MINUTES OF THE FEBRUARY 2, 2012 MEETING
OF THE AUDIT COMMITTEE
OF THE BOARD OF TRUSTEES OF THE UNIVERSITY OF ALABAMA

The Audit Committee of The Board of Trustees of The University of Alabama met on Thursday, February 2, 2012, at the UAB National Alumni Society House located on the campus of The University of Alabama at Birmingham. Trustee Vanessa Leonard chaired the meeting. Michael A. Bownes served as Secretary.

On roll call, the following Committee members were present:

The Honorable Marietta M. Urquhart, Trustee from the First Congressional District

The Honorable W. Davis Malone III, Trustee from the Second Congressional District -- Vice Chairman

The Honorable James W. Wilson III, Trustee from the Third Congressional District

The Honorable Vanessa Leonard, Trustee from the Sixth Congressional District -- Chairman

The Honorable Karen P. Brooks, Trustee from the Seventh Congressional District

Other Trustees in attendance:

The Honorable Angus R. Cooper II, Trustee from the First Congressional District

The Honorable Paul W. Bryant, Jr., President pro tempore and Trustee from the Fourth Congressional District

The Honorable Finis E. St. John IV, Trustee from the Fourth Congressional District

The Honorable Ronald W. Gray, Trustee from the Fifth Congressional District

The Honorable William Britt Sexton, Trustee from The Fifth Congressional District
The Honorable John J. McMahon, Jr., Trustee from the Sixth Congressional District

The Honorable John H. England, Jr., Trustee from the Seventh Congressional District

The Honorable Andria Scott Hurst, Trustee from the Seventh Congressional District

The meeting was also attended by Chancellor Malcolm Portera, General Auditor Sabrina Hearn, UA President Robert Witt, UAB President Carol Garrison, and UAHuntsville President Robert Altenkirch, as well as support staff from the UA System Office, UA, UAB, and UAHuntsville.


Chairman Leonard called for a motion to approve the minutes of the September 16, 2011, meeting. On motion of Trustee Brooks, seconded by Trustee Malone, the minutes were approved.

Chairman Leonard called on Michael Lammons, Partner, PricewaterhouseCoopers (PwC), to present the financial highlights, audit results, required disclosures, and management letters for FY 2011.

Mr. Lammons said that the entities being discussed included UA, UAB, University Hospital, UAHuntsville, and the System Office. The engagement team remained largely unchanged with the exception of Michael Lammons being replaced with Kevin Kelly for the FY 2012 audit. All audits had been completed and issued. The procedures and scope were consistent with PwC’s planned audit strategy. He said the two most important facts that would be disclosed during the report were that PwC’s opinions on all financial statements were unqualified and no material weaknesses in internal controls were observed.

The summary of significant audit risks included: no management override of controls; identification of two areas to focus on in federal grants and patient care revenue with no fraud identified in either area; and valuation of alternative investments held at fair value for the System’s pooled investments and endowed real estate. PwC used valuation experts and independent pricing services to determine that those areas were fairly valued. The valuation of patient accounts receivable at the Hospital is considered an area of considerable risk and there were no issues with the procedures executed there.
The materiality benchmarks used for the campuses are 1-2% of total assets or 1-2% of total revenue; for the Hospital, 1% of net operating revenue; and for the System Office, 2% of total expenses.

Clay Jones, Senior Manager, PricewaterhouseCoopers, reported that there were no audit adjustments for The University of Alabama. Included in the area of focus were: investments – valuation and land held in endowments, i.e., Bryce mineral rights and timberland; long-term debt; review of the accounting for three bond issuances for FY 2011 that totaled $149,460,000; capital assets; auxiliary and deferred revenue; and gifts, grants and contract revenues. There was a change in the reporting for the Capstone Health Services Foundation and the Donor Advised Fund, and both are now audited by PwC.

Jace Gordon, Audit Manager, PricewaterhouseCoopers, talked about UAB and the UA System Office. Regarding UAB, some areas of focus included investments, long-term debt, issuance of bonds, capital assets, and gifts, grants and contract revenue. No issues were noted. The System Office strategy was consistent with the previous year. There was an investment in the prime fund and everything was found to be correct in that fund. No audit adjustments were proposed by PwC which were not posted by management.

Phillips Crabtree, Audit Manager, PricewaterhouseCoopers, presented information about the Hospital audit. The Hospital is invested in pools similar to the campuses. One distinguishing factor is that the Hospital also holds an investment in the Professional Liability Trust Fund (PLTF). Accounts receivable are a significant matter with the net realizable value of patient accounts receivable and the amounts due to/from third parties. The adjustment proposed by PwC was not posted by management; management concluded that the unadjusted difference was not material to the financial statements.

Michael Lammons reviewed the internal control observations found under professional standards: deficiency, significant deficiency, and material weakness. No material weakness was noted in internal control for the audit year. Significant deficiency is not deemed to be a material weakness, but it should be discussed with those who have governance over the audit. A deficiency exists when the design or operation of a control does not allow management to prevent, detect or correct misstatements on a timely basis. Internal control observations revealed issues related to information technology access (control deficiency) and capital gift valuation (significant deficiency) at UAHuntsville; and a revision of statement of cash flows at UA (significant deficiency). PwC made recommendations to monitor for appropriate access and to use a third-party valuation specialist to assist in estimating the fair value of future capital gifts.

Mr. Lammons next talked about required communications:

- The auditor’s responsibility under Generally Accepted Auditing Standards
The auditor is responsible for expressing an opinion about the fair presentation of financial statements prepared by management. This was communicated to management in PwC’s engagement letter in September 2011.

- Significant accounting policies, alternative treatments within generally accepted accounting principles, and the auditor’s judgment about the quality of accounting policies
  The System entities’ accounting policies are disclosed in Note 1 and the Hospital and System Office are disclosed in Note 2.

- Management judgments and accounting estimates
  Key areas where management relies on estimates were investments, receivables and reserves, and reserve for medical insurance costs.

- Audit adjustments

- Material uncertainties related to events and conditions that may cast doubt on the ability to continue as a going concern
  PwC was not aware of any material uncertainties.

- Disagreements
  There were no disagreements with management; no significant difficulties encountered during the audit; and no fraud and illegal acts involving senior management or anything material to the financial statements.

- Independence
  PwC reaffirmed that it is not aware of any relationships between PwC and the UA System.

- Material written communications
  This included management representation letters; report to management; and engagement letters.

There were no questions for Mr. Lammons.

Chairman Leonard called for a motion to approve the resolution approving Financial Statements for 2010-2011 Fiscal Year and acknowledging receipt of the Management Letter of The University of Alabama System from PricewaterhouseCoopers. On motion of Trustee McMahon, seconded by Trustee Malone, the resolution was approved.
RESOLUTION

WHEREAS, The Board of Trustees of The University of Alabama has reviewed the Financial Statements and the accompanying PricewaterhouseCooper’s Management Letter for the fiscal year ended September 30, 2011, for the campuses of The University of Alabama System;

NOW, THEREFORE, BE IT RESOLVED by The Board of Trustees of The University of Alabama that the Financial Statements for the campuses of The University of Alabama System for the year ended September 30, 2011, a copy of which shall be maintained in the Office of the Secretary, be, and hereby are, approved.

With no other business to come before the Committee, the meeting was adjourned.

Sabrina Hearn
General Auditor

Michael A. Bownes
Secretary of the Board of Trustees