

Report of the 1999 Audit Committee to the Council of the American Physical Society

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A. INTRODUCTION AND OVERVIEW

The Audit committee met with Tom McIlrath, Treasurer, Michael Stephens, Controller and Assistant Treasurer, Tracy Alinger, Director of Information Services for the APS, Jeffrey Koblinsky, Director of Information Services for ACP, and with Caroline Williams and Monique Remy of the audit firm, PriceWaterhouseCoopers. At this meeting, the Audit Report of PriceWaterhouseCoopers for the fiscal year ending June 30, 1999 was examined and discussed. Following the general discussion, the Audit Committee met in executive session and invited Tom McIlrath and Michael Stephens to attend. 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

The APS Financial Statement for FY 1999 and 1998 and the Report of the Independent Accountants

The APS Report to Management

The Report of the FY 1998 Audit Committee

Management Response to Comments in the PWC Report to Management of June 30, 1998.

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 1999 and 1998 and the Report of the Independent Accountants") the APS is in compliance with standard auditing requirements and that 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 1998 AUDIT COMMITTEE

(Comments of the current Audit committee are in bold)

"That the Society examine the appropriate level of computer security that is consistent with its carrying out its functions and that it look into ways to effectively coordinate Information Service functions of apparently overlapping jurisdictions, and that it provide the appropriate oversight by Council, through a mechanism to be decided by Council."

The APS and the other partners in the American Center of Physics appear to have put into place adequate computer security at various levels in their operations. We heard less about computer security at the Ridge operation. The Audit Committee is not the appropriate group to examine this issue in detail and it is not appropriate that this issue be included in what is primarily a financial audit.

We do 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. If a general external audit of the IT systems of the APS is required, we recommend that it be done by a firm that is expert in this aspect of auditing.

"That the Society examine its relationship to the PWC firm, to determine whether it is appropriate that the same firm be a) the audit firm that recommended the development of a disaster recovery and business continuity plan, b) the firm that gained the contract for developing such a plan, and c) potentially be the firm that will be in the position of evaluating the effectiveness and sufficiency of the plan that they themselves have developed."

The current audit committee discussed this with Tom McIlrath and Michael Stephens and the situation seems to be satisfactory. The actual course of action seems to have resulted in a satisfactory plan at the lowest cost to the APS.

"That the Council of the Society reexamine the question of the appropriate ratio of "reserves" to "operating funds" since this ratio is almost double the ratio that the Council decided to be appropriate 6 years ago."

The current ratio of "reserves" to "operating funds" is about 1.6; down from the figure of 1.8 that was the case a year ago. The committee had a good deal of discussion about the appropriateness of this ratio and indeed about what the "reserves" really meant and how they should be used. The committee did not develop a consensus on this matter. We recommend that the Executive Board and Council be apprised of and discuss the nature and uses of the reserve fund.

We do recommend that the "reserve" funds be more clearly labeled as such in reports to the Audit committee and the membership, even though the terminology used may not fit the normal accounting terminology.

"That, because the financial health and good management of the American Center of Physics is an important asset to the Society that is not subject to APS's formal audits, the Council be apprised of these aspects of the Center on a continuing basis."

Tom McIlrath and Michael Stephens explained the somewhat complex relationship between the APS, AIP, and AAPT partners in the American Center of Physics in some detail. In essence, the APS has a contractual obligation to contribute to the support of the building and this is properly listed as a liability as rent. Because the value of the building does not exceed the debt on the building, there is no asset at this time. In addition, there is no liability apart from the contractual rent obligation. At such time that the building does generate an asset, the APS share of this asset will be listed as such. The Audit Committee was satisfied with this explanation.

D. STATEMENTS BY PWC ABOUT THE FY 1999 AUDIT (Paraphrased)

(Responses of the APS management are in bold.)

Information about the Unit bank accounts should be made available to the APS Treasurer in a timely manner and be subjected to a supervisory review.

The APS concurs and has taken steps to obtain the bank statements on a continuing and timely manner. The few minor problems with getting information about the bank statements of two of the independent units have been resolved by discussion. If any issues of a similar nature arise in the future, it is expected that they will be resolved in the same manner.

The Audit Committee did not consider this to be a problem.

PWC has found the Year 2000 preparation of the APS to be satisfactory but recommended that contingency planning be emphasized.

The APS has put into place a plan to staff the offices during the entry into the new Millennium. It has every expectation that it will be ready to "open for business" on 1/3/200, the first workday of the new Millennium.

The Audit Committee considered the preparations of the APS to be totally satisfactory.

PWC discussed the "Required Communications" with the APS. No problems were found and the APS was found to be in full compliance with the requirements of providing information for the audit.

In response to direct questions from the Audit Committee, PWC's representatives stated that they:

1. Found no unresolved issues in their audit and,
2. Considered the ratio of "reserves" to "operating expenses" to be reasonable.

E. OTHER ITEMS RELATED TO THE FINANCIAL HEALTH OF THE APS THAT WERE DISCUSSED BY THE AUDIT COMMITTEE

(Recommendations of the Audit Committee are in bold.)

The Audit Committee discussed the retention of PriceWaterhouseCooper as the auditing firm for the APS. It was felt that the audit was done in a satisfactory manner and while there is significant advantage in retaining an audit firm for a period sufficient to gain some benefit from having done the job more than once, it is also desirable to periodically (perhaps every fifth year) to have the audit contract re-bid and to consider other firms.

The Audit Committee recommends that PWC be retained as the auditing firm in the next year (their fifth year) and that the re-bidding of the auditing task be done in the following year.

The Audit Committee noted that a number of the APS Prizes were on the brink of becoming insolvent. We recognize that some of these were designed to expire over time and that some of them depend on periodic infusion of additional funds from the various sections of the APS or from industrial partners of the APS. However in view of the importance of recognition of our membership for their achievements, we feel that a somewhat more orderly approach to the continuation of the various prizes be undertaken.

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

1. We recommend that the FY 1999 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 2000 and that the audit responsibility be re-bid for FY 2001.
4. 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.
5. 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.
6. 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.