A MEETING OF THE Audit Committee of the Arizona Board of Regents was held June 21, 2006, at Northern Arizona University, Flagstaff. Regent Stuart, Chairman, called the meeting to order at 6 p.m.

MEMBERS PRESENT: Regent Gary Stuart – Chairman
Regent Ernest Calderón
Regent Anne Mariucci
Regent Benjamin Graff

Also present were: Regents Fred Boice, Robert Bulla, Ed Hermes, and Christina Palacios; David DeStefano, Glenn Irvin, David Schwalm, Paul Ward, and Christine Wilkinson, ASU; President John Haeger, Craig Hutton, MJ McMahon, Mark Neumayr, Bob Norton, and Kathe Shinham, NAU; Edith Auslander, Judith Leonard and Francis Foy, UA; Joel Sideman, Cathy McGonigle, Art Ashton, Rick Gfeller, Sadie Hutchison, Mark Petterson, Ceile Plonski, and Nancy Tribbensee, central office.

CALL TO ORDER, GREETINGS AND ANNOUNCEMENTS FROM THE COMMITTEE CHAIR

Regent Stuart welcomed guests.

APPROVAL OF MINUTES

Upon motion of Regent Calderón, seconded by Regent Mariucci, the Committee approved the minutes of the March 9, 2006 meeting.

AUDIT COMMITTEE WEB PORTAL

Regent Stuart introduced this item as a work-in-process that will fundamentally change the way the Audit Committee processes information and make it more efficient. Rick Gfeller provided background regarding the SharePoint portal, a tool for organizing information, managing documents and collaborating between the universities and the central office, up to and including the distribution of Agenda materials to the Committee. He noted the advantages of having a capability to track document revisions, and explained some security features of the SharePoint product. Joel Sideman highlighted the search feature of SharePoint, which will enable Regents and staff to research historical information regarding audits and other projects.

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ASU AUDIT REPORTS

COGNITIVE ENGINEERING RESEARCH ON TEAM TASKS (CERTT)

Regent Stuart introduced this item. David DeStefano summarized the audit report, including use of university property, disposition of reportedly obsolete property, conflict of interest, and conflict of commitment. Comparison with peer institutions was made by ASU in investigating this issue. A topic related to this matter, suggested by the Regents, is the issue of spousal hires. The potential for other universities in the Arizona system to become aware of similar staff situations exists, and the executive session following this meeting will address the issue further. Discussion emphasized that such complicated, challenging situations are not uncommon in large research institutions, and that policies have been changed and may need further refinement.

MEMORIAL UNION

David DeStefano reported on revenue contracts, their administration, and related controls, for Sparky’s Den, purchasing card transactions, student purchases, and other contracts. Some improvements have been recommended in contract administration, including recognition of the use of sub-contractors by approved vendors. Tightening of security when reconciling the change fund and more frequent checking of vendor reports as a result of the recent audit have been put in place to ensure compliance by vendors and the University. Meal plans will be significantly impacted if these issues are not addressed, though oversight and tightened controls appear to be in process.

COACHING LIMITATIONS PROGRAM AUDIT – ARIZONA STATE UNIVERSITY

The Institutional Athletics Compliance team has reviewed the audit and concurs with Regent Stuart’s observation that the report lacks substance. Paul Ward, General Counsel at ASU, discussed the consultant contract, which is in the last year of a five year contract. Acceptable services have been provided to date, with the external auditor having identified audit topics and trained internal audit staff on NCAA rules and PAC-10 rules, but the recent coaching limitations audit was disappointing. The university’s upcoming RFP will separate investigative and audit services.

STATUS OF THE SPECIAL REVIEW OF THE RELATIONSHIP BETWEEN ASU AND KNOWLEDGE CAPITAL ALLIANCE, INC.

Regent Stuart introduced the item and noted that Paul Ward has kept him closely informed throughout the review. Paul Ward discussed the three areas that are new developments since the last report:

- Negotiation of an agreement with the individual that does not include a mutual release (the new release releases KCA but not the faculty member).
- The business manager in the School of Business has received a written reprimand, and now understands that her responsibilities are to report suspicion of fraud or failure of compliance immediately.
• ASU has provided a report to the Arizona State Retirement System which now states that amounts previously reported as income were a loan, with the university retaining an amount to make restitution, pay for the audit, and repay the loan.

NAU AUDIT REPORTS

SANTA CRUZ COUNTY SUPERINTENDENT – NAU GEARUP

Regent Calderon recused himself and left the meeting. Craig Hutton reported on the audit of the NAU subcontract with the Santa Cruz County School Superintendent (SCCSS) for NAU's GearUp program, which provides services to disadvantaged students under a federal grant. In November 2005, the NAU Office of Grant and Contract Services wrote the Superintendent's office regarding invoicing concerns related to the subrecipient agreement from NAU. The Auditor General completed an audit of the SCCSS's office, also in November 2005, resulting in a 40-felony-count indictment against the Superintendent. This action, together with NAU's continued inability to substantiate invoices from SCCSS for Year 5 of the contract, led NAU to initiate an audit of the subrecipient agreement to SCCSS from NAU. As a result of the audit, NAU determined that $338,083 was improperly invoiced by SCCSS to both NAU and to the U.S. Department of Education under a separate GearUp grant made directly to SCCSS. Both NAU and the USDOE had reimbursed SCCSS.

Kathe Shinham, NAU Vice President of Administration and Finance, noted that audits such as this raise the awareness of universities that due diligence and active monitoring are necessary to ensure compliance with contracts by contractors and subcontractors. She added that duplicate billings such as occurred here are very difficult to detect since sponsors typically are only allowed to view and audit expenditures related to their project, not to all projects of a subrecipient.

Regent Calderon returned.

UA AUDIT REPORTS

INVESTIGATIVE AUDIT OF DEPARTMENT OF JOURNALISM - PURCHASES

Frances Foy reported on the audit of Department of Journalism purchasing cards, and the possible personal use of them. Discussion followed relating to improper procedures, questionable activity of purchasing card administrator's monitoring, lack of reconciliation of purchasing card activity, and ways to better control purchases. Regents asked specific questions about purchasing card limits, segregation of duties, review of financial reports, and the ultimate value of issuing purchasing cards at all. Personnel actions and legal issues will be discussed in the executive session to follow this meeting.
Ms. Foy stated that new procedures effective July 1, 2006, such as requiring original receipts and department approvals, will decrease abuse of purchasing cards. Judith Leonard commented that UA has limited the control of cards so that no single person has sole control of any card.

CENTRAL OFFICE AUDIT REPORTS

Rick Gfeller discussed recent audit work regarding computer sales at the NAU bookstore, and noted that the audit trail was inadequate. The bookstore manager was non-renewed, as a result. Kathe Shinham reported that an RFP to outsource the bookstore will be issued, with new management to be in place for the spring 2007 semester. Better service to students and faculty is expected to result.

Regent Calderón moved to accept the Central Office verbal audit report, seconded by Regent Graff. Motion was unanimously carried.

REVIEW AUDIT PLAN STATUS REPORTS FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Regent Stuart initiated a discussion of the status of audit plans. The discussion related to determining how audits are planned and then possibly superseded for higher-priority, unscheduled audits. At NAU, the President authorizes and/or approves such audits. At UA, the VP of Finance approves. At ASU, the President now approves. The decision was formerly departmental, in consultation with the President’s office.

Regent Mariucci commented that the status report format is helpful and meaningful, and suggested that planned or budgeted hours be compared to actual hours as a measure of utilization and productivity.

She is concerned about the impact of unplanned audits taking priority over planned audits. Planned audits should be the product of a strategic risk assessment that is done by senior staff.

Regent Mariucci emphasized areas that have to be addressed involve identifying where we have the most exposure, and where we are the most vulnerable, particularly in some of the public-private ventures, the entrepreneurial ventures, and so on.

Regent Stuart requested that Rick Gfeller have a policy discussion with Regent Mariucci regarding commitment to audit plans. Regent Mariucci mentioned the possibility of outsourcing audit work if internal resources are inadequate.
Regent Boice concurred with Regent Mariucci. He expressed concern that some audit plans are developed in a way to make sure everything gets audited over some period of time. He noted Regent Mariucci was talking about identifying the high risk areas and making those the focus of the audit plans.

The discussion will resume at the next Committee meeting, dictated by time constraints and the result of policy discussion between Regent Mariucci and Rick Gfeller.

REVIEW ANNUAL AUDIT PLANS FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Regent Stuart introduced this item and suggested continuing specific discussion to the next Committee meeting, due to the importance of the work between Regent Mariucci and Rick Gfeller as to the direction of the audit plans in the future.

STATE OF ARIZONA OFFICE OF THE AUDITOR GENERAL LETTERS

Rick Gfeller described the Auditor General management and engagement letters relative to each of the universities and the central office.

Regent Calderón moved to accept the letters, seconded by Regent Graff. Motion was unanimously carried.

CHIEF AUDITOR REPORTING RELATIONSHIPS

Regent Mariucci commented that the dual reporting to the Committee and the university administration was displayed on the organization charts in the agenda book. She emphasized that the reporting relationship of the auditors to the Audit Committee is just as strong as it is to their local direct reporting line. It is important for the audit functions to understand they have the full support and ear and attention of the Committee.

SARBANES-OXLEY UPDATE

This report was deferred to the next Committee meeting.

Regent Calderón moved to adjourn to Executive Session, seconded by Regent Mariucci. The motion was unanimously carried; the regular Audit Committee meeting was adjourned at 8:00 p.m. Executive Session adjourned at 9:00 p.m.