Regents Present: Nancy Paul, chair, Ben Blair, Maggie Warren, Blanche Parks, Jim Roth

Staff Present: Jerry Farley, Wanda Hill, Chris Leach, Al Dickes, Rhonda Thornburgh, Tom Ellis, Denise Ottinger, Richard Martin

BKD Staff Present: Abe Cole

- Minutes of the December 11, 2006 meeting were approved as distributed.

- Annual Audit Engagement Letter for FY 2006-2007 -
  - Vice President Hill noted the administration was pleased with the work done by BKD.
  - Regent Paul said she was pleased with BKD's work and timeliness and would like for them to continue as auditor.
  - It was moved and seconded to recommend Board acceptance of the BKD engagement letter for the 2006-2007 fiscal year.

- Statement of Auditing Standard No. 103 and 112 -
  - Mr. Cole distributed an overview outlining two new standards for the FY 07 audit.
  - SAS 103 will have very little visible impact on the audit, however, it will affect the date of the audit report. Usually the report is dated at the end of the fieldwork, however, under SAS 103 the report will be dated when sufficient evidence to support the report has been obtained. This date is usually close to the release of the report.
  - SAS 112 replaces the term “reportable condition” with the terms control deficiency, significant deficiency, and material weakness. These terms will mirror terms used for public company standards.
  - SAS 112 will provide a revised framework for evaluating the severity of internal control deficiencies and will require more and better communication of deficiencies. It requires written communication within 45 days of the report release date.
  - President Farley noted this is a significant expansion of requirements.
  - Mr. Cole said it will be important for the auditors and management to work closely to identify and work through any issues that arise. He said the additional workload should not affect the audit fee structure since it has been built into the proposed fees.
  - The amount of audit time will increase significantly for the FY 2008 audit. Mr. Cole said he will communicate the fees for 2008 as soon as he has them.

- FY 06 Audit Recommendations –
  - Chris Leach discussed his memo responding to the FY 2006 Audit communication from BKD. The memo outlines the University response to the three key items that came up during the audit. It addresses the reasons they happened and what has been done to prevent them from happening again.
  - BKD’s suggested changes in policy and procedure included having a formal ethics policy and a formal approval process for construction change orders.
  - Regent Paul asked Mr. Cole for examples of what they are looking for in an ethics policy. She noted many issues regarding ethics are currently addressed in our conflict of interest documents. Vice President Hill indicated the company which provides our on-line sexual harassment and discrimination testing does not currently have an ethics policy but expects to have one in the near future. President Farley said starting with the NACUBO code of ethics and going from there was a good place to start.
• Regent Paul said a formal approval process is needed for change orders. Vice President Hill said we currently follow the standards of the procurement process for change orders. The change order process can become a part of that procedure or can be a separate policy statement. Regent Paul said she has concerns with the possibility of the $25,000-$50,000 info getting overlooked and thinks it is important to keep a handle on what is happening with each construction project. A recap process needs to be added so the Board can monitor and be kept up to date on projects. President Farley said a draft approval process for change orders will be brought to the Finance Committee for recommendation to the Board.

• The next Audit Committee meeting will be scheduled for the first week of June to meet with the auditor prior to audit field work being done.

• Meeting was adjourned.