

EAST TENNESSEE STATE UNIVERSITY  
BOARD OF TRUSTEES  
AUDIT COMMITTEE  
SEPTEMBER 2017 MEETING

9:00-10:00 am EDT  
Friday  
September 8, 2017

Third Floor Meeting Room  
D.P. Culp University Center  
412 J.L. Seehorn Road  
Johnson City, TN

AGENDA

- I. Call to Order
- II. Roll Call
- III. [Approval of the Minutes of the Audit Committee June 9, 2017](#)
- IV. [Audit Committee Charter \(5 minutes\)](#)
- V. [Audit Committee Responsibilities \(5 minutes\)](#)
- VI. [Audit Plan Revisions \(5 minutes\)](#)
- VII. [Audits and Investigations Performed \(10 minutes\)](#)
  - A. Bursar's Office Executive Summary
  - B. Baseball Expenditures Executive Summary
  - C. Memorandum on Investigations
  - D. Completed Audits Heat Map
- VIII. [Recommendation Log \(5 minutes\)](#)
- IX. [Annual Report on Audit Function \(5 minutes\)](#)
- X. [Internal Audit Salaries \(5 minutes\)](#)
- XI. [Internal Audit Operating Expenses \(5 minutes\)](#)
- XII. Other Business
- XIII. Executive Session to Discuss Active Audits (15 minutes)
- XIV. Adjournment

EAST TENNESSEE STATE UNIVERSITY  
BOARD OF TRUSTEES

ACTION ITEM

DATE: September 8, 2017

ITEM: Approval of the Minutes of June 9, 2017

COMMITTEE: Audit Committee

RECOMMENDED ACTION: Approve

PRESENTED BY: Rebecca A. Lewis, CPA  
Director of Internal Audit

The minutes of the June 9, 2017 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 June 9, 2017 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

MINUTES

June 9, 2017

8:30 a.m.

Johnson City, Tennessee

The East Tennessee State University Board of Trustees Audit Committee held a meeting at 8:30 a.m. on Friday, June 9, 2017, in Meeting Room 3 of the D.P. Culp University Center on ETSU's main campus in Johnson City, Tennessee.

**I. Call to Order**

Trustee David Golden, chair of the Audit Committee, called the meeting to order.

**II. Roll Call**

Secretary Dr. David Linville called the roll. Committee members in attendance were:

David Golden, chair  
Ron Ramsey  
Dorothy Grishim

Secretary Linville told Chair Golden he had a quorum.

Others in attendance included: ETSU President Brian Noland; Board of Trustees Chair Scott Niswonger; Ed Kelly, ETSU attorney; Rebecca Lewis, director of Internal Audit; Martha Stirling, assistant director of Internal Audit; Secretary of the Board David Linville; Amanda Marsh, University Relations; Nathan Baker, Johnson City Press; and Kristen Swing, University Relations (taking minutes).

**III. Approval of the Minutes of May 8, 2017**

Trustee Ron Ramsey made a motion to approve the minutes of the May, 8, 2017, Audit Committee meeting. It was seconded by Trustee Grisham and unanimously approved.

**IV. Audit Plan for 2017-18**

Ms. Rebecca Lewis presented the proposed Audit Plan for the 2017-2018 fiscal year. Ms. Lewis explained that she and her team determine what to audit each year based on a risk assessment that includes risk factors such as previous audit results, internal control systems, policy or personnel changes, sensitivity, size and external audit coverage. She noted that requests from the Audit Committee and ETSU

administration are also considered when scheduling audits. Page 7 of the meeting materials provided a list of audits planned for next year. Ms. Lewis explained that they will spend the most time on the eight planned risk-based audits, which are the Bursar's Office; Athletic Ticket Office; Title IV/Clery Act; Agency Accounts; NCAA Compliance FY 2017; Additional Earnings; ITS General Controls; and Intercollegiate Athletics Travel and Entertainment.

Chair Golden asked about the risk assessment model used to make the determinations. Ms. Lewis said it is a weighted average based on five things, including when the area was last audited, known internal controls (past weaknesses would weigh heavier), management risk assessments, and whether it is a sensitive area. She pointed out that there are also required audits that have to be done and investigations that come up during the year, which means the plan presented to the Audit Committee will most likely change based on what emerges. Trustee Ramsey asked if this is how it was handled under the Tennessee Board of Regents and Ms. Lewis affirmed that it was the same process. Trustee Ramsey also asked how many people are in Ms. Lewis' department, to which she replied that there are four people in her department.

Trustee Grisham made a motion that the Audit Committee recommend the adoption of the Audit plan for 2017-2018 as presented in the meeting materials. It was seconded by Trustee Ramsey and garnered unanimous approval.

#### **V. Recommendation Log**

Ms. Lewis explained that, as part of the audit process, her team makes recommendations for measures to implement in relation to the findings. As those recommendations are made, Lewis and her team ask management for an expected date of completion and then do a follow-up audit. Page 11 of the meeting materials provided the current recommendation log, with most recommendations carried forward from audits conducted while the institution was under the TBR. The log is color coded to indicate status of the recommendation, with green representing actions that are progressing, yellow representing items that are slightly overdue and red (of which there were none on the log) representing items that are significantly overdue. Blue, also not on the log, symbolizes those items that have been completed.

Trustee Grisham asked specifically about the second recommendation under the "Behavioral Health and Wellness Clinic" area, which states, "Management should consider hiring a full- or part-time staff member to handle billing and payment collections." Ms. Lewis explained that the audit revealed one person was doing everything and it was suggested as a management consideration. However, she noted that it is a recommendation and she is not able to force them to complete that action. Chair Golden pointed out that the Audit Committee *is* able to force them when and if deemed appropriate. Ms. Lewis said, in this specific case, she had followed up about a month ago and expressed her concerns again. The issue relates to a clinic in Lucille Clement Hall.

Chair Golden said he appreciated and liked the color coding method used on the log. He said since management knows the Audit Committee is getting that type of coding, things will be more likely to get done. He also said he felt it was appropriate that, if the Audit Committee ever received a log with an item in red (meaning significantly overdue), the managerial person responsible for the item be invited to answer for that at the committee meeting. The committee members agreed this was an excellent idea.

## **VI. Recently Completed Audits**

Ms. Lewis presented information on three audits completed between March 1, 2017, and May 31, 2017:

1. **Rural Health Leave** – This audit was based on timekeeping issues. Internal Audit received an allegation regarding the possible abuse of leave. Ms. Lewis said the audit did find discrepancies between timesheets and the Time Reporting System in the department. She said management has put controls in place to properly monitor timekeeping.
2. **Office of Intercollegiate Athletics Timekeeping/Pay of Student Workers** – This audit began after an allegation regarding timekeeping and pay of student workers in the equipment room. Ms. Lewis said the audit confirmed that these employees were being paid for the maximum contracted hours rather than the actual hours worked. Beginning in Fall 2107, the issue should be corrected.
3. **Inclement Weather Pay** – This audit was the result of an allegation regarding the possible underpayment of emergency crew personnel. The audit confirmed that emergency crew employees were underpaid for hours worked in excess of 7.5 hours per day during the closure period. Ms. Lewis said it was a systems glitch that resulted in 57 employees who were underpaid a total of \$7,424.75 between January 2012 and December 2016. Management corrected the issue and compensated the individuals affected, including individuals no longer working at ETSU, on the May 31, 2017, payroll.

In sharing the information, Ms. Lewis presented the committee members with a heat map that visually indicates how significant the findings were and the control maturity. Chair Golden said he appreciated the heat map because it provides context and helps the committee understand just how big of a deal each of these audits is in the bigger picture. Chair Golden also commended the university for tracking down affected employees from the inclement weather pay audit who have since left the institution. He noted that a lot of other entities would not have done so and said it speaks well of ETSU.

## **VII. Other Business**

There was no other business.

## **VIII. Executive Session to Discuss Active Audits**

Seeing no further business, Chair Golden adjourned the public part of the meeting and the Audit Committee entered into executive session to discuss active audits.

Adjournment

EAST TENNESSEE STATE UNIVERSITY  
BOARD OF TRUSTEES

ACTION ITEM

DATE: September 8, 2017  
ITEM: Adoption of Audit Committee Charter  
COMMITTEE: Audit Committee  
RECOMMENDED ACTION: Approve  
PRESENTED BY: Rebecca A. Lewis, CPA  
Director of Internal Audit

The Charter approved by the Audit Committee on May 8, 2017 was submitted to the State of Tennessee for Approval. The University received feedback on modifications that must be made to the charter. Ms. Lewis provides an overview of those changes.

As outlined in TCA § 4-15-105, the responsibilities of the Audit Committee include “overseeing the university’s financial reporting and related disclosures, especially when financial statements are issued; evaluating management's assessment of the body's system of internal controls; formally reiterating, on a regular basis, to the state governing board, council, commission, equivalent body, or management and staff of the agency to which the audit committee is attached, the responsibility of the state governing board, council, commission, equivalent body, or management and staff of the agency for preventing, detecting, and reporting fraud, waste, and abuse; serving as a facilitator of any audits or investigations of the body to which the audit committee is attached, including advising auditors and investigators of any information the audit committee may receive pertinent to audit or investigative matters; informing the comptroller of the treasury of the results of assessment and controls to reduce the risk of fraud; and promptly notifying the comptroller of the treasury of any indications of fraud.”

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

**RESOLVED: The Audit Committee Charter is approved as presented in the meeting materials.**

# East Tennessee State University

## *Audit Committee Charter*

### **I. Purpose and Mission**

The Audit Committee, a standing committee of the East Tennessee State University Board of Trustees, provides oversight and accountability on all aspects of university operations. The committee will assist the Board in fulfilling its oversight responsibilities by reporting regularly to the Board about Audit Committee activities and issues that arise with such recommendations as the committee deems appropriate. The Audit Committee will provide for open communications among the Board, university senior management, and the Tennessee Comptroller's Office auditors regarding audit matters.

The Audit Committee will provide oversight in the following areas:

- A. Audit engagements with the Tennessee Comptroller's Office, including the integrity of financial statements and compliance with legal and regulatory requirements,
- B. Audit engagements with external auditors,
- C. Internal Audit administration and activities,
- D. Management's internal controls and compliance with laws, regulations, and other requirements,
- E. Management's risk and control assessments,
- F. The University's Code of Conduct,
- G. Fraud, waste, and abuse prevention, detection, and reporting, and
- H. Other areas as directed by the Board.

### **II. Authority**

The Audit Committee has the authority to conduct or authorize audits or investigations into any matter within its scope of responsibility. The scope of internal auditing extends to all aspects of institutional operations and beyond fiscal boundaries. The committee is authorized to:

- A. Seek any information it requires from employees or external parties. Employees are directed to cooperate with the committee's requests,
- B. Have access to all books, records, and physical properties of East Tennessee State University,
- C. Meet with Board and institutional officials, external and internal auditors, legal counsel, or others as necessary, and
- D. Delegate authority to subcommittees, providing that such decisions by any subcommittee are presented to the full committee at its next scheduled meeting.

### III. Responsibilities

The Board employs a person qualified by training and experience to serve as the Chief Internal Auditor, who reports directly to the Audit Committee. The Chief Internal Auditor coordinates audit activities with the Tennessee Comptroller of the Treasury and with any other appropriate external auditors. The Audit Committee facilitates any audit and investigative matters, including advising auditors and investigators of any information the committee may receive pertinent to these matters.

The Audit Committee will carry out the following duties for the Board and will report to the Board about Audit Committee activities and issues that arise with such recommendations as the committee deems appropriate:

#### A. Tennessee Comptroller's Office Audits (State Auditors)

1. Understand the scope and approach used by the State Auditors in conducting their examinations,
2. Review results of the Comptroller's examinations of financial statements and any other matters related to the conduct of the audits,
3. Review with management and legal counsel any legal matters (including pending litigation) that may have a material impact on the financial statements, and any material reports or inquiries from regulatory or governmental agencies,
4. Ensure that the Comptroller is notified of any indications of fraud in the manner prescribed by the Comptroller,
5. Resolve any differences between management and the Comptroller's auditors regarding financial reporting, and
6. Meet, as needed, with the Comptroller's auditors to discuss any matters that the Audit Committee or State Auditors deem appropriate.

#### B. External Audits

1. Understand the scope and approach used by the external auditors in conducting their examinations,
2. Review results of the external auditors' examinations and any other matters related to the conduct of the external audits, and
3. Meet, as needed, with the external auditors to discuss any matters that the Audit Committee or external auditors deem appropriate.

#### C. Internal Audit Activities

1. Ensure that the Chief Internal Auditor reports directly to the Audit Committee and has direct and unrestricted access to the chair and other committee members,
2. Review and approve the charter for the East Tennessee State University's Internal Audit department,

3. Review and approve the annual audit plans for East Tennessee State University's Internal Audit department, including management's request for unplanned audits,
  4. Receive and review significant results of internal audits performed,
  5. Work with East Tennessee State University management and Internal Audit to assist with the resolution of cooperation issues and to ensure the implementation of audit recommendations,
  6. Review the results of the year's work with the Chief Internal Auditor, and
  7. Assure compliance with *the International Standards for the Professional Practice of Internal Auditing (Standards)*, the Office of Internal Audit must implement and maintain a quality assurance and improvement program that incorporates both internal and external assessments.
    - a. Internal assessments are ongoing, internal evaluations of the internal audit activity, coupled with periodic self-assessments and/or reviews.
    - b. External assessments enable the internal audit activity to evaluate conformance with the *Standards*; internal audit and audit committee charters; the organization's risk and control assessment; the effective use of resources; and the use of successful practices.
    - c. An external assessment must be performed at least every five years by an independent reviewer or review team.
    - d. Results of the external assessment will be communicated to the Audit Committee and management.
- D. Internal Audit Administration
1. Ensure the Chief Internal Auditor reports functionally to the Audit Committee of the Board and reports to the President for administrative purposes only.
  2. Ensure that East Tennessee State University Internal Audit has adequate resources in terms of staff and budget to effectively perform its responsibilities.
  3. Review and approve the appointment, compensation, reassignment, or dismissal of the Chief Internal Auditor, and
  4. Review and approve the compensation and dismissal of campus internal auditors.
- E. Risk, Internal Control and Compliance
1. Consider the effectiveness of the internal control system and compliance with laws and regulations, including computerized information system controls and security,
  2. Understand the scope of internal and external auditors' reviews of internal controls over financial reporting,
  3. Make recommendations to improve management's internal control and compliance systems to ensure the safeguarding of assets and prevention and detection of errors and fraud. The components of the control system are:
    - a. control environment—creating a culture of accountability;
    - b. risk assessment—performing analyses of program operations to determine if risks exist;
    - c. control activities—taking actions to address identified risk areas;

- d. information and communication—using and sharing relevant, reliable, and timely information; and
    - e. monitoring —tracking improvement initiatives and identifying additional actions needed to further improve program efficiency and effectiveness.
  - 4. Review and evaluate the enterprise risk management process performed by institutional management, and
  - 5. Inform the Comptroller of the Treasury of the results of enterprise risk management process.
- F. Fraud
  - 1. Ensure that the Board and the institution have an effective process in place to prevent, detect, and report fraud, waste and abuse.
  - 2. Establish a process for employees, taxpayers and other citizens to confidentially report suspected illegal, improper, wasteful, or fraudulent activity.
  - 3. Inform the Comptroller of the Treasury of assessments of controls to reduce risks of fraud.
  - 4. Promptly report indications of fraud to the Comptroller of the Treasury.
  - 5. Facilitate audit and investigative matters, including advising auditors and investigators of any pertinent information received by the Audit Committee.
- G. Other
  - 1. Review and assess the adequacy of the Audit Committee’s charter annually, requesting Board approval for any proposed changes.
  - 2. Ensure there are procedures for the receipt, retention, and treatment of complaints about accounting, internal controls, or auditing matters.
  - 3. Review East Tennessee State University’s code of conduct and/or policies regarding employee conduct to ensure that they are easy to access, are widely distributed, are easy to understand and implement, include a confidential mechanism for reporting code violations, are enforced, and include a conflict of interest policy.
  - 4. Review East Tennessee State University’s conflict of interest policy to ensure that the term “conflict of interest” is clearly defined, the policy is comprehensive, annual signoff is required, and potential conflicts are adequately resolved and documented.

#### **IV. Independence**

Each member should be independent in fact and appearance of any interests that are in conflict with their duties as a Committee member.

Each member shall strictly adhere to the Code of Ethics for Appointed Board Members.

**V. Membership**

- A. Pursuant to TCA § 4-35-104, the Audit Committee shall have at least three members,
- B. The Committee and its Chair shall be approved by the Board upon recommendation of the Board Chair,
- C. Audit Committee members, including its Chair, shall serve for a two-year term,
- D. For good cause, such as the need to ensure continuity in Board leadership during a period of transition in Board membership or in the offices of Governor or President, the Board, on the recommendation of the Chair, may extend the term of the Committee and Committee Chair appointments for up to one year beyond the two year term,
- E. Competencies and professional or business expertise of members and previous Board and committee experience of Trustees, together with any special qualifications required by the bylaws for certain committees, will be considered in committee and chair appointments.
- F. The Audit Committee shall include at least one member, preferably the chair of the committee, who shall have extensive accounting, auditing, or financial management expertise,
- G. Each member of the audit committee should have an adequate background and education to allow a reasonable understanding of the information presented in the financial reports of the university and the comments of auditors with regard to internal control and compliance findings and other issues.
- H. The Vice Chair of the Board shall serve as an ex officio member of the Audit Committee but shall not be counted for quorum purposes.
- I. The Audit Committee may be composed of one external member and two or more Trustees who satisfy the membership requirements. An external member must have extensive accounting, auditing, or financial management expertise. An external member may not serve as Chair of the Audit Committee.
- J. If a vacancy occurs in a committee or chair position prior to expiration of the two-year term, the Board shall appoint a Trustee to fill the remainder of the term, upon the recommendation of the Chair.

**VI. Meetings**

- A. The Audit Committee shall meet as necessary, but at least annually, and also whenever requested by the chair of the Audit Committee or the Comptroller of the Treasury,
- B. The Audit Committee may invite Board management, auditors, or others to attend and provide relevant information,
- C. Meeting agendas will be provided to members in advance, along with appropriate briefing materials,
- D. The Board Secretary or their designee shall take minutes at each meeting of the Audit Committee and maintain approved minutes as the official record of such meeting,
- E. A majority of the members of the committee shall constitute a quorum for the transaction of business

- F. All meetings of the Audit Committee shall adhere to the Open Meetings Act, Tennessee Code Annotated Title 8, Chapter 44, except that pursuant to TCA § 4-35-108(b), the Audit Committee may hold confidential, nonpublic executive sessions for the sole purpose of discussing the following:
1. Items deemed not subject to public inspection under Tennessee Code Annotated, Sections 10-7-503 and 10-7-504, and all other matters designated as confidential or privileged under state or federal law,
  2. Litigation,
  3. Audits or investigations,
  4. Information protected by federal law, and
  5. Matters involving information under Tennessee Code Annotated, Section 4-35-107(a), where the informant has requested anonymity.

**Approvals**

Approved by: \_\_\_\_\_ Date: \_\_\_\_\_  
David A. Golden  
Chair of the Audit Committee

Approved by: \_\_\_\_\_ Date: \_\_\_\_\_  
Scott Niswonger  
Chairman of the Board

EAST TENNESSEE STATE UNIVERSITY  
BOARD OF TRUSTEES

INFORMATION ITEM

DATE: September 8, 2017  
ITEM: Audit Committee Responsibilities  
COMMITTEE: Audit Committee  
PRESENTED BY: Rebecca A. Lewis, CPA  
Director of Internal Audit

Ms. Lewis provides an overview of the responsibilities of the Audit Committee outlined in the meeting materials

## Roles and Responsibilities of Audit Committee

| Policy/Law  | Requirement  | Meeting                                |
|---|--|--|
| <b>Annual Audit Plan and Year-end Status Report</b>     |  |  |
| TN 49-14-102 (b)  | The internal auditor shall file a report on the audit work with the audit committee at least annually.   | Annual Audit Plan - Summer             |
| AC Charter III.C.6                                      | Review the results of the year's work with the Chief Internal Auditor  | Audit Plan Revisions - Quarterly       |
| AC Charter III.C.3 & ETSU's Internal Audit Policy V. C. | Review & approve the annual audit plan including management's request for unplanned audits. Review and approve audit plan revisions  | Annual Report on Audit Activity - Fall |
| <b>Quality Assurance and Improvement Program</b>        |  |  |
| AC Charter III.C.7                                      | Ensure audit function maintains a quality assurance & improvement program.   | As Needed                              |
| <b>Audit Reports and Recommendations</b>                |  |  |
| AC Charter III.C.4                                      | Receive and review significant results of internal audits performed.   | Quarterly                              |
| ETSU's Internal Audit Policy VII. F.                    | The Chief Internal Auditor will provide a copy of each report to the Audit Committee.  |  |
| AC Charter III.C.5                                      | Ensure implementations of audit recommendations.   |  |
| <b>Fraud, Waste, and Abuse</b>                          |  |  |
| AC Charter III.F. 1-2.                                  | Ensure that the Board and the institution have an effective process in place to prevent, detect, and report fraud, waste and abuse.<br>Establish a process for employees, taxpayers and other citizens to confidentially report suspected illegal, improper, wasteful, or fraudulent activity.   | Annual Report on Audit Activity - Fall |
| TN 49-14-103 (a)  | The internal auditor shall establish a process by which students, employees, taxpayers or other citizens may confidentially report suspected illegal, improper, wasteful or fraudulent activity. Each year the internal auditor shall include with the auditor's annual report a summary of all completed audit activities pursuant to this chapter. |  |
| <b>State and External Audits</b>                        |  |  |
| AC Charter III.A.2.                                     | Review results of the Comptroller's examination of financial statements and another other matters related to the conduct of the audits   | Spring and as needed                   |
| AC Charter III.B.2.                                     | Review results of external auditors' examination and any other matters related to the conduct of the external audits   |  |
| <b>Presidential Expenses Reporting and Audits</b>       |  |  |
| TN 49-7-3001 (c)  | Each state university board shall require an annual internal financial audit of the office of the president of the institution. The audit shall be reviewed by the institution's governing board and the comptroller of the treasury.  |  |

## Roles and Responsibilities of Audit Committee

| Policy/Law       | Requirement  | Meeting                                     |
|------------------|--|---|
| TN 49-14-106 (c) | Annual or other periodic audits of chief executives shall be performed by an internal auditor or auditors who are not employees of the institution of the chief executive being audited. Notwithstanding the foregoing, internal auditors or auditors who report to the board audit committee may perform annual or other periodic audits of the chancellor of the board of regents system or the University of Tennessee president.   | Winter - Due annual by December 1st.        |
| TN 49-14-104     | The governing boards of all public institutions of higher education shall establish a policy requiring that annual reports detailing expenditures made by, at the direction of, or for the benefit of a system head or chief executive of an institution are to be filed with their respective boards. It is the legislative intent that the policy require the report of discretionary expenditures, which shall include, but not be limited to, unrestricted gifts, foundation funds, athletic funds, sponsorship fees, licenses and royalty funds, and other such funds that would not be included in the operating budget for the system head's or chief executive's office. System heads or chief executives shall not have the authority to grant themselves an exception to fiscal, spending, or travel policies established by their boards or by statute. | This can be reviewed with audit due Dec. 1. |

### Miscellaneous Responsibilities

|                       |  |                     |
|-----------------------|--|---------------------|
| AC Charter III.C.2    | Review and approve the charter of the Internal Audit Department  | Spring              |
| AC Charter III.D.1    | Ensure Chief Internal Auditor reports functionally to the Audit Committee of the Board and reports to the President for administrative purposes only.  | Fall                |
| AC Charter III.D.2    | Ensure Internal Audit has adequate resources in terms of staff and budget to perform its responsibilities  | Fall or as needed   |
| AC Charter III.D.3    | Review & approve appointment, compensation, reassignment or dismissal of Chief Internal Auditor  | Fall or as needed   |
| AC Charter III.D.4    | Review & approve the compensation & termination of campus internal auditors.   | Fall or as needed   |
| AC Charter III.E.5    | Review & evaluate risk assessments performed by management.  | Winter              |
| AC Charter III. G. 1. | Review and assess the adequacy of the Audit Committee's charter annually, requesting Board approval for any proposed changes.  | Spring or as needed |
| AC Charter III. G. 3. | Review the University's code of conduct and/or policies regarding employee conduct to ensure that they are easy to access, are widely distributed, are easy to understand & implement, include confidential mechanism for reporting code violations, are enforced and include a conflict of interest policy. | Spring              |
| AC Charter III. G. 4. | Review the University's conflict of interest policy to ensure that the term "conflict of interest" is clearly defined, the policy is comprehensive, annual signoff is required, and potential conflicts are adequately resolved and documented.  | Spring              |

EAST TENNESSEE STATE UNIVERSITY  
BOARD OF TRUSTEES

ACTION ITEM

DATE: September 8, 2017  
ITEM: Audit Plan Revisions  
COMMITTEE: Audit Committee  
RECOMMENDED ACTION: Approve  
PRESENTED BY: Rebecca A. Lewis, CPA  
Director of Internal Audit

Included in the meeting materials is a proposed revision to the 2017-18 Audit Plan.

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

**RESOLVED: The Audit Plan revision is approved as presented in the meeting materials.**



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# EAST TENNESSEE STATE UNIVERSITY

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Department of Internal Audit  
Box 70566  
Johnson City, TN 37614-1707  
Telephone: 423/439-5356  
FAX: 423/439-5622

## MEMORANDUM

**TO:** ETSU Board of Trustees' Audit Committee

**FROM:** Becky Lewis, Director of Internal Audit *B. Lewis*

**SUBJECT:** Revisions to the FY 2017-18 Audit Plan

**DATE:** September 8, 2017

The following revisions to the original 2017-18 audit plan are requested:

### Additions

Office of Equity and Diversity – Special Request due to the upcoming retirement of the department head. The audit will help provide a baseline for possible department restructuring.

### Deletions

None

EAST TENNESSEE STATE UNIVERSITY  
BOARD OF TRUSTEES

INFORMATION ITEM

DATE: September 8, 2017  
ITEM: Audits and Investigations Performed  
COMMITTEE: Audit Committee  
PRESENTED BY: Rebecca A. Lewis, CPA  
Director of Internal Audit

Ms. Lewis provides an overview of the audits and internal investigations completed during the time period June 1 – August 31, 2017.

**Audits:**

1. Bursar's Office
2. Baseball Expenditures

**Investigations:**

1. Men's Tennis Expenditures (FWA 17-12)

**East Tennessee State University  
Bursar's Office  
For the Period from August 2015 – March 2016  
Executive Summary**

|  |  |
|--|--|
| <b>Key Staff Person:</b> Bursar  | <b>Auditor:</b> Assistant Director of Internal Audit |
| <p><b>Introduction</b><br/>An audit of East Tennessee State University's Bursar's Office was conducted by Internal Audit personnel in accordance with the Annual Audit Plan.</p> <p>The Bursar's Office is responsible for billing and collections of student tuition accounts, receipting and depositing department revenue, establishing payment plans, processing student refunds, managing petty cash, and collecting on any returned checks/past due account.</p> |  |
| <p><b>Objectives</b></p> <ol style="list-style-type: none"> <li>1. To evaluate the adequacy of the internal controls.</li> <li>2. To determine compliance with university policies and procedures.</li> <li>3. To make recommendations for correcting deficiencies or improving operations.</li> </ol>   |  |
| <b>Total Questioned Costs/Losses:</b> None   | <b>Total Recoveries:</b> N/A                         |
| <p><b>Current Audit Results</b><br/>There were no findings as a result of this audit. Testwork perform included such things as departmental deposits, tuition and fees, financial aid refunds, returned checks, cash counts, and petty cash advances. The audit objectives were met.</p>   |  |

**East Tennessee State University  
Baseball Expenditures  
For the Academic Year 2016 - 2017  
Executive Summary**

|  |  |
|--|--|
| <b>Key Staff Person:</b> Former Baseball Coach   | <b>Auditor:</b> Assistant Director of Internal Audit |
| <b>Introduction</b><br>An audit of East Tennessee State University’s Baseball 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 every head coach at the end of their employment. In June 2017, Baseball’s Head Coach (Coach) resigned.  |  |
| <b>Objectives</b> <ol style="list-style-type: none"> <li>1. To evaluate the adequacy of the internal controls.</li> <li>2. To determine compliance with university policies/procedures and applicable federal regulations.</li> <li>3. To make recommendations for correcting deficiencies or improving operations.</li> </ol>   |  |
| <b>Total Questioned Costs/Losses:</b> None   | <b>Total Recoveries:</b> N/A                         |
| <b>Findings and Conclusions</b><br><u>Finding 1:</u> Procedures related to team travel need improvement.<br>Seven of the thirteen travel claims reviewed included a reimbursement to the Coach for laundry services performed by either a volunteer assistant coach or team manager. Volunteer agreements were not always completed in accordance with university policies. In addition, the Coach typically gave cash tips to hotel employees operating the complimentary breakfast served to all guests.<br><u>Recommendations 1:</u> Expenditures which could be considered compensation should not be submitted on the travel claim. Volunteers should not receive any form of compensation based on current university policies. Volunteer agreements should be completed and maintained in accordance with policy. Management should re-evaluate the practice of providing cash tips to employees operating the hotel’s complimentary breakfast buffet.<br><u>Management’s Comments 1:</u> The travel claims will not be used as a way to compensate employees or volunteers. All employee compensation will be processed through the Payroll Department in accordance with university policies. The Athletic Compliance Department will ensure volunteer agreements are completed in accordance with policies. Athletics will continue to allow coaches to tip hotel employees who operate the complimentary breakfast buffet.<br><br><u>Finding 2:</u> Student workers should be compensated for all hours worked.<br>The student employed during the 2016-17 academic year under CWSP was paid the maximum hours allowed under the program rather than the actual hours worked.<br><u>Recommendation 2:</u> Student workers should be compensated for all hours worked and those hours should be properly reflected on the timesheets. No student worker should be allowed to volunteer hours for the same position which they are being paid.<br><u>Management’s Comments 2:</u> Coaches are reminded on an annual basis about the rules for student workers.<br><br>The objectives of the audit were met. |  |



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# EAST TENNESSEE STATE UNIVERSITY

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Department of Internal Audit  
Box 70566  
Johnson City, TN 37614-1707  
Telephone: 423/439-5356  
FAX: 423/439-5622

## MEMORANDUM

**TO:** ETSU Board of Trustees' Audit Committee

**FROM:** Becky Lewis, Director of Internal Audit *B. Lewis*

**SUBJECT:** Completed Investigations – June 1 to August 31, 2017

**DATE:** September 8, 2017

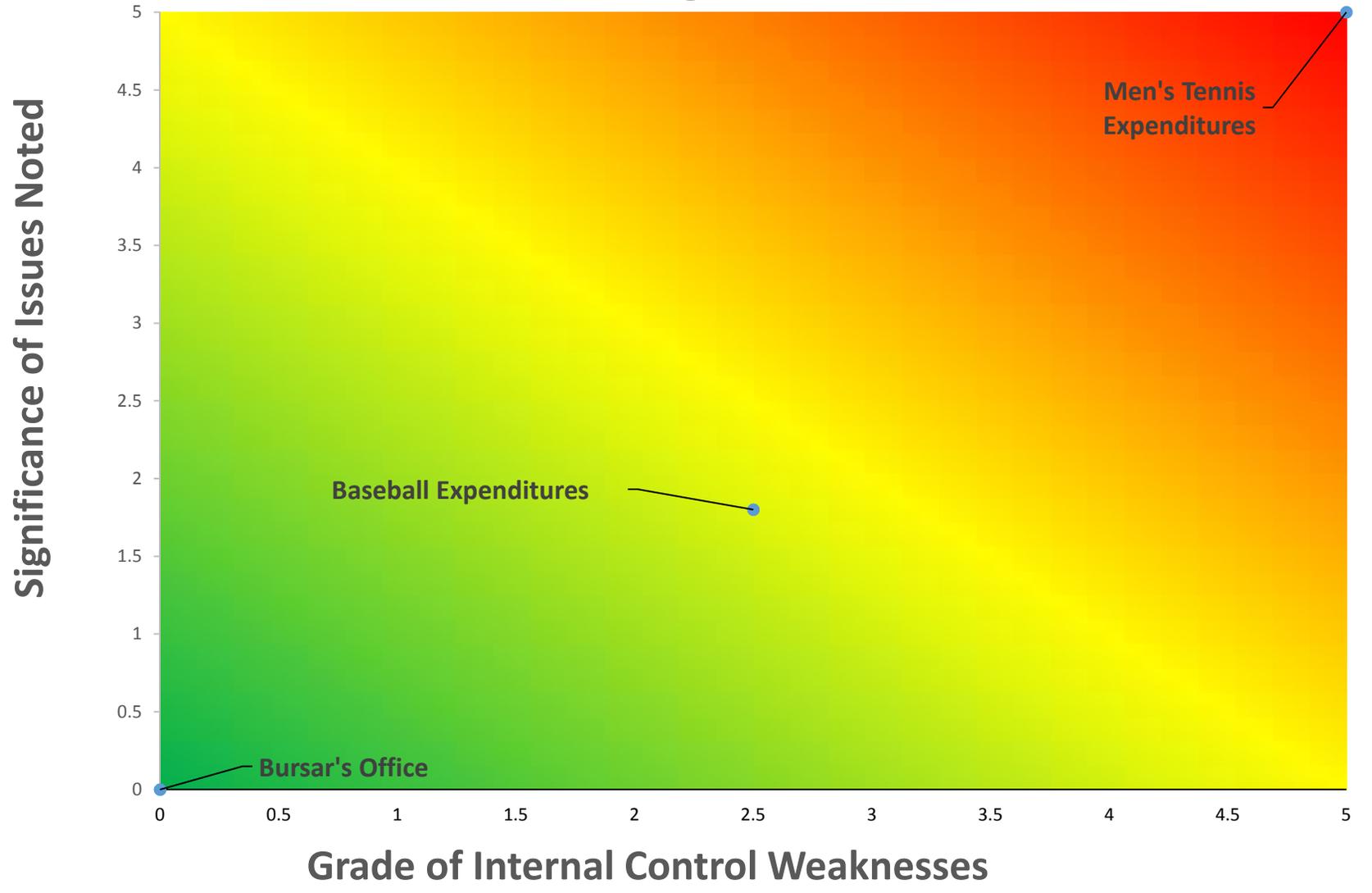
Below is a summary of the investigations completed between June 1 and August 31, 2017.

### ***Tennis Expenditure Investigation:***

The investigation revealed the coach was reimbursed for expenses supported by fabricated, forged, and/or altered documentation. These documents were related to meal expenses for both home and away games, racquet stringing receipts, registration fees, and other miscellaneous expenditures. Questioned costs related to these expenses totaled \$85,674.61. In addition, unreported annual leave valued at \$20,747.63 was discovered. Therefore, total questioned cost contained in this report is \$106,422.24. Intercollegiate Athletics, along with Financial Services and Procurement, will develop and improve policies, procedures, and internal controls to help mitigate the risk associated with petty cash, team travel, and other miscellaneous expenditures. This will include training and educating employees regarding appropriate financial procedures. The coach resigned on March 16, 2017 and agreed to pay back \$50,000.

# Heat Map of Completed Audits

from June 1 - August 31, 2017



EAST TENNESSEE STATE UNIVERSITY  
BOARD OF TRUSTEES

INFORMATION ITEM

DATE: September 8, 2017  
ITEM: Recommendation Log  
COMMITTEE: Audit Committee  
PRESENTED BY: Rebecca A. Lewis, CPA  
Director of Internal Audit

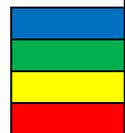
The audit recommendation log contains information related to suggestions for specific completed audits allowing the Office of Internal Audit to track outcomes related to recommendations.

**East Tennessee State University  
Internal Audit Recommendation Log as of August 31, 2017**

| Area   | Recommendation   | Status |
|--|--|--------|
| PCI Compliance Readiness Audit   | PCI Questionnaire (SAQ-D) needs to be completed.   |        |
| Off Campus Domestic & International Programs                                 | Controls over Off Campus Domestic & International Programs needs improvement.  |        |
| Behavioral Health and Wellness Clinic  | Management should resolve the insurance payment issue so that the Clinic Director no longer receives payments into her personal bank account.  |        |
|  | Management should consider hiring a full or part-time staff member to handle billing and payment collections.  |        |
| NCAA Athletics Compliance  | Intercollegiate Athletics should adhere to regulations related to Financial Aid Eligibility of student-athletes.   |        |
|  | Intercollegiate athletics should adhere to the policies related to sports camps and clinics.   |        |
| Miscellaneous Course Fees  | Unspent revenue carried forward into the next year should be monitored and justified.  |        |
| Web Applications Security (Limited Official Use Report)                      | Weaknesses discovered which lessened the internal controls in two specific areas should be resolved.   |        |
| Timekeeping  | Timesheets and Time Reporting System (TRS) entries should comply with ETSU policies.   |        |
|  | Timesheets should agree to backup documentation.   |        |
| Rural Health Leave   | Annual/sick leave should be reported on timesheets and in TRS.   |        |
|  | Any errors discovered during the audit should be submitted to Payroll for corrections.   |        |
|  | Approvers should compare TRS to timesheets prior to approval.  |        |
|  | Employees involved in timekeeping should attend appropriate training.  |        |
| Office of Intercollegiate Athletics Timekeeping/Pay of Student Workers       | Timesheets should reflect actual hours worked.   |        |
|  | Students should be paid for all hours worked.  |        |
|  | Student worker should not be allowed to volunteer time for their paid position.  |        |
| Inclement Weather Pay  | Underpaid employees identified in the review should be compensated.  |        |
|  | In the future, all emergency crew personnel working inclement weather days should be compensated in accordance with policy.  |        |
|  | Management should conduct periodic training sessions with timekeepers of emergency crew personnel.   |        |
| Tennis Expenditures<br>See additional details in Report Issued: June 9, 2017 | General/Overall concerns of travel claim reimbursements need improvement   |        |
|  | Internal controls related to the following expenditure items need improvement: (1) team meals and snacks, (2) stringing services, (3) registration fees, (4) transportation expenses, and (5) other disbursements. |        |
|  | Internal controls related to donations and refunds received need improvement   |        |
|  | Internal controls related to reporting of leave used by the coaches need improvement   |        |
| Baseball Expenditures  | Procedures related to team travel need improvement.  |        |
|  | Student workders should be compensated for all hours worked.   |        |

**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



EAST TENNESSEE STATE UNIVERSITY  
BOARD OF TRUSTEES

INFORMATION ITEM

DATE: September 8, 2017

ITEM: Annual Report on Audit Function

COMMITTEE: Audit Committee

PRESENTED BY: Rebecca A. Lewis, CPA  
Director of Internal Audit

The Annual Report for the Department of Internal Audit for the 2017 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 2017 audit efforts of Internal Audit.



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**EAST TENNESSEE STATE  
UNIVERSITY**

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## **Office of Internal Audit**

# **Annual Report Fiscal Year 2017**

Department of Internal Audit  
East Tennessee State University  
Johnson City, TN 37614



EAST TENNESSEE STATE  
UNIVERSITY

August 31, 2017

ETSU Board of Trustees  
Audit Committee

and

Dr. Brian Noland, President  
East Tennessee State University  
Johnson City, Tennessee 37614

Trustees and Dr. Noland:

Enclosed is the annual report for the Department of Internal Audit for the 2017 fiscal year. An annual report of audit work is required by TCA 4-14-102. The report includes the status of the 2017 annual audit plan noting the audit completed and in progress. In addition, an update in the fraud awareness activities and investigations is also addressed.

This report fulfills the annual reporting requirements and provides information to the Board of Trustees concerning the 2017 audit efforts of the Internal Audit Department. This report is intended solely for the internal use of East Tennessee State University and the ETSU 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 should be approved by the Office of Internal Audit at East Tennessee State University.

Sincerely,

Rebecca Lewis, CPA  
Director, Internal Audit

**East Tennessee State University  
Office of Internal Audit**

**Annual Report for Fiscal Year 2017**

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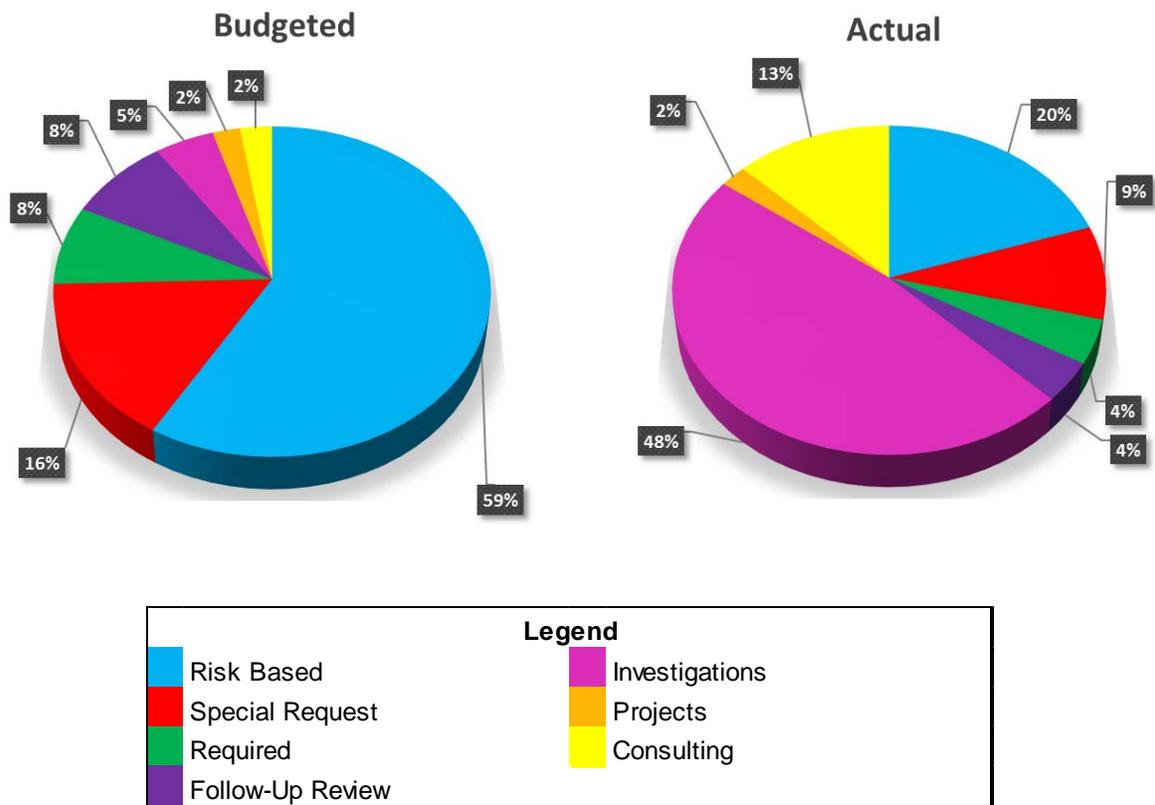
## INTRODUCTION

The mission of Internal Audit is to support and assist all members of ETSU management in the effective discharge of their duties and responsibilities. During FY 2017, the University's governance, including the Internal Audit function, transitioned from the Tennessee Board of Regents (TBR) to the ETSU Board of Trustees with the passage of the Focus on College and University Success (FOCUS) Act effective July 1, 2016. The ETSU Board of Trustees convened for the first time on March 24, 2017 and the Audit Committee, a standing committee of the Board, was charged with oversight of the internal audit function.

## AUDIT EFFORT

An audit plan is developed annually by the department and approved by the audit committee. Due to special requests and fraud, waste, and abuse allegations, the plan is adjusted throughout the year to meet those needs. The charts below depict the changes that occurred between the original audit plan and the actual audit activity.

**Audit Effort by Type for FY 2017**

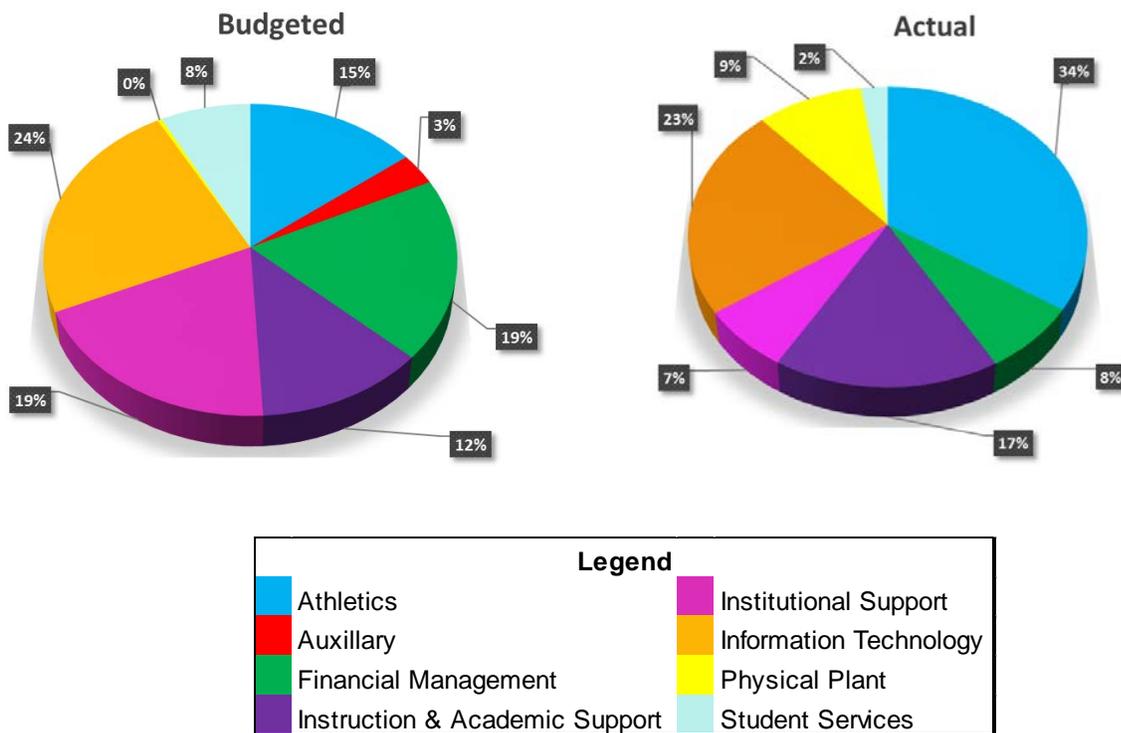


As illustrated above, the department planned to focus the majority of its audit effort (59%) performing risk-based audits. Due to unanticipated allegations received, the

majority of the annual audit hours were spent performing fraud, waste, and abuse investigations. Investigations begin as a result of management referral of concerns of possible fraud, waste, or abuse, a hotline complaint of possible improper or dishonest acts, or discovered during the normal audit process.

In addition to audit type, Internal Audit also tracks the audit effort by functional areas. As shown below, the department focused more audit effort on Intercollegiate Athletics than anticipated and less effort on Institutional Support areas.

### Audit Effort by Functional Area for FY 2017



A listing of all Audits/Projects completed or in progress at the end of Fiscal Year 2017 is located on the following page. Thirty-five audits/projects were completed during the year. In addition, twelve audits/projects were in process as of June 30, 2017. These should be finalized during the Fiscal Year 2018.

During FY 2018, the department plans on focusing more of its effort on risk-based reviews.

**East Tennessee State University  
Audits/Projects Completed or In Progress  
Fiscal Year Ended June 30, 2017**

|                         |      |   |
|-------------------------|------|---|
| <b>Required Audits</b>  | FM   | Cash Counts/Inventories                               |
|                         | FM   | WETS-FM   |
| <b>Follow Ups</b>       | SS   | Follow -Up Student Health Billing Practices           |
|                         | IA   | Follow -Up Art & Design Procurement/Study Abroad      |
|                         | IT   | Follow -Up PCI Compliance Readiness                   |
|                         | PP   | Follow -Up Facilities VA Campus Custodial Staff       |
|                         | FM   | Follow -Up Access & Diversity                         |
|                         | SS   | Follow -Up Financial Aid Administration               |
|                         | IT   | Follow -Up ITS Policies & Procedures Review           |
|                         | IS   | Follow -Up Timekeeping FY 2016 Audit                  |
|                         | * IS | Follow -Up Behavioral Health & Wellness Clinic        |
|                         | * IT | Follow -Up Web Application Security                   |
| <b>Investigations</b>   | SS   | Investigation 16-05                                   |
|                         | IA   | Investigation 16-08                                   |
|                         | IA   | Investigation 16-09                                   |
|                         | SS   | Investigation 17-01                                   |
|                         | IA   | Investigation 17-02                                   |
|                         | IA   | Investigation 17-03                                   |
|                         | IA   | Investigation 17-04                                   |
|                         | PP   | Investigation 17-05                                   |
|                         | IA   | Investigation 17-06                                   |
|                         | IA   | Investigation 17-07                                   |
|                         | AT   | Investigation 17-08                                   |
|                         | IA   | Investigation 17-09                                   |
|                         | IA   | Investigation 17-10                                   |
|                         | AT   | Investigation 17-12                                   |
|                         | * IA | Investigation 17-11                                   |
|                         | * AT | Investigation 17-13                                   |
| <b>Consulting</b>       | IS   | General Consultation                                  |
|                         | IT   | IT Consulting   |
|                         | IT   | CISO Consulting                                       |
| <b>Projects</b>         | IS   | Electronic Workpapers                                 |
|                         | * IS | ACUA Track Coordinator                                |
| <b>Special Requests</b> | IS   | Timekeeping FY 2017                                   |
|                         | IT   | Third Party Servers FY 2017                           |
|                         | IS   | Timekeeping FY 2016                                   |
|                         | * IA | Johnson City Community Health Center - Patient Safety |
|                         | * IA | College of Nursing Clinics - Financial Procedures     |
|                         | * AT | Baseball Expenditures                                 |
| <b>Risk Based</b>       | AT   | NCAA Compliance FY 2016                               |
|                         | IT   | Web Application Security                              |
|                         | FM   | Misc Course Fees                                      |
|                         | IT   | NACHA Web Transactions Data Security FY 2016          |
|                         | * FM | Bursar's Office                                       |
|                         | * FM | Agency Accounts                                       |
|                         | * AT | Athletic Ticket Office                                |
|                         | * SS | Title IV/Clergy Act                                   |

**Functional Areas:**

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

\* = Audits/Projects In Progress as of June 30, 2017

## INVESTIGATION SUMMARY

The University is committed to the responsible stewardship of resources, and is required by state law to provide a means by which employees, students, or others may report suspected or known improper or dishonest acts. The Department of Internal Audit manages the reporting process by which students, employees, taxpayers, or other citizens may confidentially report suspected illegal, improper, wasteful, or fraudulent activity. (TCA 4-14-103).

The Department of Internal Audit is required to investigate allegations of improper or dishonest acts by an employee, outside contractor, or vendor. The main purpose of each investigation is to determine if allegations were substantiated. During an investigation, additional concerns and internal control weaknesses might be identified. If an allegation is substantiated, concerns are identified, or internal control weaknesses exist, an audit report may be issued. If the allegations are not substantiated, the case is administratively closed with a memo to the file.

Below is a summary of the investigative activity for the Fiscal Year 2017:

|  |    |
|--|----|
| Investigations brought forward from the prior year | 3  |
| New cases opened                                   | 13 |
| Cases administratively closed                      | 4  |
| Reports issued                                     | 10 |
| Investigations outstanding at June 30, 2017        | 2  |

During 2017, 13 new investigations of possible fraud, waste, or abuse were opened. This is substantially more than prior fiscal years. New investigations for the past three years were: 9 in FY 2016, 6 in FY 2015, and 5 in FY 2014.

EAST TENNESSEE STATE UNIVERSITY  
BOARD OF TRUSTEES

ACTION ITEM

DATE: September 8, 2017

ITEM: Internal Audit Salaries

COMMITTEE: Audit Committee

PRESENTED BY: Rebecca A. Lewis, CPA  
Director of Internal Audit

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.

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

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

## ETSU Internal Audit FY 2018 Salaries

| Name              | Position           | Professional Certification | Current Annual Salary | Years of Professional Experience | Years of Experience at ETSU |
|-------------------|--------------------|----------------------------|-----------------------|----------------------------------|-----------------------------|
| Rebecca Lewis     | Director           | CPA                        | \$ 86,436             | 23                               | 19                          |
| Martha Stirling   | Assistant Director | CPA                        | \$ 55,395             | 12                               | 5                           |
| Angela Finney (1) | Internal Auditor   | CPA                        | \$ 37,445             | 24                               | 15                          |
| Logan Greer (2)   | Internal Auditor   | -                          | \$ 45,295             | 5                                | 2                           |
| Tyler Troutman    | Graduate Assistant | -                          | \$ 6,400              | -                                | -                           |

- (1) Angela is currently working part-time. She will return to full-time employment in May or June of 2018. Her current full-time salary equivalent is \$45,295
- (2) Logan Greer will transfer from Financial Services to Internal Audit on September 18, 2017.

EAST TENNESSEE STATE UNIVERSITY  
BOARD OF TRUSTEES

INFORMATION ITEM

DATE: September 8, 2017

ITEM: Internal Audit Operating Expenses

COMMITTEE: Audit Committee

PRESENTED BY: Rebecca A. Lewis, CPA  
Director of Internal Audit

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 2017

|                          | <b>Total<br/>Budget</b> | <b>Average<br/>Per Auditor</b> |
|--------------------------|-------------------------|--------------------------------|
| 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
- Portion of computer equipment expenses