LOYOLA UNIVERSITY NEW ORLEANS
AUDIT COMMITTEE OF THE BOARD OF TRUSTEES

Monday November 11, 2010
Monroe Library, Seminar Room 4
9:00 a.m.

1. Review and approval of September 16, 2010 minutes

2. Review and approval of October 8, 2010 minutes

3. Approval of Loyola University New Orleans
   Financial Statements for the year ended July 31, 2010
   Action Item-Note(A)

4. Other Business

5. Executive Session with Deloitte & Touche, LLP

6. Executive Session with the Internal Auditor

Note(A) - Draft of Loyola University New Orleans Financial Statements and Schedule of
   Expenditures of Federal Awards for the Year Ended July 31, 2010 and Independent
   Auditors’ Reports included as a separate attachment
On Thursday, November 11, 2010, the Audit Committee of the Board of Trustees met with Administrative Staff and representatives from Deloitte & Touche to review the final draft of the Loyola University New Orleans Financial Statements and Schedule of Expenditures of Federal Awards for the Year Ended July 31, 2010 and Independent Auditors’ Reports, including the governmental audit report, the Internal Control Letter, the Management Letter and the Required Audit Committee Communication Letter. Deloitte & Touche issued an unqualified opinion on the financial statement of the University; noted no material weaknesses in internal controls over financial reporting; noted no instances of non-compliance with requirements or controls over major federal award programs. The Committee voted to accept the aforementioned items unanimously.
MINUTES OF THE AUDIT COMMITTEE OF THE BOARD OF TRUSTEES
September 16, 2010

PRESENT:
Barry D. LeBlanc, Chair
Suzanne Mestayer
Lawrence W. Moore, S.J.

ABSENT:
Steve Barbas
James A. “Jim” Caillier
Shawn Donnelley
John Finan, Vice Chair
Robert A. “Bobby” Savoie
Kevin Wm. Wildes, S.J.

INVITED:
Gita Bolt
Lynn Hoffman
Leon Mathes
Elaine Reyes, Deloitte & Touche
Kathleen Zuniga, Deloitte & Touche
Tammy Jackson, Recording Secretary

The meeting was called to order at 9:05 a.m.

ACTION ITEM #1: Approval of the February 18, 2010 Minutes.
Mr. LeBlanc noted there were no changes for the Minutes of February 18, 2010. Fr. Moore made motion to approve minutes, Ms. Mestayer seconded. No opposition. No quorum present. Present for approval at next meeting.

ACTION ITEM #2: Approval of April 8, 2010 Minutes.
Mr. LeBlanc noted changes to minutes, page 3 of 4, agenda item 6, Mr. Frank Harbin should be Carbon, who is on the College of Business Visiting Committee. Mr. Carbon is the person who recommended Lisa Horzelski of LaPorte Sehrt Romig Hand. Also, Lisa Horzelski’s name was misspelled (Horelski). Recommended to delete these sentences beginning with “The idea was to….” And “Ms. Horzelski’s firm…” Motion to approve the minutes as amended was made by Fr. Moore, Mr. LeBlanc seconded the motion. No opposition. No quorum present. Present for approval at next meeting.

ACTION ITEM #3: Update Fiscal Year 2010 Year End Audit with Deloitte & Touche
Kathleen Zuniga, lead audit director for Loyola account, introduced Elaine Reyes, new manager on the engagement. Elaine has been with Deloitte & Touche since 2002, currently a Senior Manager, and clients she has worked with have been in healthcare, higher education, non-for-profit entities, Audubon Institute, other company’s in the area, and main industry she has been involved is gaming. Ms. Reyes is very excited to work with Loyola University.

Ms. Zuniga handed out an agenda to all members of the committee. Ms. Zuniga said that Ms. Hoffman asked her to present an Audit Update, and she liked the opportunity to get
in front of the committee before doing a substantial amount of the field work to see if anyone has any concerns and to discuss about what the firm is doing. Normally, they would only present the audit report and the numbers, but felt this would be good practice and they do this with some of their public companies. The handout includes a summary so everyone can get an idea of what they are doing. The audit scope is to obtain reasonable assurance about whether the financial statements are materially misstated. One of the key things they do in planning is develop a materiality of what they think that number should be, and that can change from year to year based on who the users are, operations, challenges, economic downturn, so they do not know what the materiality is presently because the books are not closed. Loyola has a significant endowment, the numbers are usually driven off our own restricted data assets because the major focus is liquidity and investment returns, which can drive the number up and down a lot.

To date, they have completed a substantial portion of the A133 testing which is the audit that is done with federal expenditures and is required by the federal government. They have spent time with Mr. Mathes and Ms. Hoffman to plan the audit. Ms. Zuniga stated she was glad to see the IT Proposal because when brainstorming in the past, that was one of the biggest things that could be a risk to the university.

Deloitte & Touche is basically looking at general computer controls (i.e., network operations, information security and change management around systems that support the preparation of financial information). Ms. Horzelski has a more detailed proposal, which is a good value ad from a risk perspective from the audit.

Ms. Zuniga updated the committee on significant areas of audit focus.

a. Investment/Investment Return
   Mr. LeBlanc asked about Revenue recognition, “ineligible students receiving aid as well as state funding,” he asked if that is because there is more scrutiny now in programs. Ms. Zuniga stated it rolls into A133, and they always want to ensure that Loyola is in compliance. From a risk perspective, Ric Bell, said he has never seen anyone have any significant applications, but it certainly is a requirement. Given the magnitude of financial aid received, it is a concern because it could have a financial statement impact. There are new Federal requirements, an updated compliance supplement that came out in mid-2010 and it was really geared towards the ARRA (American Recovery Reinvestment Act Funds), so it tweaked the scoping and sample sizes that we have to do on A133’s, there are increased requirements. It should not impact Loyola because there is not a significant amount of those dollars.

b. Revenue recognition includes financial aid, contributions, etc.

c. Receivables include potential valuation issues on collection of outstanding pledges and student accounts receivable due to market declines.

d. Operating expenses have greater scrutiny since it has to be determined if the funds are being spent in the right way. We have seen that locally in our market in government entities. They try to think about what will impact Loyola and what they need to do pertaining to a risk perspective and take that into consideration.
Pervasive Risk – Risk of Management Override: She noted this is a risk you cannot specifically put your hand on, whether it is a risk of valuation of investments, it is basically just the risk of management override. It ties into fraud considerations (i.e., president making journal entries, etc.). Ensures that management personnel that is comparing the financial statements is doing what they are supposed to do and that Deloitte and Touche is comfortable with the entries that have been made. They do journal entry testing and look at who is involved with preparing postings, who is reviewing journal entries, and unusual transactions.

Internal Audit Assistance: Ms. Hoffman helps with significant amount of compliance testing on A133, and also with some internal control testing. Obviously she is very helpful in coordinating the information she needs from the various departments.

Audit Status: They have substantially completed the A133 field work testing, planning, trial balances from management and getting those uploaded, and are scheduled to start final field work on September 20, as well as, completed controls testing. From a findings perspective, they have no significant findings.

Recent Accounting Pronouncements and Changes: Adoption of UPMIFA for non-profit organizations, it partners and comes under FSP117-1, which essentially Loyola adopted two years ago. The first part of the accounting pronouncement required more clarity and transparency around endowment and essentially net assets, breaking them out between unrestricted, temporarily restricted, purposes used, number of funds, and how the investments were managed. In the past, financial statements have seen the audit report with extended or enhanced disclosures around net assets and restricted endowments and what the restrictions were and the purpose. There was one piece that was not affected because it required State approval, and Louisiana was one of the last three states that had not adopted it, so in June 2010, Louisiana Legislature did adopt UPMIFA. It has significant ramifications for numerous clients with significant endowments, but it does not impact Loyola as significantly as it has in other states. It stems around when Loyola went from fund accounting to temporarily restricted net assets more than 10 years ago, you had to take a different focus on financial statements when you looked at it in terms of donor restrictions, unrestricted, temporarily restricted versus fund accounting. At that time, there was some leeway in different approaches you could take to how the investment earnings on endowments that could have restrictions around the corpus or restrictions around the distribution of those funds. If there is not a restriction on investment earnings in unrestricted, temporarily restricted, permanently restricted, if the earnings were not restricted by the donor, you could elect to put them in unrestricted categories. The legislation looks at preserving the corpus of that investment, so a lot of companies are having to take the investment earnings that ran through the unrestricted fund and re-classify to temporarily restricted to the extent it was not expended, if the earnings were for a purpose, but had not designated by the university. Loyola has always taken a more conservative approach and put those investment earnings in temporarily restricted, so
there was no big hit. Some universities have had from 1/3 to ½ of their unrestricted net assets being moved into temporarily restricted and implications are liquidity if their bond covenants are tied to unrestricted ratios.

There is another component of UPMIFA that talks about investments (for instance if someone donated $1M and permanently restricted that corpus, if the earnings were designated for a specific use, earnings were not spent, they would be put in temporarily restricted. The underwater rules for UPMIFA say the fair value is below the original investment, the unrealized investment gain or loss could possibly go into restricted again. Essentially there will be an adjustment to the financials at the end of July 31. We are presenting comparative financial statements, UPMIFA requires a restatement of financial statements based on the first day of the earliest year presented and we present 2 year comparative. So, we will have an adjustment as of the end, we will have a restated financial statements as of August 1, 2008 going forward. It is because there is a cumulative effect of a change in accounting principle. Essentially it will shift money that was recognized, which is not a pickup for Loyola. Loyola has approximately $1.2M that has to be funded from unrestricted, which is basically the unrealized loss.

Ms. Mestayer asked if the income in the corpus have to be shifted or does it stay in whatever account generated it. Mr. Mathes noted it stays where it is, you have to think in terms of the financial statement perspective 3 containers: permanently restricted, temporarily restricted, and unrestricted. For example, the Gillis Long Poverty Center $4.5M was the permanently restricted amount, their earnings have far exceeded that over the years and all those dollars are sitting in temporarily restricted. Mr. Mathes stated he does not have the answer for if it would go below $4.5M because we do not have that situation. Loyola’s funds that are underwater are expended every year in scholarships, etc., so we do not have to pull out of temporarily restricted. For us to have the interpretation of UPMIFA, we are going to continue to retain that historic dollar value, for example, if someone gives Loyola $1M, and their gift document was silent about invading the corpus, our attitude has always been to never invade the corpus, so that if someone’s endowment is underwater, they receive no award for the subsequent year. We look at the average market value of January, February, March preceding August 1 because Financial Aid has to make decisions about scholarship awards, etc.

Mr. LeBlanc stated he read an article saying if the donor’s intention was to fund a scholarship, for instance, for 10 students, they endowed a certain amount and because inflation has increased the value of the scholarships, they cannot fund 10 students any longer. There may be a requirement to restrict some of those earnings to build up the corpus is a possibility and then to restrict those funds. Mr. Mathes noted that donor intent always trumps everything.

Fr. Moore had a suggestion, reauthorization of higher education, one of the provisions is when students register have access to not only textbooks, but also the price. He said he tries to get his faculty to put their books on their syllabi and the bookstore is suppose to hyperlink it so students will know the price. The ultimate penalty is to lose Federal Financial Aid. If we have only a 20-30% compliance they are going to make some noise.
It was effective this past academic year. As long as he has been at Loyola, there has always been a problem with retention and graduation. Loyola does not compare favorably with our peer institutions.

Ms. Mestayer talked about Federal Aid being much more highly scrutinized in the future. She was listening to a financial network and there was a prestigious analyst who was talking about the next shoe to drop and that is Financial Aid in higher education. He specifically focused on for-profit universities that are taking in students who really should not be in those institutions. These students are going to these schools completely on Financial Aid and never graduate. The burden of the federal guarantee on the student loan has not hit the federal government yet. If in fact that transpires, in the way it was described, Financial Aid is going to be the next venue of intensive review, especially the for-profit universities that are not graduating high percentages of students. The statistics were startling. They will have to do this based upon some objective standards. One of the individuals was quoted in the book, “The Big Short,” as being one of the guys who figured out the crisis that was about to happen. He is an individual who has had some experience in finding the burgeoning weakness in what is going on. It is something for everyone to be aware of that the scrutiny over meeting the requirements for Financial Aid are only going to increase, if in fact, this is a symptom of something.

NACUBO is all over this, Mr. Mathes said he just read their summary of their standards, graduating ratios, etc. NACUBO is not going to stop at the for-profit universities.

Ms. Zuniga stated the only thing that can be done as an organization to protect yourself is to hold ERM, brainstorm and all the things that Ms. Hoffman has done. During their partner meeting there was a resounding theme and it was company culture, management across the university has to implement ERM and set the tone at the top about what is right and wrong and make sure everyone knows they will be held accountable. Accountability is the word for the next decade. The only way as a university to mitigate the risk is to hold the people that are in management and even the clerks dealing with student money, must be held accountable.

Mr. Mathes stated that the General Ledger has been closed since August 18, but if it wasn’t for IT, it still would not be closed. To close this organization in 18 days, is an accomplishment. Fr. Moore asked if it would be easier to have an earlier closing date. He stated another Jesuit pointed out the uncertainty every year of summer school coming at the end of the fiscal year rather than at the beginning. Mr. Mathes said that Loyola’s fiscal year is based on St. Ignatius birthday, Feast Day and the fact that we could get summer school in one fiscal year. A lot of schools have to split up summer school. We have looked at changing the fiscal year to May 31, which would put summer school at the beginning of fiscal year, so if summer school is a bust, you know what you have and fall and spring are a lot more predictable. Fr. Moore’s concern is there seems to be a wild card in local folks who come back home and decide to pick up a few classes or those that would rather work, this is impossible to predict.

Ms. Zuniga & Ms. Reyes thanked the committee for their time and exited the meeting.
AGENDA ITEM #4: Review and approve proposal of IT Review from LaPorte
Sehrt Romig Hand
Mr. LeBlanc asked for approval of the proposal from LaPorte on the IT Audit Services. In the February meeting it was discussed getting more than one proposal from a regional firm, and liked the idea this was separate from DeLoitte and Touche. The proposal is a lot smaller than anticipated. One of the discussions today is whether this is necessary. Each committee member received a copy of the IT Proposal.

Ms. Mestayer stated she did not view it as obtaining other proposals for the purpose of reducing the fee, the reason for getting other proposals, in her opinion, was either the scope or the resources that would be brought to table for this. She thinks very highly of staff at LaPorte, but wondered as reading though the proposal, is Lisa Horzelski the only person that will be involved in this audit. She stated that a one person audit is not very comforting. She asked if there are other references or other engagements Ms. Horzelski has worked on. Ms. Mestayer is also concerned that this is not an appropriate scope for what we actually need. We need to know how many people will be working on this and what are their qualifications. On Ms. Horzelski’s bio, she has great certifications, but it does not state how long she has been doing this type of work. Ms. Mestayer apologized for not attending at the last meeting because these questions would have been asked then.

Mr. LeBlanc said Ms. Horzelski said she had one assistant out of the Baton Rouge office that would assist her on this assignment. Ms. Hoffman noted that Ms. Horzelski would serve as the senior manager, but she does not know if other people will be involved.

Mr. LeBlanc noted this audit was not supposed to begin until November, so there is no urgency. Ms. Mestayer suggested identifying specific questions we feel we need answers to, circulate answers to those questions via email and committee members can respond if they feel they are satisfied with response. The approval would be pending collective satisfaction to the responses. It is the low level fee that has Ms. Mesayer most concerned. She feels if this is Phase 1 in what would probably be a multi-phase review, then this is a much better way to look at the proposal. Ms. Mestayer would be open to a contingent approval of this pending answers to questions, disseminating this via email, and getting responses via email. Fr. Moore said if this was a motion, he would second. There was no opposition.

Mr. LeBlanc stated the scope was approved in February by comparing what they thought the high audit risks are in IT. Ms. Horzelski came up with a high risk review area, medium risk and low risk in this initial audit. They wanted to reduce the duplication that DeLoitte and Touche has already doing on an annual basis. Deloitte and Touche does controls audit, they do not do systems audits. Fr. Moore stated that Ms. Horzelski may be doing this audit at a reduced rate to get their foot in the door at Loyola or in the New Orleans area. When they can tell others they did this for Loyola University, that gives them credibility.
Mr. LeBlanc reviews the three questions that need clarification on the IT Proposal:
- Explanation on fee and hours,
- Explanation on the staff,
- More information regarding the firm and Lisa Horzelski’s experience.

AGENDA ITEM #5: Other Business.
Mr. LeBlanc felt the committee needed a quick review of Ms. Hoffman’s internal audit plan for the fiscal year and what the four items are that she is devoting her time this fiscal year. The committee identified what they thought were the major risks and those were combined with the risks Financial Affairs had identified. A document was prepared that compared them all to make sure they were covered. Ms. Hoffman has given a score to the type of the major risk and these four areas had the highest score.
1. Residency occupancy (left over from prior year)
2. ID card operation (left over from prior year), so it was a carry over of audits because of the risk assessment process done last year.
3. Travel expenses: Ms. Hoffman went to ACUA seminar and they discussed new ways to steal on travel expenses, and she does not believe that has ever been looked at. Mr. LeBlanc saw something regarding travel cards that employees are using and booking family vacations, etc. Mr. LeBlanc circulated the score card Ms. Hoffman had prepared. Fr. Moore noted there is a change in the IRS for reimbursement for spousal travel, etc. and there is a whole constellation of issues there that the university is facing. Mr. Mathes explained that his office has become very fine tuned with the IRS changes and from the date of an expenditure, if you don’t request reimbursement within 60 days, it is imputed into your income. If IRS ever shows up on campus, they usually go straight to payroll and catch things that like were on a 1099 and should have been on a W-2.
4. Major gifts had the highest risk.

Mr. LeBlanc stated previously the second highest score on risk is grants and research, believes the reason it was not done on an internal audit was because all of the work that Deloitte does on the A133. They are satisfied with that, so that is why we are not doing an internal audit. Ms. Hoffman noted that this has been tested within a 5-year period.

AGENDA ITEM #6: Executive Session with the Internal Auditor.
There was no Executive Session.

Fr. Moore entered a motion to adjourn, Ms. Mesteyer seconded. Meeting was adjourned at 9:55 a.m.
The meeting was called to order at 8:34 a.m.

**ACTION ITEM #1: Approval of proposal of IT Review from LaPorte Sehrt Romig Hand.**

Mr. LeBlanc stated that LaPorte segregated the risks to Loyola into 6 scenarios as high, medium, and low. The initial audit is really in preparation before a Capital Campaign. The risks being Back-up completion, Campus Card System, Razors Edge System for security purposes, E-Discovery Documentation, identification and use of removable media, compliance with FERPS, financial report generation review. Bret Jacobs, CIO, and Ms. Hoffman met, agreed these were the high risk areas and asked LaPorte to prepare the audit. The low fee is for an initial audit, the fees are low because she is the main staff member working on this. Ms. Mestayer noted that the scope is limited, it is a start, but not completion. She feels that LaPorte will accomplish good, but may need to seek out other firms in the future if we want to move forward. Mr. Savoie stated that the work LaPorte is doing for Loyola is not a true IT audit, and offered to do a quick review of the system through his staff for no cost. However, he has used LaPorte in the past and they did a great job, but this audit may give a false sense of security. Mr. Savoie also agreed to move forward with this initial audit, but he will get with his staff and see what areas they target for a true IT audit. Ms. Hoffman stated she would like to see a checklist of items that Mr. Savoie’s staff comes up with. Mr. Finan said this audit seems more like a risk assessment from policy standpoint deficiencies, but feels we can proceed and we can always use other outside firms for future audits. Mr. LeBlanc noted that there is a checklist of items LaPorte is using that came from them meeting with Ric Bell and Bret Jacobs and looking at top risk areas, that is how this list came to fruition.

Mr. Finan made a motion to approve the proposal of IT Review from LaPorte, Fr. Moore seconded. No opposition.

**ACTION ITEM # 2: Approval of the February 18, 2010 Minutes.**

Fr. Moore made motion to approve minutes, Ms. Finan seconded. No opposition.
ACTION ITEM #3: Approval of April 8, 2010 Minutes.
Fr. Moore made a motion to approve minutes, Mr. Finan seconded the motion. No opposition.

Mr. LeBlanc noted that the next Audit Committee meeting is scheduled for November 11, 2010 and he will be out of the country. He stated there must be a quorum (4 out of 7 members) at the meeting, as stated in the Board of Trustees Charter. If not, the meeting needs to be rescheduled. It was agreed to send RSVP notices to all members for the November 11, 2010 meeting.

Fr. Moore entered a motion to adjourn, Ms. Mesteyer seconded. Meeting was adjourned at 8:50 a.m.