LOYOLA UNIVERSITY NEW ORLEANS
AUDIT COMMITTEE OF THE BOARD OF TRUSTEES

Tuesday October 25, 2011
Claiborne Room, Danna Student Center, 1st Floor
9:00 a.m.

1. Approval of September 8, 2011 minutes
   Action Item

2. Approval of Loyola University New Orleans
   Financial Statements for the year ended July 31, 2011
   Action Item

3. Other Business

4. Executive Session with Deloitte & Touche, LLP

5. Executive Session with the Internal Auditor
The meeting was called to order at 9:04 a.m.

ACTION ITEM # 1: Approval of the April 7, 2011 Minutes.
Mr. LeBlanc for a motion to approve the minutes from April 7, 2011, Anne Gauthier made motion, there was no opposition.

AGENDA ITEM #2: Update Fiscal Year 2010 Year End Audit.
Ms. Hoffman noted that this information was intended to be in the April Audit Committee packet, but failed to make it. LaPorte Sehrt Romig Hand performed a comprehensive general audit of our systems and there were no material issues, only some observations noted. On the handout, IT Audit Observations, these observations are listed, as well as our management response. These items have been discussed previously, the only addition is the management response and how handled. Mr. LeBlanc noted also that at the end of the audit, there were no major items that were uncovered. Ms. Hoffman said the observations were more administrative (i.e., naming conventions, etc.), but no fraud or impactful events to the safety of the organization were found. One issue regarding removable media devices/jump drives, but IT department is working on how to control, they are also developing a training/policy as well. In the future, we may have removable media devices/jump drives available only in IT and that are password protected, but we must insure we remain within FERPA guidelines. Fr. Gerlich expressed a concern regarding backup, Blackboard, etc. in case of another Katrina-type disaster. Mr. Calamia, Mr. Mathes and Ms. Hoffman all explained that Loyola does have a system in place in Chicago, which stores our data and it was recently tested. The gathering place for staff is in Dallas and a mock disaster was put in place. Mr. Calamia asked Lynn to check with Ed Kvet and Bret Jacobs regarding when the system was tested and give an update to the Audit Committee at next meeting on October 25, 2011. Fr. Gerlich was concerned that not all faculty are Blackboard ready, but Mr. Mathes stated that Dr. Roger
White said at an Emergency Management Team meeting that Academic Affairs was ready to “flip the switch” for all instructors to convert to Blackboard teaching mode.

**ACTION ITEM #3: Discuss Observation from the IT Review conducted by Deloitte & Touche.**  
Kathleen Zuniga, lead auditor for Loyola’s account, and Adam Hill, Manager at Deloitte & Touche were present at meeting to present their Planned Scope, Timing and Audit Status Update report. She reviewed where they are in the audit, as far as the scope, risks, and what they are auditing. Essentially they do an audit for financial statements at Loyola in accordance with general and government auditing standards since Loyola receives federal funding related to student financial aid and grants. They also conduct an A133 audit which is the schedule of federal grants, and also issue a report on internal controls over financial reporting, as well as, internal control over major programs and compliance requirements of those major programs. The majority of financial expenditures at Loyola are student financial aid.

In June 2010, they performed IT work and looked at all the financial reporting systems and general computer controls over those financial reporting systems that ultimately generate financial statements. There were no findings with respect to that piece of the audit, but one deficiency that was not significant was within Razors Edge application. This was due to a person having system administration access, and they met with management about the issue. Institutional Advancement mainly uses this application to track contributions made for fund raising. The risks identified as Significant Risks in the Planned Scope, Timing and Audit Status Update report, aren’t the only risks, there are other risks that are reviewed in the audit. The first Significant Risk is estimate of allowances for doubtful accounts related to student accounts receivable, contributions receivable and loans receivable. They look at the reserves and how management calculates them, at reserving percentage used and validates them using historical experience, and also perform a retrospective review of those estimates. The second Significant Risk is regarding Valuation of Level 2 and 3 (if any) investments, most of Loyola’s is Level 1. Level 2 investments are private equity and common fund. They perform testing of relevant internal controls in conjunction with A-133 audit, looking at compliance requirements and expenditures as it impacts the A-133 audit. Ms. Hoffman helps with the A133 testing for student financial aid, contribution levels, and she looks at the various restrictions, internal control work with them as well.

Because of new Audit Committee members, Mr. LeBlanc asked Ms. Zuniga to explain what an A-133 audit is. OMB-A133 is required by the General Accounting Office of the United States, it is an audit that is performed with government auditing standards, and it is different from generally accepted auditing standards because Loyola receives more than $500K in federal monies for grants or rewards. The government requires those institutions to have a special OMG-A133 audit. Within those federal award programs, there are different compliance requirements that Deloitte & Touche tests to make sure Loyola remains in compliance with A-133. They test each of the approximately 9 compliance requirements, but not all of them may be applicable to financial aid, so they assess and test those requirements yearly.

Mr. LeBlanc noted that Loyola has to remain in compliance, if not, Loyola would lose all government funding (i.e., pell grants, etc.). Ms. Hoffman stated that Loyola does not receive
the funds then decide how to distribute, all the students go through FAFSA online and they input their information. The information is then reviewed and they decide what level of award is received. When Loyola receives it, it is reviewed again, so there is a lot of review to verify the accuracy of the information. The award is determined by the federal government. Custodian for investments, State Street, which is probably the largest custodian of investments, and they maintain accounting records for valuation. State Street issues report, SSAE 16, a report issued for the processing of transactions on the controls that they have tested, since they are maintaining the investments. Deloitte & Touche receives the report, reviews the test controls that have been performed, and look for anything that could possibly impact the audit or their testing of investments as well. This review is complete and no issues were found.

AGENDA ITEM #4: Audit Update Fiscal Year 2010-2011, including the discussion of significant Audit or Accounting issues, if any.
Ms. Zuniga discussed risk discussion regarding fraud, she meets with Mr. Calamia and Mr. Mathes to talk about where fraud could be occurring. Ms. Hoffman also performs a risk assessment review. She explained that a few years prior, the Audit Committee developed a list of areas of major potential risk in the University, including financial risk, operational risk and reputational risk. Internal Audit was tasked to investigate controls that currently existed in each area. Ms. Hoffman then developed a Risk Assessment Survey, which was sent out to the auditable departments. When they are returned, the questions have a weighted average assigned to them, and she applies a risk number to each entity.

Mr. LeBlanc noted that out of the Executive Committee meeting the day prior, Loyola is going to have visits from Standard & Poor & Moodys to get bond ratings in preparation for renovations on campus. There are some are concerned regarding the date the audit can actually be approved, it may be late. Mr. Calamia explained that traditionally the audit is approved by the Audit Committee in late October/early November, and goes to the Board in December for approval. However, we are currently on a fast track in order to close on the bonds due to the fear of interest rates accelerating, so the sooner we go to the bond market, the better we are taking advantage currently of low interest rates. The Audit Committee will meet October 25, 2011, but for us to have an approved audit and to sell the bonds in early November, we cannot wait until the December Board meeting to approve. Fr. Wildes suggested that the Board be asked to give the Executive Committee the authorization to approve the audit when they meet on November 3, 2011. Mr. Mathes explained that the audit will still come to this committee on October 25, 2011, for their approval/recommendations for the full Board.
AGENDA ITEM #5: Audit Plan Fiscal Year 2011-2012.
Ms. Hoffman noted that the 2011-2012 projects are either in report writing stage, which is approximately 90-95% complete for residency hall and ID card operation, major gifts has begun and is in the process of hiring an intern for her office. Mr. LeBlanc asked about the follow-up on outstanding items, if it is the reports for residency hall and ID card operations. Ms. Hoffman said this is an inflated number because she wants to be cautious as to ensure accuracy.

Ms. Hoffman asked committee to review the Risk Assessment handout, which notes risk number score. The first is Development, this name replaces Major Gifts. She is looking at Development in conjunction with their Capital Campaign. All of the departments in Institutional Advancement are involved in some way of this Capital Campaign, and this is going to be a fairly large audit. Ms. Hoffman said the biggest risk is if a donor gives money for a specific purpose and the donation is not used for that purpose. She is monitoring this process closely, even though this process is also tested every year. During the year-end audit, she usually reviews contributions received during the year, not just the contributions for the Capital Campaign. Contributions are tested on how it was processed, if the correct account was updated, and if it was applied to the correct fund for Deloitte & Touche. Ms. Hoffman will also be reviewing expenses by Capital Campaign, verifying the expenses posted to the Capital Campaign account are for the Capital Campaign. Advertising will also be reviewed (i.e., what are we saying to the world, who has control over it, who’s approving it, is it the same message, etc.).

Line item, Travel expense/credit card, is leftover from a special assignment from last year, but this is still in process. Staff do not have purchase credit cards. Loyola issued credit cards can only be used for travel and entertainment (approx. 150 staff on-campus have this). There is zero tolerance for personal purchases. Ms. Hoffman has identified the top 20 cardholders who she will be testing and reviewing charges. She will be looking for personal purchases and discrepancies. In the past, she has discovered not only personal purchases, but reimbursement was forgotten. Ms. Hoffman and Ms. Tootie Buisson have been working together and if anything comes across Ms. Buisson’s desk that is questionable, she forwards it to Ms. Hoffman. In these cases, Ms. Hoffman sends the staff member a very strong letter regarding personal purchases, and states if these purchases continue, she will recommend their credit card be revoked. Mr. Calamia noted that the cards are limited to merchant codes and will not work everywhere (i.e., Office Depot, etc.). Mr. LeBlanc noted that if fraud is occurring, it could potentially hurt future contributions from donors. Mr. Mathes stated that the IRS is watching all this very closely, and also if a staff member does not request reimbursement of an expense within 60 days, it has to be included on the staff member’s W2 form as income. IRS does not want people going across tax years, possibly deducting it one year and expensing another. Financial Affairs has gotten more strict because of the compliance issues from the IRS. Mr. Calamia noted that all supervisors signature must be on check requests, so it’s not just the employee that can be held accountable.

Another item that Ms. Hoffman will review is how many office parties are held in departments. It is an approved expense, but the question comes that these funds could possibly be utilized in different ways in their department. Mr. Calamia noted that there is a policy in place for this.
Ms. Hoffman stated that it has been a number of years since the Center for International Ed and Study Abroad have been reviewed. She will be looking at how money is collected and applied to the account to ensure there are proper controls. Also, what credits students are receiving and are they being properly applied to their student account will be reviewed.

Regarding Institutional Research, every 5 years for Loyola to be reaccredited, there is a process to go through and it is happening this year. Ms. Hoffman will be looking at how they are going through this process and what needs to be done to get reaccredited. Mr. Calamia stated that Institutional Research is the storehouse for institutional data (i.e., track headcount, track number of faculty, etc.). They also supply the Federal government with IPEDS form, which includes all data required from Loyola.

Ms. Hoffman noted that Government Relations, Tommy Screen (director), has never been audited. She noted she will conduct an audit that will take approximately 3 weeks. Basically what will come out of this audit is a narrative about what Mr. Screen does, review of his expenses, what kind of agenda he has, how often he travels to Baton Rouge, what he is working on, how he selects his topics to work on, etc.

The NAIA/Title 1/Compliance has never been audited. Ms. Hoffman said it’s similar to NCAA, but since Loyola is a smaller school, it’s the NAIA. She will review and make sure our student athletes are meeting all requirements.

Conflict of Interest Statements have never been audited. In one of Ms. Hoffman’s risk assessment classes she learned that this is one of the items that should be audited annually. The staff and faulty currently complete these forms online.

Follow-up on Outstanding Items from Ms. Hoffman, she has noted it will take approximately 37.5 hours to complete report for Residence Hall Occupancy.

Ms. Hoffman has added 20 hours to complete/follow-up on any miscellaneous items.

Mr. LeBlanc noted that Ms. Hoffman’s audit hours equal less than 50% of the scheduled time. Ms. Hoffman noted that what used a lot of time this year was looking into transactions on check requests, that were actually personal purchases, and is very time consuming. She hopes to train an intern to assist in these matters in the near future.

Mr. LeBlanc asked if there were any objections to Ms. Hoffman’s plan for 2011-2012. Ms. Hoffman noted that this year will be a very aggressive plan compared to previous years, and there are 2-3 additional projects to be reviewed as well.
AGENDA ITEM #6: Hours spent on projects from April 13 through July 31, 2011.
Ms. Hoffman noted that the spreadsheet in packet shows that she is tracking her time and wanted to update the committee since the last meeting. Mr. LeBlanc asked her to let them know when she is pulled from one project to another, keep them informed as to why this happened, etc.

AGENDA ITEM 7: Other Business.
No other business.

AGENDA ITEM #8: Executive Session with the Internal Auditor.
The committee went into Executive Session.