LOYOLA UNIVERSITY NEW ORLEANS
AUDIT COMMITTEE OF THE BOARD OF TRUSTEES

Thursday, September 10, 2009
Monroe Library, Seminar Room 4
9:00 a.m. – 2:00 p.m.

Session #1: 9:00am – 11:00am
Invitees: Audit Committee Members, President, V.P. Finance,
Associate V.P. – Financial Affairs, Director – Risk Management,
General Counsel, Asst. to President – Government Relations,
Internal Auditor, Independent Auditors

1. Approval of April 23, 2009 minutes
2. Risk Management Review and Assessment

Session #2: 11:00am – 1:00pm (Lunch provided)
Invitees: Audit Committee Members, V.P. Finance,
Associate V.P. – Financial Affairs,
Internal Auditor, Independent Auditors

1. FY 2009 Financial Audit Planning

Session #3: 1:00pm – 2:00pm
Invitees: Audit Committee Members, Internal Auditor

1. FY 2010 Internal Audit Planning
2. Other Business

ACTION ITEMS

Internal Audit
Audit Committee
September 10, 2009
MINUTES OF THE AUDIT COMMITTEE
OF THE BOARD OF TRUSTEES
April 23, 2009

PRESENT:
James P. Bradley, S.J., Chair
Barry D. LeBlanc, Vice Chair
John J. Finan, Jr.
Joseph E. Mahoney, Jr. via teleconference
Suzanne Mestayer, Chair (ex officio)

ABSENT:
Tina N. Owen
William J. Byron, S.J.
Kevin Wm. Wildes, S.J. President (ex officio)
Leon Mathes

INVITED:
Jay Calamia, Vice President for Finance & Administration (ex officio)
Lynn Hoffman, Internal Auditor
Mike Connick
Kathleen Zuniga, Deloitte & Touche, LLP
Anne Favrot, Recording Secretary

The meeting was called to order at 1:32 p.m., opening with a prayer by Fr. Bradley.

ACTION ITEM # 1: Approval of November 13, 2008 Minutes.
Mr. LeBlanc made a Motion to approve the Minutes of November 13, 2008. Mr. Finan seconded the Motion. The Motion to approve the Minutes of November 13, 2008 was approved without opposition.

ACTION ITEM # 2: Annual Approval of the Internal Audit Charter.
Fr. Bradley requested Ms. Hoffman present the Audit Charter to the committee. Ms. Hoffman noted that there had been no significant changes made to Loyola’s Internal Audit Charter. The charter itself requires that it be approved annually by the Audit committee.

Regarding the question of whether the Internal Auditor issued reports to the President or Audit committee every six months, Ms. Hoffman noted such reports are only made if an issue arises. Fr. Bradley noted that the current Audit committee schedule ensures a six month reporting timeline.

Several questions arose regarding the source of appointment and removal authority for the position of Internal Auditor. Committee members asked that the language of the charter clarify the principle of independence, so there should be no potential influence that would cause the Internal Auditor to avoid an issue or manage a report in such a way that it did not accurately reflect the situation. Within the organizational chart, clear lines of responsibility were shown to exist between the Internal Auditor and the President, as well as between the Internal Auditor and the Audit Committee. The Internal Auditor does not report to any other area of the administration. Fr. Bradley noted that the Audit committee has always met with the Internal Auditor in Executive Session expressly to provide a clear level of independence. Committee members requested that the language in IAC section, Organizational Status, # 1 [pg. 2 of 5], be rewritten to more accurately reflect the Org Chart lines of direct responsibility to the Audit Committee.
Regarding the question of expressing disagreements between the department being audited and the Internal Auditor, committee members asked if they would be made aware of the disagreements. Ms. Hoffman noted that she did include the completed reports and departmental responses this year for committee review. The suggested language change should be: IAC, Reports and Following Up, [paragraph 2, pg. 3 of 5], “Communications expressing disagreement will be incorporated as a part of the final report after discussion with the administrators of the audited unit.….” Ms. Mestayer requested that the committee routinely be alerted to departmental responses and the resolution of the issues.

Fr. Bradley summarized the requested language changes to be: IAC, Organizational Status, #3. [pg. 3 of 5], “In order to enhance independence of the Internal Auditor, upon receiving the recommendation of the President, the Audit committee of the Board of Trustees should act to appoint or remove the Internal Auditor.” Some discussion ensued about performance evaluation protocol. Ms. Mestayer noted the President would prepare the Internal Auditor’s performance evaluation for review and approval by the Audit Committee.

Ms. Zuniga of Deloitte & Touche, LLP suggested that there may be more revisions after discussion with outside auditors, such that the committee would prefer to keep the document in draft form and vote on all changes at the same time.

The committee chair and committee members agreed that the vote on final language be deferred. No action was taken by the committee at this meeting.

**ACTION ITEM # 3: Approval of Conflict of Interest Policy – Introduction and Policy.**

Ms. Hoffman updated the committee with a handout titled Board of Trustees, Loyola University New Orleans, 2008-09 Officers provided by Mr. Mathes. The document provided a list of people required to sign the new conflict of interest disclosure form, as well as key employees, highest compensated employees and independent contractors. The disclosure form must be signed by the Officers and returned to the university by July 31, 2009 to be in compliance with the new IRS 990 form. The conflict of interest policy has been strengthened considerably this year, with the enclosed document having been reviewed and approved by Deloitte’s tax specialists and counsel from Adams and Reese.

Some examples of conflict of interest relationships were discussed. Committee members expressed concerns about unintentional or unknown conflicts, including family member relationships with university officers, and the annual review of any such possible conflicts. Attorney/client, doctor/patient, and priest or clergy professional relationships were understood to be exempt. Ms. Zuniga noted the best rule when in doubt was to inquire. For example, Deloitte has a formal line of authority where they can inquire about existing conflicts before accepting an RFP or proposed new business. Fr. Bradley stated in his cover letter for the Enhanced Conflict of Interest Statement that any questions should be directed to Mark Surprenant, Loyola’s legal advisor at Adams and Reese. Any conflict discovered would be used to alert the University and to determine an officer’s resulting eligibility to vote on corresponding issues.

New policy text was taken directly from the IRS 990 regulatory language. To clarify an issue found in Conflict of Interest Policy, Section IV, Compensation, paragraph 3, committee members requested a sentence be added in the footnotes to state “No voting member of the
Board of Trustees, or no voting member of any committee of the Board of Trustees whose jurisdiction includes compensation….”

Some discussion ensued regarding periodic review to ensure compliance with tax exempt status. Mr. Calamia noted that any financial issues would most likely be discovered in preparation of the annual 990 and Audit. Contract reviews come under the jurisdiction of Risk Management and would be also be reviewed by In-House Counsel as soon as the position is filled. Currently layers of administration officials sort for compliance, beginning with the respective area Vice Presidents, who bring issues from their areas to the President’s Cabinet for discussion. Risk Management reviews them. Any financial issues are reviewed in Finance & Administration.

Committee members discussed the growing trend that members of Congress had been taking greater interest in the management practices of tax exempt entities, including levels of executive compensation. Suggestions were made to provide the Executive committee with a report on all compensation in the $100-150/ year range. Additionally, the President could provide written confirmation that he has received survey data (perhaps NACUBO generated) placing the compensation packages in line with equivalent positions elsewhere. The committee hoped to avoid hiring expensive compensation consultants, while at the same time proving a successful review process was in place.

Some discussion ensued regarding how Jesuits are compensated by the University. Mr. Calamia noted the contract to hire a Jesuit professor was written in the name of the individual, with their compensation made payable to the community or order in which they served.

Fr. Bradley requested that under Compensation, Section V, a. the phrase “Arm’s length bargaining” be clarified in a footnote. The intent of the phrase was to prevent any conflict of interest from existing in negotiations of compensation, where one party was beholden to the other.

Fr. Bradley requested the revised draft, including the edits discussed above, be sent to the committee in advance for their approval. Once the committee had replied to approve the revision, the Audit committee would then bring the revised document to the May 2009 Board meeting for approval with Mark Surprenant, of Adams & Reese, to provide additional advice.

**ACTION ITEM # 4: Approval of Record Retention Policy.**
Fr. Bradley asked for a Motion to approve the updated Record Retention Policy. Mr. Finan so moved and Ms. Mestayer seconded the MOTION. The new Record Retention policy was passed without opposition.

**AGENDA ITEM # 5: Review of Whistleblower Policy.**
Ms. Hoffman noted that due to changes in the IRS form 990, Loyola’s Director of Human Resources, Mr. Ross Matthews, had designed and implemented a new Whistleblower policy. Although the policy does not require Board of Trustees approval, Ms. Hoffman wanted to update the Audit committee by providing them a copy. Mr. Calamia noted that these types of HR policies, for example Sexual Harassment Policy, typically are developed within the Human Resources department, then brought before the President’s Cabinet. When a more global policy is developed such as the Human Resources Policies & Procedures Manual it is
presented in draft form to the University and Administrative Senates as well as the President’s Cabinet, with the final draft being presented to the Board for review and approval.

Some discussion ensued regarding the procedures available for reporting violations, the availability of a compliance officer or hotline, and safeguards for anonymity without retaliation. Loyola currently does not have a hotline or compliance officer. Committee members suggested that the policy be compared with Federal Office of the Inspector General standards for regulatory compliance to test the compliance structure, as well as have the policy reviewed by counsel, to ensure compliance with local laws. Ms. Hoffman agreed to pursue those requests. No further action was required of the committee members at this time.

AGENDA ITEM # 6: Audit Update Fiscal Year 2008-2009, Including Significant Audit or Accounting Issues, If Any.
Ms. Hoffman reviewed the Audit update for Financial Audits, FY 2008-2009. The University Financial Statements, the A-133 Filing, the eZ-Audit Filing (required by entities receiving Federal monies), and the University Tax Returns – 990, 990T were completed, with no issues. The Gillis Long Poverty Law Center, with its year end date of 12/31/09 was in progress. Risk Assessment was noted to be an ongoing audit universe.

FY 2008-2009 Internal Audits were reviewed. The report on Car Allowances for VPs is complete (see exhibit 6/A). The internal audit of University Owned Vehicles was complete to the point of management responses. Internal audit work now involved the policy for University owned vehicles and personal use. Three items were included in the Danna Center internal audit, Rental Income, Student Activities, and Sodexo/Marriott, Food service Revenue. Credit Card fees and finance charges internal audit involved a gap between the University policy not to pay such charges, and decisions made at the departmental level to approve them. Some discussion ensued regarding the credit card policy; the committee was assured that the amounts involved were under $10 thousand.

FY 2007-2008 Internal Audits were reviewed. Grant A/P Processing (see exhibit 6/B) was complete, with issues primarily having to do with post-Katrina employee turnover. Ms. Hoffman was satisfied with the procedures now in place, and those issues had been resolved. Both the FERPA review, regarding a blog posting, (see exhibit 6/C), and the review of Record Retention Policy were completed, with no issues.

Committee members requested that in future the Internal Auditor present Risk Assessment issues categorized by High/Medium/Low risk, and with a result of Satisfactory or Unsatisfactory, as a way of describing the level of intensity of any issues. Finally, the committee requested that the above listed items be described as Internal Audit projects to distinguish them from the work of Deloitte & Touche.

AGENDA ITEM # 7: Audit Plan Fiscal Year 2009-2010.
Ms. Hoffman presented the internal Audit plan FY 2009-2010, including hourly project estimates (exhibit 7/A, 2 pgs.).

Some discussion ensued regarding internal Audit reviews and how special projects were assigned. Committee members wanted to know how the Audit committee could direct the priorities of Risk Assessment projects. Ms. Hoffman noted that she had provided an Internal
Audit universe for the previous meeting, with projects detailed by department as well as chronologically. Additional discussion noted that some internal audit reviews had been requested to ensure Loyola University would be an obvious example of a ‘clean house’ in light of the President’s leadership on the Ethics Review Board of New Orleans.

Committee members wanted to be able to review the annual internal audit plan in comparison to updated charts of the audit universe, so they could better understand the priorities that were chosen. Furthermore, if there were risks that the Internal Auditor might defer addressing due to limited staffing, the Audit committee could decide if outside help was merited by the project’s risk profile. Fr. Bradley noted the Audit committee would begin meeting four times a year, thus there would be more time to discuss those issues. The committee approved the internal Audit plan noting that adjustments could be made throughout the year as needed.

**AGENDA ITEM # 8: Discussion of the Audit Committee Charter.**
Committee members requested more education be provided to compare the proposed Audit Committee Charter to current language used by other Audit committees. The Board Chair and Audit committee Vice Chair requested verification from an outside authority that membership and other language appropriately guides the committee charter. Ms. Zuniga provided committee members with *An Audit Committee Resource Guide* book to educate the committee on recent regulatory changes and current Audit committee best practices. Additionally, administration colleagues at Loyola University Chicago, who made significant strides in implementing changes from Sarbanes in recent years, could provide resources for the committee and Internal Auditor. Further discussion of the Audit Committee Charter was deferred to a meeting in early fall 2009.

**AGENDA ITEM # 9: Deloitte & Touche, LLP Anticipated Billing for 2008-2009 Service.**
Ms. Zuniga noted that Deloitte’s bill for the Fiscal year ended July 31, 2009 for the Financial Statement and A-133 Audits would be $108 thousand. The fees were based on the assumption of 720 audit hours at $150/hour rate. Hours were noted to vary from year to year, depending on the level of university and internal audit support. July 31, 2008 fees were higher due to high turnover previously experienced in key positions that affected project continuity. Some support was shifted from Internal Audit to Financial Affairs to allow the Internal Auditor to be independent of that function. Tax returns are simply reviewed by Deloitte, thus the fee would be $6 thousand. The total estimated Deloitte proposed fees for Audit and Tax services for Fiscal 2009 was $114 thousand, 15% lower than actual fees for Fiscal 2008. Committee members asked if a maximum level of support from the Financial Affairs or Internal Auditor’s office could further reduce Deloitte’s bill. Ms. Zuniga noted that there could be room for an additional 20% reduction or Loyola and Deloitte could come to a ‘gentleman’s agreement’ whereby the hours would be totaled and billed once the project was completed.

Committee members requested that Loyola’s Internal Auditor revise the Internal Audit Plan Fiscal year 2009-2010 for the fall 2009 Audit committee meeting, to reduce the number of hours on Financial Audit and A-133 Audits. Financial Affairs support for these projects would allow Ms. Hoffman time to work more closely with the Audit committee.
ACTION ITEM # 10: Recommendation to Appoint Audit Firm for Fiscal Year ended July 31, 2009.

With Ms. Zuniga, out of the room, committee members reviewed Loyola’s history of service from Deloitte. Some discussion followed regarding the length of partner assignments to the university. CPA regulations typically state seven years, with some firms automatically changing partner assignments every five years. However, Higher Education auditing was noted to be a field so specialized that the population of available partners may be limited. Mr. Finan moved the committee approve a recommendation to the Board to appoint Audit firm Deloitte & Touche for Fiscal Year ended July 31, 2009. Mr. LeBlanc seconded the Motion. The Motion passed unopposed.

AGENDA ITEM # 11: Other Business.
Committee members discussed the merits of undertaking an RFP process in future to determine what other services or consulting the marketplace may have to offer. Currently, the external auditors have been hired on a year to year basis, but the suggestion was made that a three year commitment might bring lower fees and a more productive client relationship. Committee members agreed to discuss the possibility of an RFP search in 2009-10. Mr. Calamia offered to share a survey comparing data from the Association of Jesuit University Officers meeting that outlined audit fees and relative budgets of 24 of the 28 Jesuit Universities.

AGENDA ITEM # 12: Executive Session with Deloitte & Touche, LLP.
Guests and university staff were excused as Committee members moved into the executive session with Deloitte’s representative, Ms. Zuniga.

AGENDA ITEM # 13: Executive Session with Internal Auditor.
Committee members moved into the executive session with Loyola’s Internal Auditor, Ms. Hoffman.

There being no further business the meeting adjourned to begin Executive sessions at 3:13 p.m.