

EAST TENNESSEE STATE UNIVERSITY
BOARD OF TRUSTEES
AUDIT COMMITTEE
SEPTEMBER 2019 MEETING

8:30-9:30 am EDT
Friday
September 20, 2019

The Millennium Center
2001 Millennium Pl
Johnson City, TN

AGENDA

- I. Call to Order
- II. Roll Call
- III. [Approval of the Minutes of the Audit Committee April 26, 2019](#)
- IV. Action Item: [Adoption of Compliance Charter \(5 minutes\)](#)
- V. Action Item: [Annual Audit Plan for FY 2020 \(5 minutes\)](#)
 - A. FY 2019-20 Audit Plan
- VI. [Audit Work Performed April through August 2019 \(5 minutes\)](#)
 - A. [Executive Level Audit- Vice President Academic Affairs](#)
 - B. [NACHA Web Transactions Data Security](#)
 - C. [Timekeeping- Families First](#)
 - D. [Third Party Servers](#)
 - E. [Art and Design](#)
 - F. Memorandum on Investigations
 - G. Completed Audit Heat Map
- VII. [Recommendation Log Status as of August 31, 2019 \(5 minutes\)](#)
- VIII. [Report of Audit Functions for FY 2019 \(5 minutes\)](#)
- IX. [Internal Audit Employee Profile \(5 minutes\)](#)
- X. [Internal Audit Operating Expenses \(5 minutes\)](#)
- XI. Other Business
- XII. Executive Session to Discuss Active Audits and Enterprise Risk Management (15 minutes)
- XIII. Adjournment

EAST TENNESSEE STATE UNIVERSITY
BOARD OF TRUSTEES

ACTION ITEM

DATE: September 20, 2019

ITEM: Approval of the Minutes of April 26, 2019

COMMITTEE: Audit Committee

RECOMMENDED ACTION: Approve

PRESENTED BY: Rebecca A. Lewis, CPA
Chief Audit Executive

The minutes of the April 26, 2019 meeting of the Audit Committee are included in the meeting materials.

MOTION: I move that the Board of Trustees adopt the resolution, approving the minutes as outlined in the meeting materials.

RESOLVED: The reading of the minutes of the April 26, 2019 meeting of the Audit Committee is omitted, and the minutes are approved as presented in the meeting materials, provided that the Secretary is authorized to make any necessary edits to correct spelling errors, grammatical errors, format errors, or other technical errors subsequently identified.

EAST TENNESSEE STATE UNIVERSITY
BOARD OF TRUSTEES
AUDIT COMMITTEE
APRIL 26, 2019

MINUTES

I. Call to Order: David Golden, Vice-Chairman of the ETSU Board of Trustees and Chairman of the Audit Committee, called the meeting to order at 9 a.m.

II. Roll Call: Board of Trustees Secretary David Linville led the roll call. Committee members present were Dorothy Grisham, Ron Ramsey, and David Golden. Scott Niswonger, Chairman of the board, was also present.

III. Approval of Minutes

The minutes from the February 22 audit committee meeting were reviewed. Mr. Ramsey made a motion for approval, and Ms. Grisham seconded the motion. The minutes were approved.

IV. Annual Review of the Audit Committee Charter and Internal Audit Charter

Ms. Rebecca Lewis presented a copy of the Audit Committee Charter approved by the Board of Trustees and the Comptroller of the Treasury in September 2017, as well as the Internal Audit Charter approved by the Board of Trustees in April 2018. According to the charter, the Audit Committee must review these charters annually. Ms. Lewis reported that her office did not identify any corrections or additions needed for either charter.

V. Annual Review of Audit Policies

Ms. Lewis provided copies of the Internal Audit Policy, the Preventing and Reporting Fraud, Waste, and Abuse Policy, and the Conflict of Interest Policy. As with the charters in agenda item IV, the Audit Committee is required to review these annually. Ms. Lewis stated that the ETSU Internal Audit office did not identify any changes needed to the Internal Audit nor the Preventing and Reporting Fraud, Waste, and Abuse policies. ETSU is currently following the Tennessee Board of Regents' Conflict of Interest Policy, and a committee has prepared a draft of an ETSU Conflict of Interest Policy that will replace the current TBR one.

The Audit Committee is required to review the Code of Conduct policy. Ms. Lewis noted that ETSU does not currently have a Code of Conduct policy but she has discussed the need for one with the Office of Human Resources.

President Noland reported on the hiring of additional staff for the newly created Compliance Office at ETSU and that policies on matters such as Code of Conduct will be coming from that office in the future.

VI. Revisions to the 2018-19 Audit Plan

According to Ms. Lewis, three investigations have been added since the February 22, 2019 Audit Committee Meeting. One of these was administratively closed by Internal Audit, and the second is to be discussed later in the agenda. In addition, an audit of the ETSU men's golf program will be conducted following the announcement of Coach Fred Warren's retirement. It is the university's policy to audit each head coach upon his/her departure from the university. With these additions to the audit plan, some audits have been removed. Information on those specific audits were included in the committee materials.

VII. Audits and Investigations Performed

Since the previous Audit Committee meeting, two audits have been completed. One was for timekeeping in Sherrod Library administration, and the other was for Jeanne Clery Act Compliance. The timekeeping audit identified issues regarding the Family Medical Leave Act (FMLA), and Ms. Lewis' office is currently working with management to implement controls. Minor issues were also noted in the audit regarding compliance efforts for the Clery Act, which addresses federal laws governing how crimes are reported. Minor discrepancies regarding reporting were found, and staff is working with the Clery coordinator to address these issues.

An investigation involving the Center for Academic Achievement was conducted. The center houses testing and tutoring services for the university. The investigation found that the director of the office had made personal purchases in the amount of \$17,000 using a pro card. The majority of these purchases were for guitar pedals and other miscellaneous equipment as well as items that had no legitimate business purpose. In addition, the investigation found that the same employee had approximately 800 hours of unreported annual/sick leave that totaled around \$29,000. Together, these two totals exceeded \$47,000.

Ms. Lewis reported that the case has been turned over to ETSU Public Safety. In terms of internal controls regarding pro card use, Ms. Lewis noted that those controls were in place and procedures were being followed. Ms. Lewis and her staff are working with ETSU's procurement office about having additional policies related to pro cards in order to strengthen procedures. This investigation was initiated following an anonymous tip. President Noland noted that once ETSU became aware of the complaint, Ms. Lewis and her staff moved quickly. He added that the individual involved in the investigation is no longer employed at the university.

A completed Audit Heat Map was presented to the committee.

VIII. Recommendation Log Status

The Recommendation Log was presented that shows follow-up activities that have occurred since the previous Audit Committee meeting.

IX. Review of Audited Financial Statements from the Comptroller of the Treasury

A copy of the annual financial statement audit of ETSU conducted by the Comptroller of the Treasury was presented. For FY 18, there were no findings, and an unmodified opinion was issued. Ms. Lewis stated that an unmodified opinion is the best financial statement opinion that could be obtained.

Ms. Lewis introduced ETSU's new compliance counsel, Ashley Leonard, who started April 8. A compliance officer and two investigators have been hired to join Ms. Leonard in the Office of University Compliance. In addition to conducting investigations, the office will provide education and training to the campus.

X. Other Business

No other business items were discussed. The meeting adjourned and committee members moved into Executive Session.

EAST TENNESSEE STATE UNIVERSITY
BOARD OF TRUSTEES

ACTION ITEM

DATE: September 20, 2019

ITEM: Adoption of Compliance Charter

COMMITTEE: Audit Committee

RECOMMENDED ACTION: Approve

PRESENTED BY: Rebecca A. Lewis, CPA
Chief Audit Executive

The new formed Compliance Office recently developed a charter in order to outline such things as the office's purpose, mission, authority, and responsibilities.

The proposed charter for the Compliance Office has been reviewed by the Compliance Office, Internal Audit, and the President.

MOTION: I move that the Audit Committee recommend adoption of the following Resolution by the Board of Trustees:

RESOLVED: The Compliance Charter is approved as presented in the meeting materials.



OFFICE OF UNIVERSITY COMPLIANCE CHARTER

Purpose

The Office of University Compliance supports East Tennessee State University's (ETSU or University) fundamental commitment to the highest standards of ethics, integrity, and lawful conduct by promoting adherence to all applicable federal, state, and local laws, regulations, standards, and internal policies and protocols.

ETSU established the Office of University Compliance to appropriately prevent, detect, and respond to potential violations of law, policy, and regulatory complaints. This goal is achieved through outreach and education, internal investigations, policy development, and fulfilling all reporting requirements by state and federal agencies. This charter defines and specifies key aspects of the Office of University Compliance.

Mission

The Office of University Compliance seeks to support and enhance East Tennessee State University's vision, mission, and values by providing independent and objective measures to address the University's legal, regulatory, and ethical responsibilities with integrity. The office provides program oversight for Title IX of the Education Amendments, the Americans with Disabilities Act, and Title VI and Title VII of the Civil Rights Act. The office collaborates with campus partners to provide policy development, education, enforcement, and remediation to the University community.

Vision

The Office of University Compliance seeks to develop and promote a culture of compliance to support ETSU's mission of delivering education in a world-class environment.

Organizational Oversight

The Compliance Counsel oversees the Office of University Compliance and reports directly to the University Counsel and the President of the University. To facilitate the duties and independence of the office, the Compliance Counsel has a dotted line relationship with the Office of Internal Audit. The Compliance Counsel oversees the Equity Compliance Officer, who in turn oversees two Assistant Equity Compliance Officers.

The Office of University Compliance staff have organizational independence and objectivity to perform their responsibilities, and all activities of the office shall remain free from influence.

Authority

To meet its responsibilities and maintain independence, the Office of University Compliance, with strict accountability for confidentiality and safeguarding of records and information, is authorized to have full, free, unrestricted access to any and all of the University's records,

education records, physical properties, and personnel pertinent to conduct compliance assessments, training, monitoring, and investigations.

The University's administration will ensure that units and personnel cooperate with the Office of University Compliance in carrying out its compliance activities.

Coordination with other Units

The Office of University Compliance collaborates with Internal Audit, Human Resources, Student Life & Enrollment, and Public Safety to discuss compliance issues, coordinate efforts, and collaborate on compliance initiatives.

Professional Standards

The compliance function's objective is to establish and promote standards that meet the U.S. Federal Sentencing Guidelines' criteria for an effective compliance program:

1. Compliance standards and procedures to prevent and detect criminal activity;
2. Oversight by high-level personnel, with periodic reporting to the Audit Committee of the Board of Trustees from individuals with operational responsibility;
3. Due care in delegating substantial discretionary authority;
4. Effective communication and training to all levels of employees;
5. Systems for monitoring, auditing, and reporting suspected wrong-doing without fear of reprisal and for periodically evaluating the effectiveness of the compliance and ethics programs;
6. Consistent enforcement of compliance standards including disciplinary mechanisms and appropriate incentives to perform in accordance with the compliance and ethics program; and
7. Reasonable steps to respond to and prevent further similar offenses upon detection of a violation.

Responsibilities

All members of the University community share responsibility for maintaining an environment of accountability and integrity.

- Supervisors must ensure employees have the knowledge and skills to fulfill their obligations. Supervisors must appropriately address or elevate reported violations or similar issues, including by preventing retaliation.
- All employees must obey the laws, regulations, and policies applicable to their university activities, and report illegal or unethical action that comes to their attention.

Members of the University community having responsibility for a specific area of compliance must ensure:

- Oversight of compliance in their specific functional areas;
- Adherence to the University's compliance policies; and
- Implementation of corrective action as necessary, arising from compliance reviews or investigations.

The Compliance Counsel and Equity Compliance Officer are to remain well-informed on the content and operation of the University's compliance program to exercise reasonable oversight of the effectiveness of the program. These responsibilities include:

1. Standards of Conduct/Policies and Procedures: confirming that the University implements policies, procedures, training programs, and internal control systems that are reasonably capable of reducing misconduct and that comply with relevant regulatory requirements.
2. Compliance Roles and Responsibilities: establishing clear compliance roles and responsibilities across the University, including maintaining a professional staff with sufficient size, knowledge, skills, and experience to oversee University compliance.
3. Compliance Oversight: exercising reasonable oversight over compliance activities by requesting and receiving updates from compliance partners.
4. Reporting and Investigative Mechanisms: confirming that the University maintains an effective mechanism for stakeholders to report or seek guidance regarding potential or actual wrongdoing, including performing internal investigations and ethics reviews.
5. Correction and Prevention: working with the University's senior leadership to promote and enforce compliance through appropriate incentives and disciplinary measures.
6. Culture of Integrity and Compliance: promoting the University's culture of integrity and compliance through communication of compliance standards and policies.
7. External Inquiries: overseeing and coordinating external inquiries into compliance with federal and state laws or regulatory bodies, including taking appropriate steps to ensure safe harbor in instances of non-compliance.

Compliance Counsel

Date

President

Date

Chair, ETSU Board of Trustees Audit Committee

Date

EAST TENNESSEE STATE UNIVERSITY
BOARD OF TRUSTEES

ACTION ITEM

DATE: September 20, 2019
ITEM: Audit Plan
COMMITTEE: Audit Committee
RECOMMENDED ACTION: Approve
PRESENTED BY: Rebecca A. Lewis, CPA
Chief Audit Executive

The annual audit plan is developed through a risk assessment process. Risk factors include previous audit results, internal control systems, policy or personnel changes, size, sensitivity, and external audit coverage. Special requests by Board of Trustees and university management are also considered when scheduling audits. The audit plan is developed at the beginning of each fiscal year and is subject to revision throughout the year. The approved plan is also submitted to the Comptroller of the Treasury, Division of State Audit.

MOTION: I move that the Audit Committee recommend adoption of the following Resolution by the Board of Trustees:

RESOLVED: The Audit Plan for 2019-20 is approved as presented in the meeting materials.

**East Tennessee State University
Internal Audit Plan
Fiscal Year Ended June 30, 2020
as of August 31, 2019**

Rank	Type	Area	Audit
Required by State Audit	R	FM	Cash Counts/Inventories
Required by State Statute	R	FM	President's Expense FY 2019
Required by State Statute	R	FM	President's Expense FY 2020
Required by CPB	R	FM	WETS-FM
Required by Bank	R	IT	NACHA Web Transactions Data Security FY 2020
Required by Many	R	FM	Risk Assessments
Brought Forward Follow-Up	F	AT	Follow-Up Tennis Expenditures
Brought Forward Follow-Up	F	AT	Follow-Up Baseball Expenditures
Follow-Up	F	IT	Follow-Up Off Campus Domestic & International Programs
Follow-Up	F	IS	Follow-Up Office of Equity & Diversity
Follow-Up	F	IA	Follow-Up Johnson City Community Health Center Financial Procedures
Follow-Up	F	IA	Follow-Up Johnson City Community Health Center Patient Safety
Follow-Up	F	IA	Follow-Up Physical Therapy
Follow-Up	F	IS	Follow-Up Timekeeping - Library Administration
Follow-Up	F	IA	Follow-Up Center for Academic Achievement
Follow-Up	F	IS	Follow-Up Timekeeping - Families First
Follow-Up	F	IT	Follow-Up Third Party Servers
Brought Forward Invest	I	IA	Investigation 18-03
Brought Forward Invest	I	IA	Investigation 19-04
Brought Forward Invest	I	IA	Investigation 19-06
Brought Forward Invest	I	IA	Investigation 19-10
Investigations	I	IA	Investigation 20-01
Investigations	I	IA	Investigation 20-02
Investigations	I	IA	Investigation 20-03
Investigations	I	SS	Investigation 20-04
Consulting	C	IS	General Consultation
Consulting	C	FM	Leave Analysis
Consulting	C	FM	Procard Consulting
Project	P	IS	Board of Trustees (Prep for Meetings, Meetings, etc.)
Brought Forward Special Request	S	IT	VPN/RDG Access
Brought Forward Special Request	S	AT	Volleyball Expenditures
Brought Forward Special Request	S	AT	Golf Expenditures
Brought Forward Special Request	S	AT	Vehicle Expense Analysis
Brought Forward Special Request	S	IA	Art and Design
Special Request	S	PP	OSA Procedures Review
Special Request	S	FM	Executive Level Audit
Special Request	S	IA	ORSPA Grant
Brought Forward	A	FM	Agency Accounts
Risk Based	S	IS	Timekeeping - Social Work
Risk Based	S	IS	Timekeeping - Athletics (Interviews)
Risk Based	S	IS	Timekeeping - Information Technology
Risk Based	A	IS	Dependent Tuition Discount
Risk Based	A	IA	Minors on Campus
Risk Based	A	AT	NCAA Compliance
			Total

Estimate-Hours Available For Audits = 4,844

Audit Types:

- R - Required
- A - Risk-Based (Assessed)
- S - Special Request
- I - Investigation
- P - Project (Ongoing or Recurring)
- C - Consultation
- F - Follow-up Review

Functional Areas:

- AD - Advancement
- AT - Athletics
- AX - Auxiliary
- FM - Financial Management
- IA - Instruction & Academic Support
- IS - Institutional Support
- IT - Information Technology
- PP - Physical Plant
- RS - Research
- SS - Student Services

EAST TENNESSEE STATE UNIVERSITY
BOARD OF TRUSTEES

INFORMATION ITEM

DATE: September 20, 2019

ITEM: Audits and Investigations Performed

COMMITTEE: Audit Committee

PRESENTED BY: Rebecca A. Lewis, CPA
Chief Audit Executive

Ms. Lewis will provide an overview of the audits and internal investigations completed during the period April 1 to August 31, 2019.

Audits

- Executive Level Audit: VP Academic Affairs – An audit of East Tennessee State University's Vice President for Academic Affairs (Vice President) expenditures was conducted by Internal Audit personnel in accordance with the Annual Audit Plan. At the request of administration, the Office of Internal Audit will conduct an audit of a randomly selected, executive-level administrator each year.
- NACHA Web Transactions Data Security – The National Automated Clearing House Association (NACHA) sets forth recommended methods to address unique risk issues inherent to the Internet payment environment through requirements for added security. An audit is conducted at least once a year to ensure protection by security practices including adequate levels of: 1) physical security to protect against theft, tampering, or damage, 2) personnel and access controls to protect against unauthorized access and use, and 3) network security has been implemented.
- Timekeeping: Families First – An audit of Families First's Timekeeping Procedures was conducted by Internal Audit personnel in accordance with the Annual Audit Plan.
- Third Party Servers – An audit of East Tennessee State University's Third Party Servers was conducted by Internal Audit personnel at the request of management. Third party servers are those purchased by individual departments within the university.
- Art and Design - An audit of East Tennessee State University's Department of Art and Design was conducted by Internal Audit personnel. A comprehensive review of all account indexes within Banner Finance was conducted at the request of Administration. This request resulted from a recent investigation of Slocumb Galleries, which was issued concurrently with the audit of Art and Design.

Investigations

- Little Bucs and Child Study Center (FWA 18-05) – An investigative review of the Child Study Center (CSC) and Little Buccaneers Early Childhood Laboratory Program (Little Bucs) was conducted when the Clemmer College of Education contacted Internal Audit requesting a comprehensive review of both childcare programs. Internal Audit was charged with examining, evaluating, and reporting on the adequacy of internal controls, the accuracy and propriety of transactions, the extent to which assets are accounted for and safeguarded, and the level of compliance with institutional policies as well as government laws and regulations including those of the Department of Human Services (DHS).
- Slocumb Galleries – Due to concerns associated with an agreement between Slocumb Galleries and the Medical Education Assistance Corporation (MEAC) for the Pediatrics Artwork Project (Peds Project), an investigative review of Slocumb Galleries at East Tennessee State University (ETSU) was conducted by Internal Audit.
- There were also three investigations undertaken by the staff, which were review and administratively closed during this reporting period.

**East Tennessee State University
Executive Level Expenditures
Office of the Vice President for Academic Affairs
For the Period July 1, 2018 to March 31, 2019
Executive Summary**

Key Staff Person: Vice President for Academic Affairs	Auditor: Assistant Director of Internal Audit
<p>Introduction An audit of East Tennessee State University’s Vice President for Academic Affairs (Vice President) expenditures was conducted by Internal Audit personnel in accordance with the Annual Audit Plan. At the request of administration, the Office of Internal Audit will conduct an audit of a randomly selected, executive-level administrator each year.</p>	
<p>Objectives</p> <ol style="list-style-type: none"> 1. To evaluate the adequacy of the internal controls. 2. To determine compliance with university policies/procedures and applicable federal regulations. 3. To make recommendations for correcting deficiencies or improving operations. 	
Total Questioned Costs/Losses: None	Total Recoveries: N/A
<p>Conclusions Operational and travel expenditures paid from these accounts under the direct control of the Vice President were reviewed and tested for compliance with university policies and procedures. Those items tested included all payments made to the Vice President as well as other travel, meals/entertainment, procard transactions, and various operating expenses. Approximately forty-five percent of all operational and travel expenditures totaling \$107,884.77 were selected for testwork. There were no findings resulting from this audit.</p> <p>Based on the testing performed it appears that the expenditures under the control of the Vice President comply with applicable policies and procedures. The objectives of the audit were met.</p>	

**East Tennessee State University
 NACHA Web Transactions Data Security Audit
 Fiscal Year 2018
 Executive Summary**

Title of Key Staff Person: Assistant Bursar	Auditor: Internal Auditor
<p>Background: The National Automated Clearing House Association (NACHA) sets forth recommended methods to address unique risk issues inherent to the Internet payment environment through requirements for added security. An audit is conducted at least once a year to ensure protection by security practices including adequate levels of: 1) physical security to protect against theft, tampering, or damage, 2) personnel and access controls to protect against unauthorized access and use, and 3) network security have been implemented.</p>	
<p>Objectives:</p> <ol style="list-style-type: none"> 1. Evaluate the university's compliance with the NACHA authorization requirements. 2. Determine if security practices and procedures comply with NACHA's risk management requirements and are adequate to protect consumer financial information. 3. Determine if risk management practices and procedures comply with NACHA requirements and are adequate to protect consumer financial information. 4. Make recommendations for correcting deficiencies or improving operations. 	
Total Questioned Costs/Losses: None	Total Recoveries: N/A
<p>Findings: There were no findings in this audit.</p>	
<p>Audit Conclusions: Based on testwork performed, ETSU appears to comply with the <i>2018 NACHA Operating Rules and Guidelines</i>.</p>	

**East Tennessee State University
Timekeeping – Families First
For the Period from July 2017 – June 2018**

Key Staff Person: Payroll, Human Resources, and Timekeepers	Auditor: Internal Audit Department
Introduction: An audit of Families First’s Timekeeping Procedures was conducted by Internal Audit personnel in accordance with the Annual Audit Plan. The audit was performed in accordance with the <i>International Standards for the Professional Practice of Internal Auditing</i> .	
Objectives: <ul style="list-style-type: none"> • To evaluate the adequacy of the internal controls over timekeeping. • To determine compliance with university policies and procedures. • To make recommendations for correcting deficiencies or improving operations. 	
Total Questioned Costs/Losses: None	Total Recoveries: N/A
<p>Audit Results:</p> <p><i>Finding – Several timesheets and/or TRS entries did not comply with ETSU policies</i></p> <p>All university employees are required to maintain timesheets, which are used to update leave taken and/or hours worked in the Time Record System (TRS). The audit revealed several timesheets that violated ETSU financial and/or personnel policies and procedures. While the number of occurrences was low compared to the number tested, failure to adhere to the policies and procedures could result in the employees receiving inaccurate compensation in the form of either pay or annual/sick leave balances. Several errors were identified and corrected by Families First staff prior to the beginning of the audit. However, the following uncorrected errors were noted:</p> <ul style="list-style-type: none"> • There was no supervisor signature on three timesheets of a temporary employee. • One instance in which bereavement leave listed on the timesheet was not entered into TRS. • One instance in which FMLA listed on the timesheet was not entered into TRS. (Total of 7.5 hours) • Two instances in which an employee had less annual leave hours recorded in TRS than on the timesheets. (Total of 11.3 hours) • Two instances in which an employee had more annual leave hours recorded in TRS than on the timesheets. (Total of 9.5 hours) • One instance in which an employee had less sick leave hours recorded in TRS than on the timesheet. (Total of 0.3 hours) • One instance in which an employee had more sick leave hours recorded in TRS than on the timesheet. (Total of 0.5 hours) <p>Recommendation: Management should take appropriate steps to ensure that all leave used is recorded in TRS for the correct amount and category for each employee. The individual responsible for approving time in TRS should compare TRS to each timesheet in order to ensure leave used and hours worked are properly recorded. Time reports should be completed and signed by the employee and appropriate supervisor. All timekeeper and approvers should attend HR training courses entitled “Use of Leave” and “Payroll and Human Resources Basics”. Any discrepancies</p>	

related to leave taken identified in this review should be submitted to the Payroll Department for adjustment.

Management's Response: We concur with the finding and recommendations. The Fiscal Affairs Coordinator will double check the timesheets to make sure all have been entered correctly. Both coordinator in the office will check all timesheets to ensure supervisor's approval is present and all time entries are accurately reported. Any adjustments needed resulting from the audit will be submitted to Payroll for corrections.

The audit objectives were met.

Restriction on Use of Report: *This report is intended solely for the internal use of East Tennessee State University and ETSU's Board of Trustees. It is not intended to be and should not be used for any other purpose. The distribution of the report to external parties must be approved by the Office of Internal Audit and handled in accordance with institutional policies.*

**East Tennessee State University
Third Party Server Audit
For the Period February to May 2019
Executive Summary**

Title of Key Staff Person: Chief Information Security Officer	Auditor: Internal Auditor
<p>Background: An audit of East Tennessee State University's (ETSU) third party servers was conducted by Internal Audit personnel at the request of management. Third party servers are those purchased by individual departments within the university.</p>	
<p>Objectives: The objectives of the audit were:</p> <ol style="list-style-type: none"> 1. To identify third party servers connected to the ETSU network. 2. To review security and controls over the servers. 3. To determine the type of information is being used on these servers. 4. To make recommendations for correcting any deficiencies. 	
Total Questioned Costs/Losses: None	Total Recoveries: N/A
<p>Audit Results and Conclusion: Weaknesses were discovered which lessened the internal controls in five specific areas. The details of these finding are confidential pursuant to Section 10-7-504(i), <i>Tennessee Code Annotated</i>. We provided management with detailed information regarding the specific conditions we identified, as well as recommendations for improvement. Management will take appropriate action to resolve the issues identified in the audit. The audit objectives were met.</p>	

**East Tennessee State University
Department of Art and Design
For the Period July 1, 2017 to April 30, 2019
Executive Summary**

Key Staff Person: Department of Art & Design	Auditor: Assistant Director, Internal Audit
Introduction A comprehensive review of all account indexes within Banner Finance for the Department of Art and Design was conducted at the request of Administration. This request resulted from a recent investigation of Slocumb Galleries, which will be issued concurrently with this audit report.	
Objectives <ol style="list-style-type: none"> 1. To evaluate the adequacy of the internal controls. 2. To determine compliance with university policies/procedures and applicable federal regulations. 3. To make recommendations for correcting deficiencies or improving operations. 	
Total Questioned Costs/Losses: Expenditures paid from undeposited cash (Finding 1) \$2,834.76 Unaccounted for cash (Finding 1) 710.31 Personal purchases (Finding 3) 323.65 Sale tax paid (Finding 3) 427.00	Total Recoveries: As of report date - \$0
Findings and Conclusions <u>Finding 1:</u> <i>Art and Design did not following proper procedures related to printing services of the Visual Resource Center.</i> During the course of the audit, it was discovered that Art & Design was charging students a fee for use of the large format printers in the VRC. The cash collected for printing services was maintained in the department and not deposited. This cash was used to pay various expenses directly. Expenditures paid, using undeposited revenue, included such things as faculty/staff luncheons/retreats, alcohol for events, and food for student activities. University policy requires all revenue be deposited intact and all expenses be paid through the procedures established by Procurement and Contract Services. Only allowable expenses should be paid from university funds. <u>Finding 2:</u> <i>Departmental controls over student course fees need improvement</i> Expenditures paid using student course fee revenue should be for the direct benefit of the students. Some expenditures were discovered that did not appear to have a direct benefit totaling \$3,528.54. <u>Finding 3:</u> <i>Departmental controls over procard expenditures and approval procedures need improvement</i> Several procard purchases were made which violated university policy. These include purchases totaling \$323.65 that appeared personal in nature and sales tax paid totaling \$427.00. In addition, several procards statements were missing and/or not approved by the department chair. Also, fifty-seven receipts totaling \$6,997.15 were missing. Memos were provided, however, to explain the purchases. It appears management is taking appropriate actions to help ensure policy are followed. New procedures will be implement to help reduce the risk of future violations.	



EAST TENNESSEE STATE UNIVERSITY

Department of Internal Audit
Box 70566
Johnson City, TN 37614-1707
Telephone: 423/439-6155

TO: ETSU Board of Trustees' Audit Committee

FROM: Becky Lewis, Chief Audit Executive *B. Lewis*

SUBJECT: Completed Investigations – April 1 to August 31, 2019

DATE: September 20, 2019

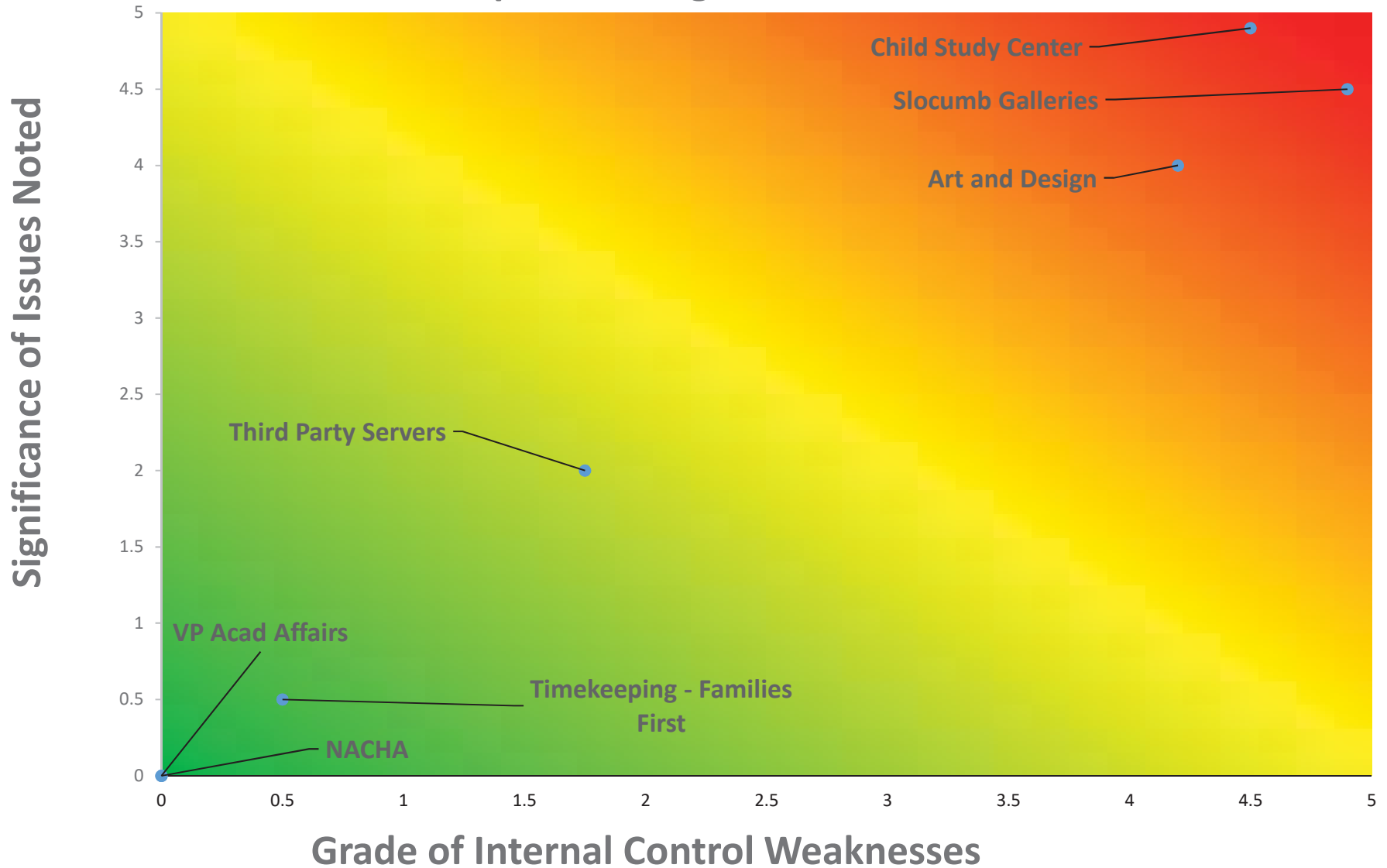
Below is a summary of the investigations completed between April 1 and August 31, 2019.

Little Bucs and Child Study Center: The investigation revealed that both the CSC and Little Bucs operate at a deficit. CSC traditionally operates at a significant loss, whereas Little Bucs' loss is typically much smaller. Various recommendations are contained in this report, which could help improve the financial stability of the centers. In addition, the audit revealed that some DHS rulings are not always being followed. Most of these violations occurred at the CSC. Noted violations were related to the following DHS ruling: Supervision of Children, Safety, Background Checks, Children/Employees/Visitors' Sign In and Out Sheets, Medication, Training, Staff Records and Files, and Children's Records. Management has begun implementing a corrective action plan to help prevent future violations from occurring.

Slocumb Galleries: The investigation revealed that a check from MEAC totaling \$5,535.73, made payable to ETSU/Slocumb Galleries, was not deposited into the university's bank account but instead deposited into a student organization's account by the Director of Slocumb Galleries. Cash was then withdrawn from this account by the Director to pay student artists and employees as well as other expenses unrelated to the Pediatrics Project. Since this was a clear violation of university policy, the scope of the investigation was expanded to include a review of all transactions associated with the student organization and the Gallery. The investigation performed indicated that various actions taken by the Director were inappropriate and clear violations of university policies. The most significant violations include the deposit of university funds into an unauthorized bank account, the use of cash to pay expenses both related and unrelated to the Pediatrics project, the payment of project expenses from the student course fees account, and lack of supporting documentation of both revenues and expenditures.

Heat Map of Completed Audits

from April 1 to August 31, 2019



EAST TENNESSEE STATE UNIVERSITY
BOARD OF TRUSTEES

INFORMATION ITEM

DATE: September 20, 2019
ITEM: Recommendation Log
COMMITTEE: Audit Committee
PRESENTED BY: Rebecca A. Lewis, CPA
Chief Audit Executive

Audit reports often contain recommendations to improve internal controls or procedures. For each recommendation, management must respond with a corrective action plan. A follow-up review of these corrective action plans is later performed by Internal Audit. A log is maintained to track the status of prior audit recommendations and is communicated to the Board of Trustees' Audit Committee each meeting.

East Tennessee State University		
Internal Audit Recommendation Log as of August 31, 2019		
Area	Recommendation	Status
Off Campus Domestic & International Programs	Controls over Off Campus Domestic & International Programs needs improvement.	Green
Tennis Expenditures See Additional details in report Issued: June 9, 2017 (Coach A) and October 27, 2017 (Coach B)	General/Overall concerns of travel claim reimbursements need improvement	Blue
	Internal controls related to the following expenditure items needs improvement: (1) team meals and snacks, (2) stringing services, (3) registration fees, (4) transportation expenses, and (5) other disbursements.	Blue
	Internal controls related to donations and refunds received need improvement	Blue
	Internal controls related to reporting of leave used by the coaches need improvement	Blue
Baseball Expenditures	Procedures related to team travel need improvement.	Green
	Student workers should be compensated for all hours worked.	Green
Women's Tennis Expenditures (Coach C)	Expenditures which could be considered compensation should not be submitted on the travel claim.	Blue
Child Study Center	The collection of revenue and payment of expenditures related to the pride picnic should follow university policies and procedures as well as any applicable state laws.	Green
Language and Culture Resource Center	Internal Controls related to the collection of revenues and payment of expenditures related to the Corozon Latino Festival needs improvement.	Blue
	Internal Controls related to the remittance of sales tax on vendor revenue needs improvement.	Blue
Office of Equity & Diversity	Internal Controls related to the use of Access & Diversity funds for promoting the recruitment and retention of faculty, staff, and students needs improvement.	Green
	Internal Controls related to diversity scholarships needs improvement.	Green
Johnson City Community Health Centers - Financial Procedures	Cash receipting procedures need improvement.	Green
	Patient account and billing procedures need improvement.	Green
Johnson City Community Health Centers - Patient Safety	Privileging and credentialing procedures need improvement.	Green
	Follow-up appointment procedures need improvement.	Green
	Physicians review of charts procedures need improvement.	Green
Football Expenditures	Procedures related to Procard use needs improvement.	Blue
	Procedures related to volunteers needs improvement.	Blue
Physical Therapy	Controls and procedures related to cash receipts, purchasing, and deposit of funds over student-led events needs improvement.	Green
Timekeeping - Library Administration	Monitoring the work schedules for employees on FMLA needs improvement.	Green
Center for Academic Achievement	Personal purchases should not be paid using university procards/funds.	Green
	Annual/sick leave used should be properly report on employees' timesheets.	Green
Jeanne Clery Act Compliance	ETSU's Annual Security & Fire Safety Report should match the Department of Education crime statistics.	Green
Timekeeping - Families First	Timesheets and the Time Record System entries should comply with ETSU policies.	Green
Little Bucs and Child Study Center	Changes in practices should be considered in order to improve the financial status of the centers.	Green
	All DHS Regulations should be adhered to by both centers.	Green
Third Party Servers	Weaknesses in five specific areas need corrected in order to improve internal controls.	Green
Slocumb Galleries	University policies and procedures related to revenue and expenditures should be adhered to by the Gallery.	Green
	Policies related to donations should be adhered to by the Gallery.	Green
	Bank accounts established for student organizations should be properly maintained and controlled.	Green
	Purchases made with procurement cards (procard) should adhere to applicable policies.	Green
Art and Design	Art and Design should adhere to proper policies and procedures related to printing services at the Visual Resource Center.	Green
	Departmental controls over student course fees need improvement	Green
	Departmental controls over procard expenditures and approval procedures need improvement.	Green

Legend:

Actions completed since previous Audit Committee Meeting
 Actions are progressing in a timely fashion or not yet due
 Actions are slightly overdue
 Actions are significantly overdue

Blue
Green
Yellow
Red

EAST TENNESSEE STATE UNIVERSITY
BOARD OF TRUSTEES

INFORMATION ITEM

DATE: September 20, 2019

ITEM: Annual Report on Audit Function

COMMITTEE: Audit Committee

PRESENTED BY: Rebecca A. Lewis, CPA
Chief Audit Executive

The Annual Report for the Department of Internal Audit for the 2019 fiscal year is included in the meeting materials. This report fulfills the annual reporting requirements (T.C.A. § 4-14-102) and provides information to the Board of Trustees concerning the 2019 audit efforts of Internal Audit.



Department of Internal Audit
East Tennessee State University

2018-19 Annual Report

Message from the Chief Audit Executive

It is our pleasure to present the Annual Report for ETSU’s Department of Internal Auditing. Fiscal Year 2018-19 was a very productive year for us. Our accomplishments include the following:

- ◆ Completed a total of 9 Audits
- ◆ Completed 16 Procard Reviews
- ◆ Followed up on 11 Prior Audit Reports
- ◆ Conducted 9 Investigations

Internal Audit reports functionally to the ETSU Board of Trustees and administratively to the President. The BOT Audit Committee continues to provide tremendous support, enabling our department to serve as an effective, independent resource.

Becky Lewis, CPA
Chief Audit Executive



The Rest of the Team

Martha Stirling, CPA
Associate Director

Angela Finney, CPA
Internal Auditor

Logan Greer
Internal Auditor

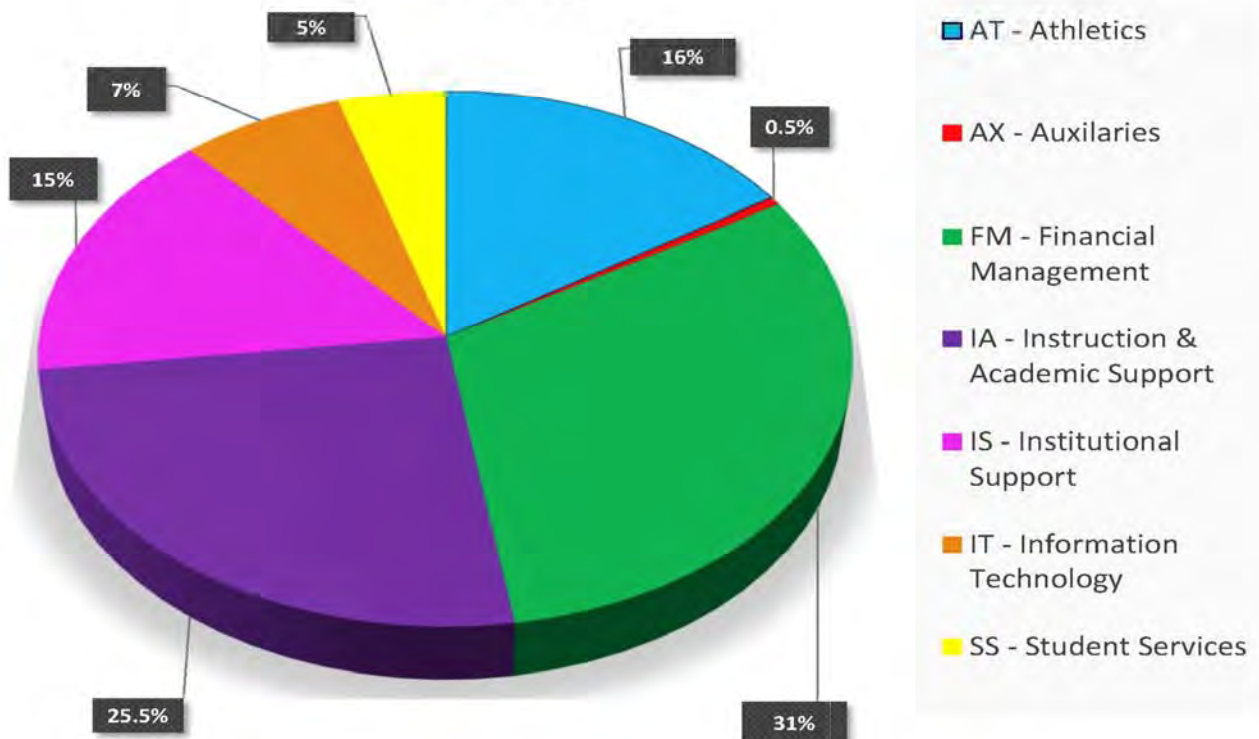
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East Tennessee State University
Audit Activity Completed
Fiscal Year Ended June 30, 2019

Audits - Required	FM	President's Expense FY 2018
	FM	WETS-FM
Audits - Special Requests	IT	NACHA Web Transactions Data Security FY 2019
	IT	Third Party Servers
	AT	Football Expenditures
	FM	Executive Level Audit
Audits - Risk Based	IS	Timekeeping - Library Administration
	IS	Timekeeping - Families First
	SS	Title IV/Clery Act
	FM	State Audit Follow-Up
	IT	Follow-Up PCI Compliance Readiness
	AT	Follow-Up NCAA - Camps & Clinics
	AT	Follow-Up NCAA - Financial Aid Eligibility
	AT	Follow-Up Football Expenditures
	AT	Follow-Up Athletic Ticket Office
	AX	Follow-Up Parking Services (Revenue Collection)
Follow-Ups Reviews	AX	Follow-Up Center for Physical Activity
	IA	Follow-Up Language & Culture Resource Center
	SS	Follow-Up Nursing Student Services
	FM	Follow-Up Payroll Services Fraud
	IA	Investigation 18-05
	SS	Investigation 19-01
	FM	Investigation 19-02
	IA	Investigation 19-03
	SS	Investigation 19-05
	FM	Investigation 19-07
Investigations	IA	Investigation 19-08
	IS	Investigation 19-09
	IS	Investigation 19-11

**Audit Effort by Functional Area
FY 2019**



East Tennessee State University
Audit Activity in Progress
As of June 30, 2019

Audits - Required	FM	Cash Counts/Inventories
	FM	President's Expense FY 2019
	FM	Risk Assessments
Audits - Special Requests	AT	Athletic Vehicle Expense Analysis
	IT	VPN/RDG Access
	AT	Volleyball Expenditures
	AT	Golf Expenditures
	IA	Art and Design
Audits - Risk Based	FM	Agency Accounts
	IS	Additional Earnings
Follow-Ups Reviews	AT	Follow-Up Tennis Expenditures
	AT	Follow-Up Baseball Expenditures
Investigations	IA	Investigation 18-03
	IA	Investigation 19-04
	IA	Investigation 19-06
	IA	Investigation 19-10

Quality Assurance Improvement Program

In conjunction with the self-assessment project completed in FY 2018, a group of very qualified, independent peers from other institutions conducted a Quality Assurance Review of the Internal Audit operation. This type of review is required every five years to assess our compliance with standards of the *Institute of Internal Auditors*. The team issued an opinion that our operation “Generally Conforms” with the standards; the highest rating available.

Customer Satisfaction Survey

Starting in July 2018, Internal Audit implemented an anonymous customer satisfaction survey. In January and July, surveys were sent to employees who recently had significant contact with Internal Audit. Each individual was asked to complete a 10 question survey. The results of the FY 2019 surveys are below:

Number of Surveys Sent Out	44
Number of Positive Surveys Returned	22
Number of Surveys not Returned	22

Other Services

- Fraud Training: In FY 2018 Internal Audit began offering fraud training to the campus community. Forty employees attended during FY 2019.
- Procard Reviews: Due to the risks associated with procards, our office began assisting Procurement with their periodic procard reviews. During FY 2019, audit completed 16 reviews.
- Payment Card Industry (PCI) Taskforce: In order to educate the campus community on compliance with PCI standards, Internal Audit along with Information Technology and Financial Services started offering individual training. During FY 2019, training was conducted for 11 departments.

Key Performance Indicators	FY 18/19	FY 17/18
Number of Audits Completed	9	14
Number of Follow-Ups on Prior Audit Findings	11	6
Number of Investigations Completed	9	6
Number of Procard Reviews	16	3
Number of Other Audit Activities Completed (i.e. consulting, projects, etc.)	3	3
Percentage of Effort Spent on Audit Activities	74%	69%
Average Number of Years of Professional Experience	17	16

Mandatory Disclosures:

The Office of Internal Audit's activities are governed by standards promulgated by the Institute of Internal Auditors. These standards require the reporting of specific items to an organization's Board and Senior Management. The following is a list of required disclosures not previously addressed in this document.

Organizational Independence: As required by standard, the Office of internal Audit must confirm to the Board, at least annually, the organizational independence of internal audit activity. ETSU's Office of Internal Audit reports administratively to the President's Office and functionally to the Board of Trustees' Audit Committee. Reporting to the audit committee helps promote the independence necessary for Internal Audit to adequately perform its job functions.

Impairments to Independence or Objectivity: If independence or objectivity is impaired in fact or appearance, the details of the impairments must be disclosed. There were no impairments to independence or objectivity for any engagements performed during the 2018-2019 fiscal year.

Disclosures of Nonconformance: Occasionally circumstances require the completion of projects and/or engagements in a manner that is not consistent with applicable standards. When this occurs, the Office of Internal Audit must disclose the nonconformance and the impact to Senior Management and the Board. During the 2018-2019 fiscal year, there were no instances in which projects were performed in a manner that did not comply with applicable standards.

Resolution of Management's Acceptance of Risk: Each audit engagement can potentially produce items that may pose risk to university operations. Some items will require management's attention while others may be situations in which management decides to accept the risk associated with continuing the current practice. This is normal in limited circumstances and is often due to cost/benefit constraints. The Office of Internal Audit is required to disclose, to Senior Management and the Board, any situation in which it is believed university personnel has accepted a level of residual risk that may not adequately reduce/mitigate the risk of loss. There were no such instances discovered during the 2018-2019 fiscal year.

EAST TENNESSEE STATE UNIVERSITY
BOARD OF TRUSTEES

ACTION ITEM

DATE: September 20, 2019

ITEM: Internal Audit Employee Profiles

COMMITTEE: Audit Committee

RECOMMENDED ACTION: Approve

PRESENTED BY: Rebecca A. Lewis, CPA
Chief Audit Executive

The Board of trustees must annually approve the salaries of those individuals working in the Department of Internal Audit. A table of salaries is provided in the meeting materials. This also provides information regarding the professional certifications and years of service.

MOTION: I move that the Audit Committee adopt the following Resolution:

RESOLVED: The salaries of the Internal Audit staff are approved as presented in the meeting materials.

ETSU Internal Audit Employee Profile - FY 2020

Name	Position	Professional Certification	Current Annual Salary	Years of Professional Experience
Rebecca Lewis	Chief Audit Executive	CPA	\$ 104,000	25
Martha Stirling	Associate Director	CPA	\$ 68,000	14
Angela Finney	Internal Auditor	CPA	\$ 47,861	26
Logan Greer	Internal Auditor	-	\$ 47,860	7

EAST TENNESSEE STATE UNIVERSITY
BOARD OF TRUSTEES

INFORMATION ITEM

DATE: November 20, 2019
ITEM: Internal Audit Operating Expenses
COMMITTEE: Audit Committee
PRESENTED BY: Rebecca A. Lewis, CPA
Chief Audit Executive

The Board of Trustees through its Audit Committee must ensure the Department of Internal Audit has sufficient resources to complete its work. Included in the meeting materials is a copy of the operating budget for the office.

Internal Audit Travel and Operating Budget for FY 2020

	Total Budget	Average Per Auditor
Current Travel Budget	\$ 4,750.00	\$ 1,187.50
Current Operating Budget	\$ 10,790.00	\$ 2,697.50

Travel Budget covers:

- Audit Work
- Continuing Professional Development for 4 Staff Members

Operating Budget covers:

- Telephone instrument and long distance charges
- Professional membership fees
- Operating Supplies
- Conference registration fee for continuing education
- Copier Charges