A. INTRODUCTION AND OVERVIEW

The Audit committee met with Tom McIlrath, Treasurer, Michael Stephens, Controller and with Donald Phillips, Partner, and Amy Hargrett, Manager, of the audit firm, PriceWaterhouseCoopers. At this meeting, the Audit Report of PriceWaterhouseCoopers for the fiscal year ending June 30, 2000 was examined and discussed. Following the general discussion, the Audit Committee met in executive session, met with Donald Phillips and Amy Hargrett in separate session, and met separately with Tom McIlrath and Michael Stephens. The committee wishes to extend its thanks to Tom McIlrath and Michael Stephens for their cooperation and assistance in meeting the responsibilities of the Audit Committee.

The Audit Committee was provided with:

- The PWC Audit Committee Report
- A Summary of findings from PriceWaterhouseCoopers
- The Report of the FY 1999 Audit Committee
- Management Response and Report of Actions Taken with Respect to the Recommendations of the 1999 APS Audit Committee.

In addition to the formal audit issues, several topics were discussed that are included in the report below.

B. THE AUDIT REPORT

As noted by the audit firm, PriceWaterhouseCoopers (see the "PWC Audit Committee Report" and the "APS Financial Statement for FY 2000 and 1999 and the Report of the Independent Accountants") the APS is in compliance with standard auditing requirements and the fiscal condition of the APS is sound and in accord with reasonable requirements for not-for-profit organizations. The Audit Committee agrees with this conclusion.

C. FOLLOW-UP ON THE RECOMMENDATIONS OF THE 1999 AUDIT COMMITTEE

(Comments of the current Audit committee are in italics)
"We recommend that the APS retain PriceWaterhouseCoopers as the audit firm for FY 2000 and that the audit responsibility be re-bid for FY 2001."

The committee revisited this recommendation this year and spent considerable time on it. We were provided with the times and costs of audit firms that have served the APS over the past. In general, the selection of a new firm is based as a balance between good service and continuity (someone who has gotten to know our business) versus cost and risk of establishing uncritical audits that can develop over long periods of mutual relationships. Audit firms with the APS have remained for longer periods that five years and the cost to us for PricewaterhouseCooper has remained fairly constant. Further, in discussion with both the accountants and with Tom McIlrath and Michael Stephens, we felt that strong controls were in place to maintain a critical audit and that we were being provided good service. In view of this new data, we feel that it would not be productive to re-bid for a new auditor this year.

"We recommend that the APS continue to be alert to the issues of computer security and possibly arrange for a Council sponsored review of these activities. We further recommend that the financial audit concern itself with the specific IT needs of the financial systems and not the general IT issue of the APS."

We accepted management’s response that “management continues to be very alert to the issues of computer security. In addition, it appears that during this audit, the financial audit concerned itself with the specific IT needs of the financial systems.”

"We recommend that the ratio of “reserves” to “operating funds” be reported to Council annually and that the “reserve” funds be more clearly labeled as such, even though the terminology used may not fit the “normal accounting” terminology. The Executive Board and Council should set overall policy and oversee the uses of the reserve fund and its income."

It was reported to us that for the year ended June 30, 2000, the ratio of average “reserves” to “operating funds” is 170.28%. Average “reserves” are defined as the average unrestricted net assets, or $59,791,000. “Operating funds” are defined as operating expenses, or $35,114,000.

"We recommend that the APS undertake an ‘audit’ of the existing prizes and develop procedures for ensuring the continuity and vitality of the prizes deemed deserving."

This has been carried out. During FY2000, the responsibility for the continuity and vitality of the prize and award funds was assumed by the Development Department. As a result, additional funding initiatives have been implemented for a number of the under-endowed prize funds.
D. STATEMENTS BY PWC ABOUT THE FY 2000 AUDIT (Paraphrased)
(Responses of the APS management are in italics.)

It was noted that improper use of a corporate credit card had occurred during the year. PWC recommended that either a new policy be put in place whereby each employee is responsible for travel charges and request reimbursement or require that employees adhere strictly to the existing policies and procedures.

The problem involved an employee who was known to be undergoing significant personal stress. When approached by financial personnel after each incident, the employee readily accepted responsibility for the charges and acknowledged that the employee would not use the credit card for personal charges in the future. After a number of abuses, the credit card was turned in so that it would be in the employee’s possession only when actually needed for Society business. The credit card abuses continued and the credit card has now been cancelled. As a result of this series of abuses, we have put in place reporting procedures that will bring any problems to the attention of higher management at the first instance of violation. We will also act more quickly to terminate credit cards if recurrent abuses occur.

The Audit Committee probed if adequate procedures were in place to flag improper uses of corporate credit cards. In fact, this particular instance was caught by internal control procedures. We believe that these procedures are adequate, and there is no need at this point to go to a 'reimbursement' system.

In response to direct questions from the Audit Committee, PWC’s representatives stated that they found no unresolved issues in their audit.

E. RECOMMENDATIONS AND FINDINGS OF THE FY 1999 AUDIT COMMITTEE TO COUNCIL

1. We recommend that the FY 2000 Independent Auditor’s Report prepared by PriceWaterhouseCooper be accepted.

2. We find, on the basis of the audit by PWC and our discussions that there are no outstanding issues of importance in the financial affairs of the APS.

3. We recommend that the APS retain PriceWaterhouseCooper as the audit firm for FY 2001. The possibility of re-bidding audit responsibility should be reassessed each year.