountability Act and provisions in the management representation letter. While the Central Office has recommended that a copy be provided to every employee, students can be reached through class schedules, course catalogs, etc. Dr. Adams stated that emailing the brochure to employees is acceptable if all employees, including custodians, security, etc., have email accounts. The TBR Central Office does not need to review the brochure prior to its distribution.

Dr. Adams discussed the audit of TTC directors. John Morgan, Comptroller of the

Treasury, has agreed to a schedule of auditing TTC director expenses once every three years. The TTC director audits will be staggered so that those lead institutions with multiple TTCs will not have all audits due in one year.

6. <u>Other Business</u>

- The BASC inquired if any more consideration has been given to funding the ERP with TAF funds. Mr. Danford stated that it can be legitimately argued that parts of the system will directly benefit students. The use of TAF for the ERP will require Board approval.
- Mr. Danford discussed a survey he will send to IT personnel regarding spending for administrative computing. IT personnel may need to contact business office personnel for assistance in completing the survey.
- Dr. Adams updated the BASC on the State's revenue collections for the first two months of the fiscal year. Collections have not met revenue projections by $42 million.

There being no further business, the BASC adjourned.

<u>ATTACHMENT A</u>

POLICY 4:01:07:02

SUBJECT: Foundations

The following policy shall apply to all institutions and area vocational-technical schools governed by the Tennessee Board of Regents.

1. General Statement

This policy is adopted pursuant to TCA 49-7-107 and 49-11-402(4) which authorizes and empowers the Tennessee Board of Regents to take steps necessary for the establishment of foundations for the institutions governed by the Board. The Board recognizes the value of such foundations to the overall development programs of the institutions. Foundations provide a direct means for individuals to participate in the generation and management of contributions for the benefit of institutions and units of institutions.

2. Definition of Foundation

For purposes of this policy, a foundation is defined as a not-for-profit organization which exists solely to support and advance the objectives of an institution. A foundation also shall be operated as a tax-exempt corporation chartered within the State of Tennessee.

3. Foundation/Institution Relationship

A foundation is not an operational function of an institution; it is a separate legal entity. The foundation/institution relationship is derived from a shared interest in the institution's development. Institutional participation in and support of foundation operations are, therefore, appropriate and desirable. It is recognized that to be effective in achieving its purpose, a foundation's identity must be maintained separate from the institution. The accountability of a foundation and the institution as it relates to the foundation, however, are concerns common to the foundation, the institution, and the Board.

4. Purpose of the Policy

The purpose of this policy is to promote and strengthen the operations of foundations which have been and may be established for the benefit of TBR institutions. The following provisions set forth a framework which, from the Board's perspective, enables and enhances a sound and mutually supportive foundation/institution relationship.

5. Provisions

1. To document the foundation's and institution's understanding of their relationship, each institution shall formulate a written agreement with its foundation(s) which describes their respective responsibilities and the services the institution provides the foundation.

2. The governance structure of a foundation should be determined by the organization. To ensure an appropriate level of institutional participation in foundation governance, it is recommended that the institution president and/or the president's designee(s) hold membership on the foundation's executive body.

3. The foundation's executive body shall adopt an annual budget. The institution will develop and present a recommended budget to the foundation to ensure that institutional objectives are reflected in the allocation of foundation funds.

4. The foundation should develop policies and procedures concerning its operations. At a minimum, the policies should address solicitation, acceptance, and management/investment of contributions to the foundation. The policies must incorporate sound business principles and safeguard compliance with donor intent and conditions. It is recognized that investments by the foundation are governed by TCA 35-10-101 et seq.

The policy regarding solicitation and acceptance of contributions shall provide that prior to acceptance of any gift to the foundation which requires institutional support, i.e., staff, financial assistance, storage, etc., approval must be obtained from the president of the institution, and if applicable, by the Chancellor, in accordance with Board policy.

5. No institutional funds, including contributions to the institution, may be transferred directly or indirectly to the foundation. **Endowment funds, however, may be transferred from the institution to the foundation with the written approval of the donor.** It is understood that instances may occur where a donor inadvertently directs a contribution to the institution which is intended for the foundation. Procedures shall be established to clarify donor intent.

6. Foundations must respect Board and institutional responsibilities for personnel administration, and a process must be established whereby foundation expenditures for compensation and other forms of supplement to institutional personnel, i.e., salary, expense account, automobiles, etc., must be approved in advance by the institution president and Chancellor on an annual basis.

7. Foundation records and accounts may be maintained by the institution; however, they must be maintained separate from institutional records and accounts and be shown as an agency fund of the institution. Records and accounts maintained by the foundation should be available to the institution.

8. The foundation executive body should issue periodic reports on the activities of the foundation, which shall be submitted to the president of the institution. At a minimum, the reports should be issued on an annual basis. At a minimum, a comprehensive annual financial report shall be issued, prepared in accordance with generally accepted accounting principles.

9. A foundation whose records and accounts are maintained as an agency fund of the institution shall be audited on the same cycle as the institutional audit performed by the Comptroller of the Treasury of the State of Tennessee and shall be reported upon as a part of the agency fund of the institution. Records and accounts maintained by the foundation shall be audited annually by the Comptroller of the Treasury or with the prior approval of the Comptroller of the Treasury, an independent public accountant.

The audit contract between the independent public accountant and the foundation shall be approved in advance by the Board and the Comptroller and shall be on contract forms prescribed by the Comptroller.

10. Initial and amended foundation charters and bylaws to be filed with the Secretary of State shall be submitted by the president of the institution to the Chancellor for review.

11. The Chancellor shall have the authority to grant exceptions to this policy when deemed appropriate and necessary.

Source: TBR Meeting, August 17, 1973; TBR Meeting, September 20, 1985; September 21, 1990; June 28, 1991

ATTACHMENT B

Addendum

Tennessee Board of Regents General Travel Policy

This Addendum provides the specific expenses considerations cited in the general travel policy. The reimbursement rates listed below are consistent with the current Comprehensive Travel Regulations of the State of Tennessee, which may be revised from time to time. The following shall remain in effect from and after ~~May~~ **November** 1, 2004, until revised by the Chancellor.

General Reimbursement Rates

Standard mileage rate	Rate approved by the Dept. of Finance and Administration (see http://www.state.tn.us/finance/acct/policy8.pdf)
Maximum parking fees without receipt	$ 8.00 per day
Fees for handling of equipment or promotional materials	$ 20.00 per hotel

Out-of-State Reimbursement Rates

Employees are to utilize the U.S. General Services Administration CONUS (Continental United States) rates provided by the federal government. The CONUS rates are located on the U.S. Government's web page at

http://policyworks.gov/org/main/mt/homepage/mtt/perdiem/travel.shtml

Use the CONUS standard rates for all locations within the continental United States not specifically shown on the web page as a listed point.

In-State Travel Reimbursement Rates

Level I Counties and Cities

Day of Departure And Return	Maximum Lodging	Maximum Meals and Incidentals
75% of M&I	~~$70.00~~ **$75.00** + tax	~~$34.00~~ **$38.00**

Shelby County, Davidson County, Knox County, Hamilton County, Gatlinburg, **Pigeon Forge,** Sullivan County, Johnson City, Williamson County. (Includes Paris Landing, Montgomery Bell, Natchez Trace, Pickwick, Fall Creek

Falls, **and** Henry Horton ~~and Reelfoot Lake~~ State Parks)

Level II Counties and Cities

Day of Departure And Return	Maximum Lodging	Maximum Meals and Incidentals
75% of M&I	~~$50.00~~ **$65.00** + tax	~~$30.00~~ **$31.00**

All other counties and cities not listed above.

Standard Out-of-Country Rates

Day of Departure And Return	Maximum Lodging	Maximum Meals and Incidentals
Actual expense or 75% of M&I	Actual expense	Actual expense or $~~42.00~~ **$51.00**

(per diem amount only to be used when receipts are not available)

Special Rates Under Exception One

This exception applies to the Tennessee Board of Regents' Chancellor and his or her immediate staff, presidents of institutions, area school directors, and System employees traveling in their company. This exception rate schedule corresponds with Exception Number Three of the Comprehensive Travel Regulations of the State of Tennessee.

Out-Of State Reimbursement Rates

Employees are to utilize the U.S. General Services Administration CONUS (Continental United States) rates provided by the federal government. The CONUS rates are located on the U.S. Government's web page at:

http://policyworks.gov/org/main/mt/homepage/mtt/perdiem/travel.shtml

Use the CONUS standard rates for all locations within the continental United States not specifically shown on the web page as a listed point.

In-State Travel Reimbursement Rate

Level I Counties and Cities

Day of Departure And Return	Maximum Lodging	Maximum Meals and Incidentals
75% of M&I	~~$75.00~~ **$80.00** + tax	~~$34.00~~ **$38.00**

Shelby County, Davidson County, Knox County, Hamilton County, Gatlinburg, **Pigeon Forge,** Sullivan County, Johnson City, Williamson County. (Includes Paris Landing, Montgomery Bell, Natchez Trace, Pickwick, Fall Creek Falls, **and** Henry Horton ~~and Reelfoot Lake~~ State Parks)

Level II Counties and Cities

Day of Departure And Return	Maximum Lodging	Maximum Meals and Incidentals
75% of M&I	~~$55.00~~ **$70.00** + tax	~~$30.00~~ **$31.00**

All other counties and cities not listed above.

Special Rates Under Exception Two

This exception applies to Board Members of the Tennessee Board of Regents who are reimbursed for travel in the performance of their official duties. This exception rate schedule corresponds with Exception Number Four of the Comprehensive Travel Regulations of the State of Tennessee.

Out-of State Reimbursement Rates

Employees are to utilize the U.S. General Services Administration CONUS (Continental United States) rates provided by the federal government. The CONUS rates are located on the U.S. Government's web page at

http://policyworks.gov/org/main/mt/homepage/mtt/perdiem/travel.shtml

Use the CONUS standard rates for all locations within the Continental United States not specifically shown on the web page as a listed point.

In-State Travel Reimbursement Rates

Level I Counties and Cities

Day of Departure And Return	Maximum Lodging	Maximum Meals and Incidentals
75% of M&I	~~$90.00~~ **$95.00** + tax	~~$34.00~~ **$38.00**

Shelby County, Davidson County, Knox County, Hamilton County, Gatlinburg, **Pigeon Forge,** Sullivan County, Johnson City, Williamson County. (Includes Paris Landing, Montgomery Bell, Natchez Trace, Pickwick, Fall Creek Falls, **and** Henry Horton ~~and Reelfoot Lake~~ State Parks)

Level II Counties and Cities

Day of Departure And Return	Maximum Lodging	Maximum Meals and Incidentals
75% of M&I	~~$70.00~~ **$85.00** + tax	~~$30.00~~ **$31.00**

All other counties and cities not listed above.

ATTACHMENT C

VI. Meals

1. In-State and Out-of-State Meals - Meals while on authorized travel will be reimbursed, subject to the meal allowance provided on the Addendum. The maximum per diem rates include a fixed allowance for meals and for incidental expenses (M&I). The M&I rate, or fraction thereof, is payable to the traveler without itemization of expenses or receipts. Incidentals are intended to include miscellaneous costs associated with travel such as tips for baggage handling, phone calls home, etc.

   The M&I rates for out-of-state travel are the same as those for federal employees, and are available on the General Services Administration's web site. As with lodging, there is a standard rate for the continental United States (CONUS), and a list of exceptions. Reimbursement for meals and incidentals for the day of departure shall be three-fourths of the appropriate M&I rate (either the in-state rate or CONUS rate for out-of-state travel) at the rate prescribed for the lodging location.

Reimbursement for M&I for the day of return shall be three-fourths of the M&I rate applicable to the preceding calendar day. To assist in this calculation, the following table lists partial per diem rates for meals and incidentals for in-state and out-of-state travel.

Per Diem Rates – Three-fourths Calculations

$~~30~~**31**	$~~22.50~~**23.25**
$~~34~~**35**	$~~25.50~~**26.25**
$38	$28.50
$~~42~~39	$~~31.50~~**29.25**
$43	**$32.25**
$47	**$35.25**
$51	**$38.25**

The following table may be used to determine reimbursement for a single meal, when appropriate. Reimbursement for meals will not be permitted when overnight travel is not involved.

In-State and Out-of-State of Tennessee

Meals and Incidental – Allocated by Meal

Per diem	**31**	**35**	**38**	**39**	**43**	**47**	**51**
Breakfast	6	7	7	8	9	9	10
Lunch	6	7	10	8	9	11	12
Dinner	16	18	18	20	22	24	26
Incidentals	3	3	3	3	3	3	3

ATTACHMENT D

REPRESENTATION LETTER
(Client Letterhead)
(Date of Auditor's Report)

Mr. Arthur A. Hayes, Jr., CPA, Director

Division of State Audit
Suite 1500, James K. Polk Building
Nashville, Tennessee 37243-0264

Dear Mr. Hayes:

We are providing this letter in connection with your audits of the statements of net assets; statements of revenues, expenses, and changes in net assets; and statements of cash flows of The University of Tennessee as of June 30, 2004, and for the year then ended. We understand that the purpose of your audits is to express an opinion on whether the financial statements present fairly, in all material respects, the financial position, changes in financial position, and cash flows of The University of Tennessee in conformity with accounting principles generally accepted in the United States of America; to report on your consideration of internal control over financial reporting and your tests of compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts; and, in support of the statewide single audit, to report on your tests of internal control over compliance with major federal programs and to express an opinion on compliance, in all material respects, with requirements applicable to each of the state's major federal programs.

We confirm that we are responsible for the fair presentation of the financial statements referred to above in conformity with accounting principles generally accepted in the United States of America; for compliance with applicable laws, regulations, and the provisions of contracts and grant agreements; and for establishing and maintaining effective internal control (including preventing, deterring, and detecting fraudulent activity) over financial reporting, operations, and compliance.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, [as of *(date of auditor's report)*,] the following representations made to you during your audit.

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America.

2. With the exception of the UT Research Foundation, the University Faculty Association, and TriStar Enterprises, Inc., which are considered immaterial by the university, we have included in the financial statements all affiliated organizations that qualify for inclusion in conformity with accounting principles generally accepted in the United States of America as set forth by the Governmental Accounting Standards Board (GASB). All affiliated organizations including all foundations that do not qualify for inclusion in the financial statements in conformity with GASB Statement 14, *The Financial Reporting Entity*, as amended by GASB 39, *Determining Whether Certain Organizations Are Component Units*, have been disclosed in the notes to the financial statements.

We have properly classified all activities in accordance with accounting principles generally accepted in the United States of America as set forth by the GASB.

We have provided you with a complete schedule of intercollegiate athletics activities which has been prepared in conformity with NCAA legislation. In addition, we have provided you with a list of all known outside organizations which provide support to our intercollegiate athletics activities.

Except as noted below, we have followed applicable laws and regulations in adopting, approving, and amending the budget. (*List all violations*.)

We are responsible for complying, and have complied, with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs.

To the best of our knowledge and belief, we have complied with, identified, and disclosed the requirements of laws, regulations, and the provisions of contracts and grant agreements that have a direct and material effect on the determination of financial statement amounts or on each federal program.

In fulfilling our responsibility for compliance with assistance provisions—

a. We have provided the party responsible for the preparation of the schedule of expenditures of federal awards all expenditures made for all awards provided by federal agencies in the form of grants, cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance. We have also identified the federal programs under which the awards were received. We have provided accurate information to the party preparing the schedule of expenditures of federal awards in accordance with OMB Circular A-133 and have included all federal awards in this information.

b. We have complied, in all material respects, with compliance requirements in connection with federal awards except as disclosed to the auditor. (*List all violations.*)

c. We have identified and disclosed all amounts questioned and any known noncompliance with the requirements of federal awards, including the results of other audits or program reviews.

d. We have provided our interpretations of any compliance requirements that have varying interpretations.

e. Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the basic financial statements have been prepared, and are prepared on a basis consistent with that presented in the schedule of expenditures of federal awards.

f. Amounts claimed or used for matching federal awards were determined in accordance with OMB Circular A-21, *Cost Principles for Educational Institutions*, and OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations*.

g. The copies of federal program financial reports provided to the auditors are true copies of the reports submitted, or electronically transmitted, to the federal agency or pass-through entity, as applicable.

h. We have monitored subrecipients to determine that the subrecipients expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of OMB Circular A-133 or OMB Circular A-110, *Uniform Administrative Requirements for Grants and Other Agreements With Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations*.

i. We have taken appropriate corrective action and issued management decisions on a timely basis after receipt of a subrecipient's auditor's report that identified noncompliance with laws, regulations, or the provisions of contracts or grant agreements and have ensured that subrecipients have taken the appropriate and timely corrective action on findings.

j. We have considered the results of subrecipient audits and made any necessary adjustments to our books and records.

k. We are responsible for establishing and maintaining effective internal control over compliance for federal programs that provides reasonable assurance that we are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on our federal programs.

l. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by OMB Circular A-133.

m. We have provided all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.

n. We have disclosed all contracts or other agreements with service organizations and have disclosed all communications from the service organization relating to noncompliance at the service organization.

We have made available to you all

a. financial records and related data.

b. contracts and grant agreements (including amendments, *if any*) and any other correspondence that have taken place with federal agencies or pass-through entities and are related to federal programs.

c. documentation related to the compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.

d. minutes of the meetings of the governing body and committees, or summaries of actions of recent meetings for which minutes have not yet been prepared.

There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices.

To the best of our knowledge and belief, we have designed and implemented programs and controls to prevent and detect fraud. As a whole, these programs and controls provided reasonable assurance that assets were adequately safeguarded, financial transactions were properly recorded, applicable laws and regulations were followed, and operational objectives were achieved. However, we recognize that errors or fraud may occur and not be detected due to inherent limitations in any system of internal accounting and administrative control, including those limitations resulting from resource constraints, legislative restrictions, and other factors.

12. We have disclosed any known fraud or suspected fraud affecting the university involving : a) management, b) employees who have significant roles in internal control over financial reporting or major programs, or

c) others where the fraud could have a material effect on the financial statements or the schedule of expenditures of federal awards.

We have disclosed any known allegations of fraud or suspected fraud affecting the university received in communications from employees, former employees, analysts, regulators, short sellers, or others.

We have taken affirmative action to remind all staff of the necessity to formally and promptly inform management of any allegations of fraud, potential fraud, or detected fraud.

Top management has reviewed the entity's policies and procedures to ensure that, to the best of our knowledge and belief, they are properly designed to prevent and detect fraud in the organization within the limitations of any internal control structure and has made amendments to those documents, where appropriate. Those policies and procedures include requiring staff at all levels of the entity to take all appropriate actions to ensure that they are knowledgeable of any fraud that has occurred in their areas and that they have formally advised their supervisors of such matters in a timely manner.

Top management has advised all staff to be totally candid in all of their communications with the auditors and to err on the side of full disclosure. This includes an attitude that the auditors are to be advised of all fraud and other audit issues known by staff.

Top management has reviewed the Exhibit (*Management Antifraud Programs and Controls*) in Statement on Auditing Standards No. 99, *Consideration of Fraud in a Financial Statement Audit*, promulgated by the American Institute of Certified Public Accountants. The Exhibit contains guidance for organizations relative to how they can better protect their organizations from fraud. Top management has shared those guidelines with staff and has adopted appropriate aspects of the guidance in the organization's operations.

The following have been properly recorded or disclosed in the financial statements:

a. Related party transactions, including sales, purchases, loans, transfers, leasing arrangements, and related amounts receivable or payable to related parties.

b. Guarantees, whether written or oral, under which the university is contingently liable.

c. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, line-of-credit, or similar arrangements.

d. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) are properly classified.

e. Expenses have been appropriately classified in the statements of revenues, expenses, and changes in net assets as operating and nonoperating.

f. Revenues are appropriately classified in the statements of revenues, expenses, and changes in net assets within operating revenues, nonoperating revenues, and other revenues.

g. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.

h. Extraordinary and special items are appropriately classified and reported.

i. Deposits and investment securities are properly classified in category of custodial credit risk.

j. Capital assets, including infrastructure assets, are properly capitalized, reported, and depreciated.

To the best of our knowledge and belief, except as included in the financial statements, there are no:

a. violations or possible violations of laws, regulations, or the provisions of contracts and grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.

b. unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board Statement Number 5, *Accounting for Contingencies*.

c. other liabilities or gain or loss contingencies that are required to be accrued or disclosed by Financial Accounting Standards Board Statement Number 5.

There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements and the schedule of expenditures of federal awards.

Provisions, when material, have been made to reduce excess or obsolete inventories to their estimated net realizable value.

Provisions for uncollectible receivables have been properly identified and recorded.

The university has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.

We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

Provision has been made for any material loss to be sustained as a result of purchase commitments for inventory quantities in excess of normal requirements or at prices in excess of the prevailing market prices.

We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

We have disclosed all plans or intentions that may materially affect or change the operations or responsibilities of the university.

We have reported to you all federal audits that have been performed on our university.

We have disclosed all utilized bank accounts, including all official and unofficial accounts.

All designations of unrestricted net assets have been properly approved.

We have complied with any debt limits, including any related debt covenants.

Required supplementary information is measured and presented within guidelines prescribed by GASB.

We have disclosed any known noncompliance that has occurred subsequent to the period for which compliance is audited.

We have disclosed whether any changes in internal control over compliance or other factors that might significantly affect internal control, including any corrective action taken by management with regard to reportable conditions (including material weaknesses), have occurred subsequent to the period for which compliance is audited.

We confirm that the methods and assumptions used to determine fair values of financial instruments result in a measure of fair value appropriate for financial statement measurement and disclosure purposes.

We believe that the effects of the uncorrected financial statement misstatements summarized in the accompanying schedule are immaterial, both individually and in the aggregate, to the financial statements for each reporting unit. *(A summary of such items should be included in or attached to the letter. Also, if management believes that certain of the identified items are not misstatements, management may add, "We do not agree that items XX and XX constitute misstatements because [description of reasons].)*

To the best of our knowledge and belief, no events have occurred subsequent to the statement of net assets date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.

____

John Petersen, President

____

Emerson H. Fly, Executive Vice President

____Catherine Mizell, General Counsel

____

Sylvia Davis, Vice President for Administration and Finance

____

Charles M. Peccolo, Vice President and Treasurer

____

Ronald Maples, Assistant Vice President and Controller

ATTACHMENT E

SUBJECT: INTERNAL AUDITING

General Statement

The internal audit function contributes to the effectiveness of controls that management is responsible for establishing and maintaining. While particular responsibilities and activities vary among institutions, the fundamental purpose of internal auditing is to provide an independent, objective assurance and consulting activity designed to add value and improve the institution's operations. Each internal audit function shall adhere to The Institute of Internal Auditors' *Standards for the Professional Practice of Internal Auditing* and *Code of Ethics.* This guideline addresses staffing, responsibilities of the internal audit function, and audit planning and reporting on internal audit activities. In addition to this guideline, the internal auditors maintain an audit manual. The purpose of the audit manual is to provide for consistency, continuity, and standards of acceptable performance.

Internal Audit Personnel

1. Each university shall employ at least two individuals with full-time responsibility as internal auditors. Additional internal audit staff shall depend upon institutional size and structure. Two-year institutions will employ a full-time internal auditor or have an approved agreement with a university or other two-year institution to provide required audit services.. Titles of internal audit staff shall be consistent within the overall institutional structure.

2. Internal audit staff shall possess professional credentials and experience requisite to position responsibilities. The director must be licensed as a Certified Public Accountant or a Certified Internal Auditor.

3. The appointment, change of status, termination, and compensation of the chief or lead internal auditor as determined by the President is subject to approval by the Chancellor or designee.

Internal Auditing Role and Scope

1. Internal Audit reports to the **Audit Committee of the Board through the TBR Director of System-wide Internal Auditing with supporting responsibilities to the institution President**. TBR hosts periodic meetings and communicates with the audit directors on matters of mutual interests. The TBR maintains an internal audit manual to guide the internal audit activity in a consistent and

professional manner at each institution. This reporting structure assures the independence of the internal audit function.

2. The internal auditors' responsibilities include:

- Working with management to assess institutional risks and developing an audit plan that considers the results of the risk assessment.
- Evaluating institutional controls to determine their effectiveness and efficiency.
- Coordinating work with external auditors, program reviewers, and consultants.
- Determining the level of compliance with internal policies and procedures, state and federal laws, and government regulations.
- Testing the timeliness, reliability, and usefulness of institutional records and reports.
- Recommending improvements to controls, operations, and risk mitigation resolutions.
- Assisting the institution with its strategic planning process to include a complete cycle review of goals and values.
- Evaluating program performance.
- Performing management advisory services and special requests as directed by the **Audit Committee or the** institution's President.

3. The scope of internal auditing extends to all aspects of institutional operations and beyond fiscal boundaries. The internal auditor shall have access to all records, personnel, and physical properties relative to the performance of duties and responsibilities.

4. The scope of a particular internal audit activity may be as broad or as restricted as required to meet management needs.

5. Objectivity is essential to the internal audit function. Therefore, internal audit personnel should not be involved in the development and installation of systems and procedures, preparation of records, or any other activities that the internal audit staff may review or appraise. However, internal audit personnel may be consulted on the adequacy of controls incorporated into new systems and procedures or on revisions to existing systems.

6. An independent quality assurance review of the internal audit function is required by the IIA *Standards* every five years.

7. Management is responsible for identifying, evaluating, and responding to potential risks that may impact the achievement of the institution's objectives. The auditors continually evaluate the risk management processes and internal control structures. Internal Audit will receive copies of external audit reviews, program reviews, fiscally related consulting reports, notices of cash shortages, physical property losses, and employee misconduct. These will be considered in the evaluation of risks.

Audit Plans

1. Internal Audit shall develop an annual audit plan using an approved risk assessment methodology.

2. Audit areas and respective audit programs are available in the TBR Audit Manual for guidance in these areas.

3. At the beginning of each fiscal year, the Internal Audit director will prepare an annual plan listing proposed areas to be audited. The audit work plan must be

flexible to respond to immediate requests. The status of the past year's plan will also be prepared in an annual activity report that may include other significant audit services. The President will submit two copies of the institution's Audit Plan for review by the **Director of System-wide Internal Auditing. The Director of System-wide Internal Auditing** will forward one copy to the State Comptroller's Office.

Audit Reports

1. Each routine internal audit should result in a written report that documents the objectives, scope, and conclusion of the audit. Management will include corrective action for each reported finding. Reports on special studies, consulting services, and other non-routine items should be prepared as appropriate, given the nature of the assignment.

2. The institution's president will be notified at the conclusion of a follow-up audit if management has not corrected the reported finding.

3. All internal audit reports will be signed by the director and transmitted directly to the President in a timely manner.

4. The President will transmit two copies of the internal audit report to the **Director of System-wide Internal Auditing. The Director of System-wide Internal Auditing** will forward one copy to the State Comptroller's Office.

Exceptions

Any exceptions to the guideline established herein shall be subject to the approval of the **Director of System-wide Internal Auditing**.

Source: June 3, 1981 TBR Presidents' Meeting; July 1, 1984; May 20,1986; February 14, 1989; November 14, 1989; August 13, 2002; February 10, 2004.