

FCR 2

Office of the President
December 11, 2001

Members, Board of Trustees:

APPOINTMENT OF INDEPENDENT AUDITORS

Recommendation: that the Board of Trustees engage the firm of Deloitte & Touche, Certified Public Accountants, to perform the independent audits of the University of Kentucky and Affiliated Corporations for the fiscal years ending June 30, 2002-2005, for an annual fee, including expenses, of \$215,500 for the first year, adjusted by the change in the Consumer Price Index (CPI) for each of the following years. Exhibit I, Scope of Audit, provides a summary of work listing the entities and programs to be audited and other reports required.

Background: KRS 164A.570 and 164A.610 require the University of Kentucky to engage a qualified firm of certified public accountants experienced in the auditing of institutions of higher education to conduct an annual examination of the financial statements for the purpose of submitting an independent opinion, preparing a report of findings and recommendations concerning internal accounting controls and procedures and compliance with KRS 164A.555 to 164A.630 (House Bill 622).

The University of Kentucky received proposals from four of the Big Five accounting firms, all of which were highly qualified to serve as the independent auditors. Deloitte & Touche proposed the lowest cost for each of the four years.

Deloitte & Touche has served as external auditor for the previous six fiscal years, beginning in 1995-96, and has performed in a highly satisfactory manner. The extensive Scope of Audit and related reports require an audit firm with a large staff, extensive resources and professional capabilities. Deloitte & Touche is a national accounting firm and has demonstrated the ability to perform the external audit in a highly competent manner.

Action taken: Approved Disapproved Other _____

SCOPE OF AUDIT

The Certified Public Accountants will make an examination of the accounting records and financial data of the following entities of the University of Kentucky:

University of Kentucky (consolidated and unconsolidated)

Its affiliated corporations –

University of Kentucky Research Foundation, including a separate audit
Kentucky Technology, Inc. and subsidiaries, a consolidated
subsidiary of UKRF

University of Kentucky Athletic Association

The Fund for Advancement of Education and Research in the
University of Kentucky Medical Center

Health Care Collection Service, Inc.

University of Kentucky Mining Engineering Foundation, Inc.

University of Kentucky Business Partnership Foundation, Inc.

University of Kentucky Equine Research Foundation, Inc.

University of Kentucky Humanities Foundation, Inc.

University of Kentucky Center on Aging Foundation, Inc.

The Certified Public Accountants will also audit and issue opinions on the separate financial statements of the following units of the University:

University of Kentucky Hospital, including a separate audit of Kentucky
Healthcare Enterprises, Inc. and subsidiaries, a consolidated
subsidiary of the Hospital

University of Kentucky Housing and Dining System

University of Kentucky Tobacco and Health Research Institute

WUKY-FM Radio

Lexington Community College

The Certified Public Accountants will issue an opinion on the Annual Financial Report to the Corporation for Public Broadcasting for radio station WUKY.

The Certified Public Accountants will audit the financial statements of the following entities which are related to the University but are not included in the consolidated financial statements:

University of Kentucky Alumni Association

University of Kentucky Hospital Auxiliary

University of Kentucky Credit Union (as of and for the years ended December 31, 2002
- 2005)

EXHIBIT 1, Continued

The Certified Public Accountants will audit the combined statement of revenues and expenditures of the University of Kentucky Intercollegiate Athletics Program, conducted in accordance with the auditing standards and guidelines as identified in the *NCAA Financial Audit Guide*. The review of the related booster organizations will be limited to the minimum scope as defined in the NCAA audit guide.

Examination of the financial statements of these entities and programs will be made in accordance with generally accepted auditing standards and the standards for financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the provisions of the Office of Management and Budget (OMB) Circular A-133. *Audits of Institutions of Higher Education and Other Non-Profit Institutions*. The objective of such an examination is to enable the Certified Public Accountants to express an independent opinion as to whether the financial statements are fairly presented, in all material respects, in conformity with generally accepted accounting principles.

As a part of the examination, the Certified Public Accountants will make a study and evaluation of the University's system of internal accounting control to the extent they consider necessary to evaluate the system as required by generally accepted auditing standards and *Governmental Auditing Standards*. Under these standards, the purpose of such evaluation is to establish a basis for reliance on the system of internal accounting control in determining the nature, timing, and extent of other auditing procedures that are necessary for the auditor in planning and performing the examination of the financial statements.

In addition to the examination of the basic financial statements, the Certified Public Accountants will issue the following letter reports:

Letter report expressing an opinion as to the University's compliance with KRS 164A.555 to 164A.630 based upon the minimum audit scope as established by the Finance and Administration Cabinet Secretary of the Commonwealth of Kentucky.

Letter report to the Secretary of Finance and Administration Cabinet regarding the financial data and information provided by the University on Forms AFR 80 to 126.

Letter report to the Auditor of Public Accounts reporting the results of an audit of events subsequent to the date of the report on the University's financial statements.

Letter report to the Auditor of Public Accounts representing that the firm is in compliance with the generally accepted auditing standards and the Government Auditing Standards concerning continuing education requirements, independence and peer review.

EXHIBIT 1, Continued

Letter report on the compliance of the University to the contract agreement between the University of Kentucky and Kentucky Medical Services Foundation.

In accordance with OMB Circular A-133 Audit of Federally Sponsored Programs including research and other programs, Basic Education Opportunity Grant Program (Pell Grants), National Direct Student Loan, College Work Study, Supplemental Educational Opportunity Grant Programs, and Health Profession Student Loan Programs, the Certified Public Accountants will prepare the following separate written reports:

- Report on Schedule of Expenditures of Federal Awards
- Report on Compliance and on Internal Control Over Financial Reporting
- Report on Compliance and Internal Control Over Compliance Applicable to Major Federal Award Program

The Certified Public Accountants will also prepare:

- Reports of estimated bond arbitrage liability for each Consolidated Educational Building Revenue Bond, Housing and Dining Revenue Bond, Library Bond and Hospital Bond issue.
- Federal, state and local income tax returns for Kentucky Technology, Inc. and subsidiaries and Kentucky Healthcare Enterprises, Inc. and subsidiaries.

Furthermore, the Certified Public Accountants agree to comply with the requirements to be set forth in a letter from the Auditor of Public Accounts of the Commonwealth of Kentucky to Dr. Lee T. Todd, Jr. This letter has not yet been received by Dr. Todd, however, the University does not expect the requirements to differ from those listed in this Scope of Audit. If the scope changes significantly, the Certified Public Accountants and the University will mutually revise the estimated fee to reflect additional services required to meet the requirements of the letter.