

University of Southern Indiana

Entrance Agenda

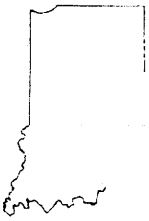
9 a.m., July 29, 2004

Introductions

Discussion Topics

- Sarbanes-Oxley Act
- SAS (Statement on Auditing Standards) 99 and fraud inquiries
- GASB 39 Component Units
 - USI Foundation
- DISCUSSION ONLY VEBA Trust
- Management Representation Letter
- New Bond Issue

Any Additional Questions



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

TO: THE OFFICIALS OF UNIVERSITY OF SOUTHERN INDIANA, EVANSVILLE, INDIANA

Pursuant to statutory authority, IC 5-11-1-9, Field Examiners have been assigned to perform an audit of the University of Southern Indiana. The scheduled audit period is from July 2, 2003 to June 30, 2004.

This engagement letter is being issued to define the responsibilities of the State Board of Accounts and the administration of University of Southern Indiana.

In addition to the audit work required for an opinion to be expressed on the basic financial statements, the State Board of Accounts has been designated to perform an organization wide audit including federal funds received, as required by the U.S. Office of Management and Budget through its Circular A-133.

Audit Objectives

The objective of our audit is the expression of an opinion as to whether your financial statements are fairly presented, in all material respects, in conformity with generally accepted accounting principles. The audit is being performed under Circular A-133; the objective also includes reporting on:

Internal control related to the financial statements and compliance with laws, regulations and the provisions of contracts or grant agreements, noncompliance with which could have a material effect on the financial statements in accordance with Government Auditing Standards.

Internal control related to major programs and an opinion or disclaimer of opinion on compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on each major program in accordance with the Single Audit Act Amendments of 1996 and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

The reports on internal control and compliance will each include a statement that the report is intended for the information and use of management, federal awarding agencies, and if applicable, the audit committee, specific legislative or regulatory bodies, and pass-through entities.

Our audit will be conducted in accordance with generally accepted auditing standards (GAAS). The audit of University of Southern Indiana is a Single Audit; it will be conducted in accordance with GAAS; the standards for financial audits contained in Government Auditing Standards (GAGAS), issued by the Comptroller General of the United States; the Single Audit Act Amendments of 1996; and the provisions of OMB Circular A-133, and will include tests of accounting records, a determination of major programs(s) in accordance with Circular A-133, and other procedures we consider necessary to enable us to express such an opinion and to render the required reports. If our opinion on the financial statements or the Single Audit compliance opinion is other than unqualified, we will fully discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed an opinion, we may decline to express an opinion or to issue a report as a result of this engagement.

Management Responsibilities

Management is responsible for establishing and maintaining internal control and for compliance with the provisions of contracts, agreements, and grants. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of the controls. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorizations and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles, and that federal award programs are managed in compliance with applicable laws and regulations and the provisions of contracts and grant agreements.

Management is responsible for making all financial records and related information available to us. We understand that you will provide us with such information required for our audit and that you are responsible for the accuracy and completeness of that information. We will advise you about appropriate accounting principles and their application and will assist in the preparation of your financial statements, including the schedule of expenditures of federal awards, but the responsibility for the financial statements remains with you. That responsibility includes the establishment and maintenance of adequate records and effective internal control over financial reporting and compliance, the selection and application of accounting principles, and the safeguarding of assets. Management is responsible for adjusting the financial statements to correct material misstatements and for confirming to us in the representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. Additionally, as required by OMB Circular A-133, it is management's responsibility to follow up and take corrective action on reported audit findings and to prepare a summary schedule of prior audit findings and a corrective action plan. The summary schedule of prior audit findings should be available for our review prior to the exit conference covering the Schedule of Expenditures of Federal Awards.

Audit Procedures – General

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. We will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. As required by the Single Audit Act Amendments of 1996 and OMB Circular A-133, our audit will include tests of transactions related to major federal award programs for compliance with applicable laws and regulations and the provisions of contracts and grant agreements. Because an audit is designed to provide reasonable, but not absolute, assurance and because we will not perform a detailed examination of all transactions, there is a risk that material errors, fraud, other illegal acts, or noncompliance may exist and not be detected by us. In addition, an audit is not designed to detect immaterial errors, fraud, or other illegal acts or illegal acts that do not have a direct effect on the general purpose financial statements or to major programs. However, we will inform you of any errors, illegal acts, and any fraud that comes to our attention. We will include such matters, when applicable, in the required reports. Our responsibility as auditors is limited to the period covered by our audit and does not extend to matters that might arise during any later periods.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts and may include tests of the physical existence of inventories and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, creditors, and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will also require certain written representations from you about the financial statements and related matters.

Audit Procedures – Internal Controls

In planning and performing our audit, we will consider the internal control sufficient to plan the audit in order to determine the nature, timing, and extent of our auditing procedures for the purpose of expressing our opinions on the financial statements and on its compliance with requirements applicable to major programs.

We will obtain an understanding of the design of the relevant controls and whether they have been placed in operation, and we will assess control risk at maximum for all financial statement assertions. We will perform a substantive test audit of the financial statements.

As required by OMB Circular A-133, we will perform tests of controls to evaluate the effectiveness of the design and operation of controls that we consider relevant to preventing or detecting material noncompliance with compliance requirements, applicable to each major federal award program. However, our tests will be less in scope than would be necessary to render an opinion on those controls and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to OMB Circular A-133.

An audit is not designed to provide assurance on internal control or to identify reportable conditions. However, we will inform the governing body or audit committee of any matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. We will also inform you of any nonreportable conditions or other matters involving internal control, if any, as required by OMB Circular A-133.

Audit Procedures – Compliance

Our audit will be conducted in accordance with the standards referred to in the section titled Audit Objectives. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of compliance with applicable laws and regulations and the provisions of contracts and agreements, including grant agreements. However, the objective of those procedures will not be to provide an opinion on overall compliance, and we will not express such an opinion in our report on compliance issued pursuant to Government Auditing Standards.

OMB Circular A-133 requires that we also plan and perform the audit to obtain reasonable assurance about whether the auditee has complied with applicable laws and regulations and the provisions of contracts and grant agreements applicable to major programs. Our procedures will consist of the applicable procedures described in the OMB Circular A-133 Compliance's supplement for the types of compliance requirements that could have a direct and material effect on each of the major programs. The purpose of those procedures will be to express an opinion on compliance with requirements applicable to major programs in our report on compliance issued pursuant to OMB Circular A-133.

Audit Administration, Fees, and Other

Among the records we will request during the course of the audit are:

1. Minutes of meetings of the Board of Trustees of University of Southern Indiana.
2. All financial records and related data.
3. All financial reports filed with any state or federal department.
4. A listing of all persons who receive or disburse funds.
5. All inter organizational financial reports.
6. A listing of all federal financial assistance grants received by the unit, either directly from the federal treasury, passed through the Auditor of State's office, from another local unit, or another entity.
7. Federal grant information, including, but not limited to, grant applications and approvals, federal financial reports and any on site review reports made by federal, state or local officials.

The Examiner(s) assigned to the audit, will work four days a week, with the exception of holidays, called meetings or excused absences. This results in each Examiner working 9 to 9 1/2 hours each complete workday spent on the audit. The unit will only be charged for actual time devoted to the audit. If special agency needs require the examiner(s) to temporarily work on another engagement, we will advise you accordingly. The rate will be as described in IC 5-11-4-3 which is \$45 per day for the financial statement segment. The audit time spent on federal funds will be billed on a cost plus basis for direct grants which is currently \$363.30 per day. Other type audits will be billed on a cost basis. Your cooperation, the

condition and completeness of records, and audit problems or special conditions encountered may cause the actual audit days to result in increased or decreased audit costs.

The workpapers for this engagement are the property of the Indiana State Board of Accounts and constitute confidential information. However, we may be requested to make certain workpapers available to the Federal Cognizant/Oversight or Grantor Agency pursuant to authority given to it by law or regulation. If requested, access to such workpapers will be provided under the supervision of the State Examiner or his designee. Furthermore, upon request, we may provide photocopies of selected work papers to the Federal Cognizant/Oversight or Grantor Agency. The Federal Cognizant/Oversight or Grantor Agency may intend, or decide, to distribute the photocopies or information contained therein to others, including other governmental agencies.

We appreciate the opportunity to be of service to University of Southern Indiana and believe this letter accurately summarizes the significant terms of our engagement. If you have questions, please inquire of the Supervisor of University Audits, Jan Correll. She can be reached at 317.232.2522 or by e-mail at jcorrell@sboa.IN.gov.