

REPORT OF THE COMMITTEE ON AUDIT REVIEW
TO THE
BOARD OF DIRECTORS

Members of the Board of Directors serving on the 2006-2007 Audit Review Committee are listed below:

Dr. William F. Little, Chairman
Dr. John H. Moore
Dr. John W. Prados

The Committee met on Monday, September 24, 2007 to review the Sigma Xi Financial Statements and the Auditors' Report for fiscal year 2007. Joining the Committee in the meeting were Dr. Linda Meadows, (Interim Executive Director), Dr. Richard Meyer, (Interim Deputy Executive Director) and Ms. Jasmine Shah (Director of Budget & Finance) representing Sigma Xi management and Mr. Walter Davenport (Partner), Ms. Angela Poole (Senior Manager) and Mr. Lisa Rower (Senior Manager) of the auditing firm of Cherry, Bekaert and Holland, L.L.P. Copies of the financial statements and associated documents were sent to all participants for their review prior to the meeting.

Committee members asked for clarification of some entries in the financial statements. Dr. Meadows, Dr. Meyer, Ms. Shah and the auditors satisfactorily answered all questions that were raised. The Committee observed that for the second year in a row the Unrestricted Net Assets showed substantial erosion (Note 8).

The Committee had subsequent closed sessions with the auditors.

A management letter with the following recommendations was previewed by the auditors.

1. That all bank accounts be reconciled each month prior to preparation of the monthly financial statements. That the bank reconciliations be reviewed for accuracy and completeness on a timely basis by supervisory personnel.
2. That management establishes a formal, written policy for uncashed checks based on current State escheat laws. Such a policy should specify aging benchmarks with required actions. For example, this policy might specify that when checks are past 60 days old, the payee should be contacted. After 90 days, the checks should be moved to a suspense account or written off.
3. That the internal controls should be designed to safeguard assets and help or detect losses. A fundamental principle in a good system of internal control is the segregation of duties. Although the size of the Society's accounting staff prohibit complete adherence to this principle, the auditors recommend that the Society establish and implement alternate mitigating controls to compensate for the lack of human resources in the accounting department. Management should review the current assignment of accounting functions. Where possible, duties should be segregated to reduce the risk of misstatement, for example:
 - Journal entries should be approved by an employee other than the one who prepared the entry.

- Isolate any incompatible accounting functions that are the responsibility of one employee.
 - Reassign responsibility for incompatible duties, if practical, or create a supervisory review of these functions.
4. That the Society establish and implement procedures for preparing and presenting interim financial statements generated by the Society's Blackbaud Accounting system. These financial statements should be reviewed by management and presented to the Board of Directors on a regular basis. If additional explanatory information needs to be provided, a narrative or supplementary schedules discussing additional financial activities may be prepared as a supplement to the financial statements.
 5. That procedures be implemented to enforce adherence to the Society's policy regarding credit card use.
 6. That the Society enforce adherence to monitoring controls designed to assess operating effectiveness. It was also recommended that the Society evaluate the design of information technology controls to ensure the system is able to provide complete and accurate information consistent with financial reporting objectives.

In addition, following recommendations were made for the Information Technology system:

7. Employees to sign-off on IT security policies on an annual basis.
8. A risk assessment is performed, documented and updated with the results of audits, inspections and identified incidents. A complete review of the risk assessment should be performed annually.
9. Publicly accessible servers be segmented from the network by a DMZ.
10. Establish appropriate segregation of duties between the individual who authorizes access rights and the individual who grants access rights. One individual should authorize and review rights, while another individual should grant access rights.
11. Access authorizations be documented on standard forms and be maintained on file, approved by senior managers, and securely transferred to security managers.
12. Password controls be improved where the software allows.
13. The computer be locked, logged off, or password protected by a screensaver after a period of inactivity of 10-15 minutes.
14. Establish and implement a business continuity plan, which includes provisions for continuing business operations in the event of a disaster and during the recovery period. Policies and procedures should be implemented to ensure the plan is tested on an annual basis and updated based on the results of testing.

In addition to the above recommendations, several other recommendations were made to the Audit Review Committee members that will be taken into consideration. Audit Review Committee members also made some suggestions to the management.

The Committee members unanimously agreed to accept the recommendations made by the auditors.

The Committee was pleased to receive an unqualified opinion on the financial statements from the Auditors. The high level of openness, availability and cooperation of the Society's financial managers with the auditors was noted. The Auditors also assured the Committee that there were no significant adjustments or reclassifications recorded or significant changes in accounting policies.

In sum, the Auditors offered the opinion that: "... the financial statements referred to above present fairly, in all material respects, the financial position of Sigma Xi, The Scientific Research Society, Incorporated as of June 30, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America." The Committee on Audit Review unanimously accepted this judgment by the Auditors.

Respectfully submitted,
William Little, Chairman
Committee on Audit Review