

**EXAMINATION OF
SELECTED EXPENDITURES OF THE
UNIVERSITY OF LOUISVILLE FOUNDATION, INC.**



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C R I T L U A L L E N
A U D I T O R O F P U B L I C A C C O U N T S

March 24, 2004

James R. Ramsey, Ph.D., President
University of Louisville
Louisville, Kentucky 40292

Malcolm B. Chancey, Jr., Chair
University of Louisville Foundation, Inc.
University of Louisville
Louisville, Kentucky 40292

RE: Examination of Selected Expenditures of the University of Louisville Foundation, Inc.

Dear President Ramsey and Mr. Chancey:

We have examined expenditures of the University of Louisville Foundation, Inc. (Foundation) related to financial activity within the University of Louisville president's office during the tenure of former President John W. Shumaker. Our examination covered the period from July 2000 through June 2002 and included the four areas below:

- Procurement card (ProCard) transactions of President Shumaker's office;
- Direct payments from Foundation accounts to vendors for travel, entertainment, or other expenses;
- Expenses related to Amelia Place, the president's home; and
- Personal service contracts that may have been initiated at President Shumaker's request.

During our examination we conducted a physical inventory of Amelia Place, interviewed members of the president's office and other staff, and examined records of the Foundation.

The purpose of this examination was to determine whether President Shumaker received any inappropriate personal benefits from expenditures made by the Foundation, including whether any Foundation controls, policies, or procedures were circumvented. The Foundation cooperated during our examination and directed certain Foundation employees within the president's office to gather requested records and to respond to our inquiries.

President Ramsey and Mr. Chancey
March 24, 2004
Page 2

We wish to thank the Foundation Board of Directors and all Foundation personnel involved in this examination for their cooperation and assistance provided. If you should have any questions or concerns with respect to this matter, please do not hesitate to contact me.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

CL:kct

Background

Questionable expenditures at the University of Tennessee lead to scrutiny of expenditures associated with Dr. Shumaker at the University of Louisville.

Auditor's office reviewed University internal audits, identified additional control weaknesses, and provided recommendations.

When allegations surfaced concerning expenditures initiated by Dr. Shumaker while at the University of Tennessee, University of Louisville (University) internal auditors expanded the scope of two routine audits of executive expenditures already begun in July 2003. These audits of the University Research Foundation, Inc. (Research Foundation) and the University of Louisville Foundation, Inc. (Foundation) were expanded to include a review of Dr. Shumaker's travel and entertainment expenses paid for by credit card and expense reimbursements paid to Dr. and Mrs. Shumaker.

Our office initiated a review of the work performed by the internal auditors resulting in a December 3, 2003 letter to the University President (Exhibit 1). The letter details that we examined each of Dr. Shumaker's travel and entertainment expenses paid for by the University or Foundation during the period January 1999 through June 2002. These expenses included reimbursements to Dr. Shumaker and charges recorded on the Foundation credit card. In testing these transactions, we examined supporting documentation from the University, Research Foundation, and the Foundation.

In the December 3, 2003 letter, we identified weak University and Foundation internal controls that included the following:

- No approval procedures existed for President Shumaker's travel and entertainment expenditures. Dr. Shumaker reported travel and entertainment expenses and reimbursements quarterly to the University Board of Trustees and the Foundation Board of Directors. These reports were informational only, requiring no Board action.
- Specific written policies did not exist for use of the Foundation credit card by Dr. Shumaker.
- Dr. Shumaker frequently ignored the University policy of requiring original receipts for reimbursements. This noncompliance was not routinely reported to either Board except through infrequent internal audit reports.

- Routine operational expenses paid by the Foundation for Amelia Place, the president's home, were not reported to the Foundation Board.

The letter detailed eight recommendations we suggested to strengthen certain control areas.

Auditor's Office expanded examination into other areas of public expenditures.

Subsequent to our review discussed above, we initiated an examination of General Fund and Research Foundation expenditures related to state issued procurement card (ProCard) expenditures, direct payments to vendors, and personal service contracts for fiscal years 2001 and 2002. We were not provided access to any Foundation records for our examination. The Foundation asserted that as a private entity its records relating to presidential expenditures were not subject to examination by this office.

On December 24, 2003, this office sent a letter to the University President detailing the scope and results of the examination (Exhibit 2). We found that three employees of the president's office used ProCards during fiscal years 2001 and 2002. The purchases made with the ProCard during this period totaled \$13,137. We examined each of these charges and found that purchases complied with University guidelines and provided no inappropriate personal benefit to Dr. Shumaker.

We also examined direct payments to vendors for travel and entertainment expenses of the president's office for the two-year period. Exclusive of expenditures we previously examined, the population of transactions totaled \$295,100. From this population, we tested a sample of expenditures totaling \$195,470. These expenditures included such items as tickets to major local events, catering for banquets and receptions, business luncheons, and international travel for student groups.

University records indicated no inappropriate personal benefit accrued to Dr. Shumaker.

We found University records were adequate to document a business related purpose. Further, it appeared that no inappropriate personal benefit accrued to Dr. Shumaker as a result of the expenditures.

Finally, during this examination we scrutinized all ten personal service contracts initiated from the president's office during this timeframe. We judgmentally selected for review four additional personal service contracts that indicated the contract was for consulting services. We found only minor instances of noncompliance with University procedures relating to two of these contracts.

*Auditor's Office examined
Foundation expenditures
of the president's office.*

In January 2004, the Foundation voluntarily agreed that this office would examine Foundation records related to Dr. Shumaker, including ProCard expenditures, direct payments to vendors, expenditures associated with Amelia Place, and personal service contracts. The objective of the examination was to determine whether Dr. Shumaker received any inappropriate personal benefit from Foundation expenditures.

We initiated this examination on January 28, 2004, and examined the Foundation records on-site at the University, as records we requested were made available. We had to periodically delay our examination while we waited for Foundation employees to gather the records we requested or to respond to specific inquiries.

We examined all ProCard transactions initiated in fiscal years 2001 and 2002 paid with funds from Foundation accounts. We found that University employees purchased items using University ProCards at the direction of Foundation employees. It appears that Dr. Shumaker did not initiate ProCard transactions.

Further, we examined direct payments made by the Foundation to vendors to determine whether Dr. Shumaker received an inappropriate personal benefit. Initially, the Foundation suggested we examine transactions from the president's expense account and the account recording Amelia Place expenditures to identify account activity that could be at most risk for abuse. Subsequently, we requested additional information from all Foundation accounts used by the president's office relating to expenditures that could have provided inappropriate personal benefit to Dr. Shumaker. The population of all activity subject to examination in these accounts totaled \$1,608,295. Exempting routine expenditures, we examined \$1,391,764 or 86 percent of the expenditures or transfers in these accounts.

Finally, we examined all of the 14 personal service contracts totaling \$676,200 initiated in the president's office and paid from Foundation accounts. We also randomly selected 14 personal service contracts totaling \$213,037.50 paid from Foundation accounts that were initiated within other University departments. The additional contracts were selected because they were thought possibly to be for consulting services. We found no payments for personal service contracts that inappropriately benefited Dr. Shumaker.

Findings and Recommendations

Trips to Liberty Bowl were provided to Dr. Shumaker's children.

The Foundation paid \$880 for a trip for four to Memphis for the Liberty Bowl in December 2001. According to the invoice, the participants were President Shumaker's two sons and two guests. A Foundation representative initially communicated that while athletic department procedure permitted coaches, the athletics director, senior administrators, and their families to travel on the team charter, the Shumakers had instructed office staff that Dr. Shumaker's children were not to travel on the same plane or stay at the same hotel as Dr. and Mrs. Shumaker. Additional costs would not have occurred had the children traveled with the Shumakers. A Foundation representative further stated that the two guests were chaperones. We note that the names provided as the chaperones correspond with names identified as students on a trip to the previous year's Liberty Bowl, as discussed in the following paragraph.

In December 2000, the Research Foundation paid \$1,550 for a trip for ten students to that year's Liberty Bowl. The ten individuals listed on the invoice included one of the president's sons and a guest. The explanation provided by the University stated the trip's purpose was to "promote student interaction for the Bowl game" for scholars associated with the University Honors Program or the Overseers Scholars Program. Neither of these trips was reported to the University or the Foundation on the president's quarterly expense reports.

Subsequent to our continued questions regarding these trips, Foundation Chairman Chancey and former Chairman J. Chester Porter communicated to us on March 5, 2004, that by practice, the Foundation Chair authorized expenditures for Dr. Shumaker to take his sons with him to post-season athletic

events. The chairman's authorization to the president was apparently verbal, as no written authorization at the time of these trips was made available. These trips illustrate the Foundation's use of "practice," rather than a formal process through contract or written policy, to monitor expenditures of the president.

Recommendation

We recommend that the Foundation Board modify its formal existing travel policies to include criteria for travel of the University president's family.

The Foundation paid for events to benefit office staff.

The president's office occasionally hosted events, such as holiday parties for the benefit of the president's office staff. While no tangible personal benefit may have inured to the president as a result of these events, the practice could be seen as creating the president's personal goodwill at the Foundation's expense. These events were charged to the Foundation, despite the apparent lack of a fund raising purpose presupposed for Foundation events. An example of such an event includes catering services costing \$1,412.91 for a president's office party in conjunction with a concert.

The Foundation paid for gifts for University staff and Executive Cabinet and Senior Leadership Team.

Similarly, the Foundation, on behalf of the president, paid for gifts for certain University staff and the Executive Cabinet and Senior Leadership Team. One example is the purchase of 72 bottles of wine for \$2,735 to include in holiday gift baskets. It was stated that while these gifts were given to University or Foundation employees, many of these employees were also donors. This type of expenditure was not routinely reported on the president's quarterly expense report to the University or the Foundation Boards, as these reports include only travel, entertainment, and reimbursements to the president, and not activity considered "institutional."

A Foundation representative advised that events and gifts of this nature were longstanding University practices, pre-dating Dr. Shumaker's tenure. This illustrates the lack of formal controls in place to prevent abuse of Foundation expenditures.

Recommendation

We recommend the Foundation Board develop a formal policy for approval of expenditures related to such events and gift purchases. We further recommend that these types of expenditures be included on the president's quarterly expense report.

The president's office did not account for gifts the president gave or received.

The president's office occasionally purchased items from Foundation accounts for the president to present as gifts to dignitaries when traveling. The University had no policy requiring a log or inventory of these gifts. Likewise, no accounting of any reciprocating gifts received by the president was maintained. Therefore, it is impossible to determine whether the president received any inappropriate personal benefit as a result of these gift purchases or exchanges.

Recommendation

We recommend the president's office maintain an inventory of gifts purchased and distributed. We further recommend a log identifying gifts received by the president be maintained.

The Foundation inadvertently paid for two inexpensive personal items.

The Foundation paid for two items identified as personal in nature and totaling less than \$40. Not identifying these items as personal expenses appears to be an oversight, as the items were paid from bills with other items associated with the maintenance of Amelia Place.

Recommendation

We recommend that the president's office staff continue to diligently identify personal items purchased requiring reimbursement from the president.

Auditors conducted complete inventory of Amelia Place furnishings.

Our inventory of household furnishings at Amelia Place noted a few items from the inventory list that could not be located. These items included a lamp, which staff recalled as being broken, and an accent table that staff said was the Shumakers' personal property. These items, according to staff, were erroneously included on the inventory listing and were removed from the house when the Shumakers left Louisville. In addition, three decorative items of indeterminate value appearing on the inventory listing could not be located.

Recommendation

We recommend that a physical inventory of Amelia Place be conducted annually and that procedures be developed and adopted for the timely addition and deletion of inventory items.

Amelia Place was not maintained by funds appropriated by the General Assembly.

Regarding Amelia Place, the president's home is owned and maintained by the Foundation. General funds appropriated by the General Assembly were not used to purchase, furnish, or maintain the residence.

This is contrasted with the University of Tennessee (UT), where Dr. Shumaker presided after leaving the University. The reports by internal auditors and the State Comptroller in Tennessee document that the president's residence at UT is state property, owned by UT. All construction, renovation, furnishings, and maintenance expenses associated with the residence at UT were paid with public funds appropriated by the state legislature. The objective of our examination was to examine Foundation expenditures to determine whether Dr. Shumaker received inappropriate personal benefit.

We suggest that the Foundation consider and implement the recommendations provided. Also, the University and the Foundation should continue to implement the recommendations made by this office resulting from our December 3, 2003 examination (Exhibit 1).

EXHIBITS

EXHIBIT 1



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

December 3, 2003

James R. Ramsey, Ph.D., President
University of Louisville
Louisville, Kentucky 40292

RE: September 25, 2003 University of Louisville Audit Services Reports:
Executive Expenditures of the University of Louisville general funds, University of
Louisville Research Foundation, Inc., and University of Louisville Foundation, Inc.

Dear President Ramsey:

We have reviewed the referenced audit reports and their associated working papers. As part of this review, we interviewed the principal internal auditors from the University of Louisville's Audit Services (Internal Auditors) and reviewed certain University of Louisville (University), University of Louisville Research Foundation, Inc., (Research Foundation), and University of Louisville Foundation, Inc. (Foundation) records examined by Internal Auditors in the course of their audits. The purpose of our review was to determine whether the work performed by Internal Auditors was in compliance with applicable standards, accurate and complete, and whether the resulting reports fairly represent any issues discovered during the audit.

We express our thanks to you and other University employees for your cooperation during the course of our work. Following are the results of our review.

BACKGROUND

In July 2003, Internal Auditors began two routine audits of executive expenditures. One audit examined University of Louisville and Research Foundation funds. The other examined the Foundation. When allegations arose concerning former University of Louisville President John Shumaker's expenditures while at the University of Tennessee, the scope of Internal Auditors' work was expanded. In a letter dated August 27, 2003, the Foundation directed that its audit "should cover Dr. Shumaker's travel and entertainment expenses paid for by the Foundation...and should include those expenditures documented as credit card charges and other forms of travel and entertainment expenses." (Emphasis added.) The University President, in a separate letter to Internal Auditors dated August 28, 2003, directed that the audit of University general funds and Research Foundation "should follow the parameters of previous audits, but should include credit card transactions...for the Foundation credit card used by Dr. Shumaker for **travel related expenses**" and "a review of all **expense reimbursements** paid to Dr. Shumaker...." (Emphasis added.)



President Ramsey
December 3, 2003
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We were informed by Internal Auditors that the scope of the Foundation's audit was limited to Dr. Shumakers' credit card transactions and expense reimbursements, despite the more expansive authorizing language in the Foundation's August 27, 2003 letter. Internal Auditors stated that in conversations with University and Foundation representatives it was made clear that the scope of the Foundation audit was to be limited to these two areas. Both audits therefore excluded all other forms of travel and entertainment expenses which may have been incurred by Dr. Shumaker and paid by the University, the Research Foundation, and the Foundation.

Both audits examined the period January 1999 through June 2002. Although Internal Auditors issued two separate reports, the audits were performed simultaneously because

- The same Foundation credit card was used for travel and entertainment expenses paid by University general funds, the Research Foundation, and the Foundation.
- Expenses were presented together on the monthly credit card transaction report and on the quarterly expense report to the University and Foundations Boards.
- The University accounting system also processed Foundation transactions.
- University travel and expense reimbursement policies were the same, regardless of funding source.

We confirmed that Internal Auditors examined one hundred percent (100%) of Dr. Shumaker's credit card transactions and expense reimbursements for the period audited. While offering recommendations to improve the policies and practices governing the use of the Foundation credit card and reimbursements, Internal Auditors opined that "Dr. Shumaker's credit card and reimbursed expenditures were adequately supported." Internal Auditors' opinion was driven by the conclusion that available documentation was sufficient to support the business purpose of the expenditures.

FINDINGS

Internal Auditors stated the audits were "performed in accordance with the Institute of Internal Auditor's [IIA] *Standards for the Professional Practice of Internal Auditing*." Our review of Internal Auditors' compliance with applicable standards identifies the two following areas of noncompliance:

1. IIA Implementation Standard 1110.A1 states, "[t]he internal audit activity should be **free from interference in determining the scope of internal auditing**, performing work, and communicating results." (Emphasis added.)
2. IIA Implementation Standard 2220.A1 states, "[t]he scope of the engagement should include consideration of **relevant systems, records, personnel, and physical properties**, including those under the control of third parties." (Emphasis added.)

President Ramsey
December 3, 2003
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As to the areas of noncompliance, the scope of each of the audits was curtailed in derogation of the cited standards. Furthermore, this scope limitation is contrary to Internal Auditors' Statement of Authority, approved by the University Board of Trustees on November 27, 2000 as part of Internal Auditors' Charter, which states "[Internal Auditors] is authorized to review all records of the University and related organizations and has full and complete access to all University activities, records, and property and personnel reasonably necessary to perform the responsibilities of this function."

Neither Internal Auditors' report of University general funds and Research Foundation nor the report of Foundation includes actions plans. Furthermore, as part of Internal Auditors' normal process followed during completion of the review, management's responses are incorporated into the report prior to final release. According to Internal Auditors, time constraints did not allow for management responses to be incorporated into either report. Official minutes of the October 9, 2003 meeting of the Board of Trustees reflect that the Board accepted all recommendations of the Internal Audit.

Internal Auditors' opinion that Dr. Shumaker's expenditures were adequately supported appears to be inconsistent with the objective stated in the audit report "to provide reasonable assurance that executive expenditures are properly authorized and compliant with University policies." No process was in place to authorize or approve Dr. Shumaker's travel and entertainment expenditures; however, quarterly informational reports of expenditures were presented to the Boards. Also, Internal Auditors clearly documented a pattern of noncompliance with established University policies regarding retention of original receipts. Internal Auditors' statement that the expenditures were adequately supported is misleading in that it ignores their stated objectives regarding approval and compliance.

Internal Auditors' reports show that more than \$62,000 of Dr. Shumaker's credit card and reimbursed expenses for the period examined were not supported by original receipts. This includes \$8,663 in reimbursed expenses to Dr. Shumaker from the Foundation, which is 34 percent of the total Foundation reimbursements. We believe the lack of original receipts for reimbursements to be a material noncompliance with the University's Travel and Expense Reimbursement Policy, which states, "[o]riginal receipts are required for airfare, lodging, car rental, and registration fees claims, showing the date of the service. Any other items in excess of \$30 must also be documented by dated receipts." While Internal Auditors were satisfied with the business purpose of the credit card and reimbursed expenditures, they recommended the retention of original receipts be improved. They cited a previous internal audit that had made a similar recommendation.

Regarding airfare, Internal Auditors stated that documentation was insufficient to support upgraded airline travel associated with more than forty percent (40%) of President Shumaker's total airfare during the four years examined. University policy states, "[a]dditional expense for first-class travel will not be reimbursed." Internal Auditors said they could not determine the financial impact of the upgraded travel over the allowable business or coach class. Internal Auditors recommended documentation be maintained to support any airline upgrades obtained with personal frequent flier miles.

President Ramsey
December 3, 2003
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Internal Auditors reported that \$35,716 in personal expenses was charged by Dr. Shumaker to the Foundation credit card. This represents approximately ten percent (10%) of the total credit card charges during the period examined. Internal Auditors found that Dr. Shumaker routinely reimbursed the University or directly paid these credit card charges. A previous internal audit had recommended using the credit card for business purposes only.

Our review of Internal Auditors reports and working papers revealed weak University internal controls in several respects, including the following:

- No approval procedure existed for President Shumaker's travel and entertainment expenditures. Dr. Shumaker reported these expenditures quarterly to the University's Board of Trustees and the Foundation Board of Directors. These reports included a budget update but were informational only, requiring no Board action.
- Except for the limitation consisting of a line item in the University's annual budget, policies did not restrict the travel and entertainment expenses of Dr. Shumaker. By policy, lodging, meals, and most airfare were reimbursed at actual cost. The policy to restrict reimbursement for upgraded airfare was routinely ignored.
- Specific written policies did not exist for use of the Foundation credit card by Dr. Shumaker.
- Dr. Shumaker frequently ignored the University policy of requiring original receipts for reimbursements. This noncompliance was not routinely reported to either Board except through infrequent internal audit reports.
- Routine operational expenses paid by the Foundation for Amelia Place, the president's home, were not reported to the Foundation Board but were limited only by budgetary constraints.

AREAS FOR FURTHER EXAMINATION

We noted several areas where Dr. Shumaker may have incurred expenditures that were not examined by Internal Auditors. These areas include:

- Procurement card (ProCard) transactions of President Shumaker's office;
- Direct payments from University accounts to vendors for travel, entertainment, or other expenses;
- Expenses related to Amelia Place, the president's home, and
- Personal service contracts that may have been initiated at President Shumaker's request.

None of these areas appears outside of the direction provided by the Foundation's letter of August 27, 2003; however, the August 28, 2003 letter from the University President limited the scope of Internal Auditors' work to only credit card transactions and expense reimbursements.

President Ramsey
December 3, 2003
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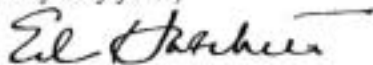
RECOMMENDATIONS

We recommend strengthening the following control areas:

- The Boards should review and approve or disapprove the expenditures listed on the quarterly reports.
- The quarterly reports should include a statement from the President that original receipts are on file for each item listed on the quarterly reports.
- The quarterly reports should include expenditures made for Amelia Place, the president's home.
- The Travel and Reimbursement Policy requiring original receipts prior to approving the reimbursement of expenses should be enforced.
- The Travel and Reimbursement Policy should specify approval procedures applicable to the President.
- The Travel and Reimbursement Policy should be reviewed to formally include a policy to address the use and documentation of airline frequent flyer miles.
- The areas of possible expenditures by Dr. Shumaker that were excluded from the scope of these audits should be examined.
- The Boards should ensure that all expenditures are reasonable in cost, necessary, and nonpersonal in nature.

We did not review, audit, or test any changes to policies, procedures, or practices that occurred after the audit period ending June 30, 2002.

Very truly yours,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

EXHIBIT 2



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

December 24, 2003

James R. Ramsey, Ph.D., President
University of Louisville
Louisville, Kentucky 40292

RE: Follow-up work on Presidential expenditures

Dear President Ramsey:

As reported in our letter of December 3, 2003, the Auditor of Public Accounts reviewed the work of the University of Louisville's Audit Services staff regarding travel and entertainment expenses of former President John W. Shumaker. We offered our comments and recommendations, including our observation that the scope of the work performed by the internal auditors was limited to credit card transactions and direct reimbursements and was not sufficient to encompass all areas of potential expenditures incurred by the President. We suggested four additional areas to examine:

- Procurement card (ProCard) transactions of President Shumaker's office;
- Direct payments from University accounts to vendors for travel, entertainment, or other expenses;
- Expenses related to Amelia Place, the president's home; and
- Personal service contracts that may have been initiated at President Shumaker's request.

With the assistance of the Audit Services staff, we examined General Fund and Research Foundation expenditures related to three of the above areas: ProCard expenditures, direct payments, and personal service contracts. We were not provided access to University of Louisville Foundation, Inc. records related to any of the above areas. The Foundation asserts that as a private entity its records relating to presidential expenditures in these areas are not subject to examination by the Auditor of Public Accounts.



President Ramsey
December 24, 2003
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ProCard

Three employees of the President's office used ProCards during fiscal years 2001 and 2002. The cards were used within the University guidelines and charges totaled \$13,137. Dr. Shumaker did not use a ProCard, and the only charge made to his direct personal benefit was for a piece of luggage, specifically authorized by the Foundation in May 2002 as a gift for the departing President.

Direct Payments to Vendors

Audit Services provided a listing of all direct payments to vendors for travel and entertainment expenses of the President's office for the two-year period. Exclusive of expenditures previously examined, these expenditures totaled \$295,100. From this population, we examined a sample of expenditures totaling \$195,470. These expenditures included such items as tickets to major local events, catering for occasions ranging from large banquets to small receptions, business luncheons, travel and lodging for visiting guests, and international travel for student groups.

We found the University's records adequate to document a University purpose for the events associated with these direct payments. Invoices or receipts were available for all expenditures examined. No unusual benefit accrued to Dr. Shumaker as a result of these expenditures. Our examination produced the following concerns:

- On several occasions, the University purchased alcoholic beverages at events such as a Trustees reception. We were told that while it was not routine to buy alcohol with general fund appropriations, no statute or regulation prohibited the practice.
- One catering invoice for \$913.76 was inadvertently paid twice. According to the University "[w]e have discussed this situation with [the vendor], which has agreed to credit \$913.76 toward the Department's future expenditures ..."

Personal Service Contracts

Audit Services provided a listing of all personal service contracts issued by the University during the period examined. A total of 277 personal service contracts were issued during this timeframe with President Shumaker or his designee initiating 10 of the contracts. We reviewed the 10 personal service contracts initiated by the President's office as well as four additional contracts judgmentally selected because Audit Services' listing indicated the personal service contract was for consulting services.

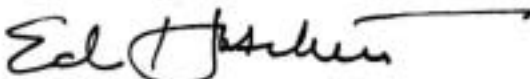
President Ramsey
December 24, 2003
Page 3

We found minor instances of noncompliance with University procedures relating to two personal service contracts. We have discussed these issues with the University. However, neither of these contracts appears to have benefited President Shumaker personally.

We recommend that the Foundation make transactions relative to the expenditure areas detailed above available to this office so that all areas of potential expenditures incurred by the President can be thoroughly examined. Further, we recommend that the University consider whether the expenditures of public funds for alcoholic beverages are necessary, beneficial to the public, and not predominately personal in nature.

We express our appreciation to you, your staff, and other University employees for the cooperation received during the course of our work.

Very truly yours,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

UNIVERSITY OF LOUISVILLE FOUNDATION RESPONSE

UNIVERSITY of LOUISVILLE

BOARD OF DIRECTORS
UNIVERSITY OF LOUISVILLE
FOUNDATION, INC.

University of Louisville
Louisville, Kentucky 40292

March 24, 2004

Ms. Crit Luallen
Auditor of Public Accounts
Commonwealth of Kentucky
105 Sea Hero Road, Suite 2
Frankfort, KY 40601-5404

Dear Ms. Luallen:

Thank you for your report of March 24, 2004. On behalf of the UofL Foundation, we were pleased to cooperate voluntarily with your office over the past few months to assure the public that Dr. John Shumaker did **not** use Foundation funds for his personal benefit. To facilitate your review, the Foundation made available to your staff any and all records they requested. As your report notes, your staff reviewed 86% of transactions during FY01 and FY02, and we appreciate the professional and thorough examination they carried out.

This report, along with the examination your office performed in December regarding state university and research foundation funds, reaffirms to the public that Dr. John Shumaker during his tenure at the University of Louisville did not receive any inappropriate benefit from the expenditure of funds controlled by the Office of the President.

We appreciate the thoughtful recommendations included as part of the audit. The Foundation Board of Directors plans to address them at its meeting on March 29, 2004. I would like to respond to your findings as they were presented in your report.

- Trips to Liberty Bowl by Shumaker children. Your recommendation that policy should direct practice is noted. The Board plans to expand the Foundation's current travel policy to accommodate the President's minor children for specific travel.
- Events and Gifts. The business of the Foundation is fundraising; to be successful, the Foundation must also be in the business of friend-raising. The practice of giving holiday gifts to members of the University's Senior Leadership Team and Executive Cabinet has existed for more than three decades. The members of these two groups have donated and pledged more than \$545,000 to university programs. With future capital campaigns planned, we hope the leadership of the University will continue to demonstrate its commitment to philanthropy and investment in the University. Additionally, the holiday lunch and summer concert were efforts to improve the morale of the staff that supports the board and its activities. The Board has agreed to review a policy that addresses its oversight of gifts and special events.
- Inventory. Your recommendations (2) about maintaining a more comprehensive inventory of Foundation property is noted. We have already begun to record the purchase and disposition of special recognition gifts (a gift inventory) that the President uses in promoting UofL. Although we implement biennially a physical inventory of Amelia Place, we plan to conduct one

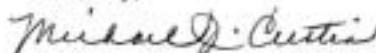
annually. The Board will take up at its meeting this month procedures that will guide future inventories at Amelia Place.

- **President's Reports.** President Ramsey has increased the distribution of his quarterly expense reports to include the Trustees Audit Committee. We shall include a special category on the report for capital acquisitions at Amelia Place and integrate this component with procedures for the annual inventory of physical property at that facility.

Under the leadership of President Ramsey, the UofL Foundation has opened its board meetings to the public, cooperated with your office to carry out this comprehensive audit, and established a web site for posting board minutes, policies, audited financial statements (Deloitte & Touche), and its annual report. President Ramsey uses only his personal credit card for his travel and other reimbursable expenditures, and submits reimbursement requests through the regular procedures like all other UofL employees. Also, at his urging, the presidents of Kentucky's public universities beginning this year will voluntarily complete full disclosure statements to the state's Executive Branch Ethics Commission. These actions demonstrate, we believe, that the University and the UofL Foundation are committed to openness, candor, and fiscal integrity.

Thank you for the opportunity to respond.

Sincerely,



Michael J. Curtin
Assistant Treasurer
And Vice President for Finance

Cc: UofL Foundation Board of Directors

