

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

8:30-9:30 am EST
Friday
November 15, 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 September 20, 2019](#)
- IV. [Revisions to the FY 2019-2020 Audit Plan \(5 minutes\)](#)
- V. [Audit Work Performed September through October 2019 \(15 minutes\)](#)
 - A. [Golf](#)
 - B. [Executive Level Audit – Vice President for University Advancement](#)
 - C. [President’s Expenses](#)
 - D. [Volleyball](#)
 - E. [Completed Audit Heat Map](#)
- VI. [Recommendation Log Status as of October 31, 2019 \(5 minutes\)](#)
- VII. Other Business
- VIII. Executive Session to Discuss Active Audits and Enterprise Risk Management (35 minutes)
- IX. Adjournment

EAST TENNESSEE STATE UNIVERSITY
BOARD OF TRUSTEES

ACTION ITEM

DATE: November 15, 2019

ITEM: Approval of Minutes from September 20, 2019

COMMITTEE: Audit Committee

RECOMMENDED ACTION: Approval

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

The minutes of the September 20, 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 September 20, 2019 meeting of the Audit Committee of the Board of Trustees 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

September 20, 2019
Johnson City, Tennessee

The East Tennessee State University Board of Trustees Audit Committee met at 8:30 a.m. on Friday, September 20, 2019 at the Millennium Center.

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 8:28 a.m.

II. Roll Call

Board of Trustees Secretary Adam Green led the roll call. Committee members in attendance were

David Golden, Chair
Dorothy Grisham

Other Board of Trustee members present were: Dr. Virginia Foley and Cristopher Santana.

III. Approval of Minutes of the Audit Committee April 26, 2019

The minutes for the April 26, 2019 Audit Committee meeting were reviewed. Trustee Grisham made a motion for approval, and Chairman Golden seconded the motion. The minutes were unanimously approved.

IV. Adoption of Compliance Charter

Chairman Golden introduced Ms. Ashley Leonard, compliance counsel for ETSU. Ms. Leonard explained that the newly formed Compliance Office that is part of the Office of University Counsel recently developed a charter in order to outline such things as its purpose, mission, authority, organizational oversight, professional standards, responsibilities, and how it coordinates with other functions on campus. The proposed Charter is similar to the one for the ETSU Department of Internal Audit. Chairman Golden noted that the most current draft of the charter now lists

ETSU Intercollegiate Athletics as a collaboration group on campus. The proposed charter has been reviewed by the Compliance Office, Internal Audit, and the Office of the President. Chairman Golden made a motion for approval, and Trustee Grisham seconded the motion. The Compliance Charter was adopted.

President Noland commented on how fortunate ETSU was in being able to recruit Ms. Leonard, and he also commended her for the staff that had been hired to work with her. He thanked the Audit Committee and staff for their guidance and support in creating this compliance unit.

V. Annual Audit Plan for FY 2020

The audit plan for fiscal year 2020 has been completed. It includes carryover audits that were not completed by June 30, 2019 as well as some required audits, special requests, and investigations. Ms. Lewis explained that after those audits are determined, her office performs an analysis of risk-based audits that should be included in the plan. This already has been shared with Trustee Golden and President Noland due to the fact that FY 2020 began prior to the September committee meeting. Chairman Golden made a motion for approval, which included a ratification for the work already completed. Trustee Grisham seconded the motion. The audit plan was unanimously approved.

VI. Audit Work Performed April through August 2019

From April to August 2019, the Department of Internal Audit completed five audits and two investigations. Three of those audits – an Executive Level Audit of Vice President for Academic Affairs, an audit of NACHA web transactions data security, and a timekeeping audit of the Families First program – had little or no findings.

An audit of third-party servers did note some concerns that are being addressed. Due to the nature of Information Technology, the law allows for the entity conducting the audit to issue a limited official-use report that is sent to the department; a general purpose report was included in the audit committee materials.

An audit of ETSU's Department of Art and Design also took place. This audit stemmed from an investigation that occurred involving the department's Slocumb Galleries (*also on the Sept. 20 Audit Committee agenda to be discussed*). The audit of the department had three findings, with the most significant being that the visual resource center was charging for printing but the funds were not being deposited. These funds were used to pay for various expenses by the department. Ms. Lewis noted that some of these expenses would have been appropriate. However, other times expenses were paid for items that violated university policy.

Responding to a question from Trustee Grisham regarding the policy on deposits, Ms. Lewis explained that deposits of \$500 or more must be deposited the same day and

within three days if the amount is less than \$500. In the case of the Department of Art and Design, the money never was deposited. The audit staff were able to account for some of the money; however, Chairman Golden noted there was no evidence of fraud.

The Slocumb Galleries investigation began when a check from the Medical Education Assistance Corporation made payable to ETSU for the purpose of an artwork project for the Department of Pediatrics did not get deposited into the university bank account. Rather, the check was deposited into a student organization account. The investigation found that the director withdrew money from the student organization account to pay the artists of the project as well as other expenses not related to this project. This resulted in a comprehensive review of Slocumb Galleries. While there was no evidence of fraud, there were clear internal control weaknesses. Trustee Grisham asked if employees would be receiving training on proper procedures. Ms. Lewis indicated that training is being provided to staff.

The second investigation involved the university's Little Bucs and Child Study Center operations. There were concerns over the financial stability of both, particularly the Child Study Center. The audit team also completed a review of compliance with Department of Human Services (DHS) rules and regulations. Multiple violations were identified, with the most significant being supervision of children, safety, background checks, and sign-in/sign-out sheets.

A copy of the completed Audit Heat Map was presented to the committee.

VII. Recommendation Log Status as of August 31, 2019

The Internal Audit team has completed several follow-up reviews of prior recommendations. In all of the reviews, corrective actions have been taken (color coded as blue), or current actions are progressing in a timely fashion or are not yet due (color coded as green).

VIII. Report of Audit Functions for FY 2019

The format of the annual report from Internal Audit has been changed to reflect a more user-friendly format. The report shows completed audits and audit hours by functional area, which showed the majority of staff time being spent on Financial Management and Institutional/Academic Support. Audits in progress are also noted. Some key performance indicators have been added to reflect a comparison of the last two fiscal years. Chairman Golden expressed his appreciation to Ms. Lewis and her staff for the great report and for achieving the highest opinion with their recent Quality Assessment Review (QAR).

IX. Internal Audit Employee Profile

According to Ms. Lewis, the Board of Trustees must annually approve the salaries of those individuals working in the Department of Internal Audit. A table of salaries, along with the professional certifications and years of service, was provided in the meeting materials. Trustee Grisham made a motion for approval, and Chairman Golden seconded the motion. The profiles were unanimously approved.

X. Internal Audit Operating Expenses

A copy of the operating budget for Internal Audit was presented to the committee. Chairman Golden asked Ms. Lewis to let the committee know if unforeseen circumstances were to arise and budget resources were not available for her and her team to do the work they need to do. Trustee Grisham followed up and told Ms. Lewis that the committee stands with her and wants her to have what she needs to do her job.

XI. Other Business

There were no other business items. The committee meeting concluded at 8:45 a.m. and the committee moved into Executive Session.

EAST TENNESSEE STATE UNIVERSITY
BOARD OF TRUSTEES

ACTION ITEM

DATE: November 15, 2019
ITEM: Revisions to the FY 2019-2020 Audit Plan
COMMITTEE: Audit Committee
RECOMMENDED ACTION: Approval
PRESENTED BY: Rebecca A. Lewis, CPA
Chief Audit Executive

Ms. Lewis will provide a listing of additions and deletions to the fiscal year 2019-2020 audit plan since the last meeting.

Additions

FWA 20-05 – Investigation concerns received by Internal Audit
FWA 20-06 – Investigation concerns received by Internal Audit

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

RESOLVED: The revisions to the Audit Plan for 2019-2020 are approved as presented in the meeting materials.

EAST TENNESSEE STATE UNIVERSITY
BOARD OF TRUSTEES

INFORMATION ITEM

DATE: November 15, 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 completed during the period September 1, 2019 to October 31, 2019. There have been no investigations completed during this period.

Audits

- Men's Golf Expenditures – An audit of the Men's Golf Expenditures was conducted in accordance with the Annual Audit Plan. At the request of administration, the Office of Internal Audit conducts an audit of head coaches at the end of their employment. In June 2019, the Men's Head Golf Coach retired.
- Executive Level Audit: VP University Advancement – An audit of the Vice President for University Advancement was conducted by Internal Audit personnel in accordance with the Annual Audit Plan. At the request of administration, the Office of Internal Audit conducts an audit of a randomly selected, executive-level administrator each year.
- President's Expenses – An audit of the President's expense was conducted in order to comply with Tennessee Code Annotated, Title 49, Chapters 7 and 14, by performing an internal financial audit of the Office of the President for the Fiscal Year ending June 30, 2019. The objectives were to determine compliance with state statutes and institutional policies regarding expenses and to identify and report all expenses made by, at the direction of or for the benefit of the President regardless of the funding source.
- Volleyball Expenditures – An audit of Volleyball Expenditures was conducted in accordance with the Annual Audit Plan. At the request of administration, the Office of Internal Audit conducts an audit of head coaches at the end of their employment. In December 2018, Volleyball's Head Coach resigned.

Investigations

- None

East Tennessee State University
Men's Golf Expenditures
July 1, 2018 to May 31, 2019

Key Staff Person: Men's Golf Coach	Internal Audit: Internal Auditor
<p>Introduction An audit of <i>Men's Golf Expenditures</i> within the Department of Intercollegiate Athletics was conducted by Internal Audit personnel in accordance with the Annual Audit Plan. At the request of administration, the Office of Internal Audit conducts audits of head coaches at the end of their employment. In June 2019, the Head Coach (Coach) for the men's team retired.</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 and procedures. 3. To make recommendations for correcting deficiencies or improving operations. 	
Total Questioned Costs/Losses: \$200.18	Total Recoveries: N/A
<p>Current Audit Results</p> <p>Finding: <i>One error discovered on a team travel claim resulted in questioned costs for the university.</i></p> <p>The Men's Golf Team traveled to Hawaii for the Hawaii Makai Invitational in October 2018. When comparing the total charged on the Procard (\$2,202.38) to the hotel invoice (\$2,002.20), the university overpaid by \$200.18. It appears ETSU was not given full credit for the initial deposits resulting in the overpayment.</p> <p>Recommendation:</p> <p>While it appears this was an isolated incident, management should review Procard charges during the reconciliation process to ensure overpayments do not exist. If overpayments are identified, refunds should be requested.</p> <p>Management's Response:</p> <p>We concur with the finding and recommendations. The coach will attempt to obtain a refund for the overpayment, but feel this is unlikely due to its age. In the future, management will communicate with the coaches to ensure that prepaid lodging deposits are properly credited on the hotel invoice(s).</p> <p>The objectives of the audit were met.</p>	

**East Tennessee State University
Executive Level Expenditures
Office for the Vice President of University Advancement
For the Fiscal Year 2018-19
Executive Summary**

Key Staff Person: Vice President of University Advancement	Auditor: Internal Auditor
<p>Introduction An audit of East Tennessee State University’s Vice President for University Advancement (Vice President) was conducted by Internal Audit personnel in accordance with the Annual Audit Plan. Each year Internal Audit conducts an audit of a randomly selected executive level administrator. These audits focus primarily on expenditures made from indices under the direct supervisory control of the administrator.</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 were reviewed and tested for compliance with university policies and procedures. The items tested included all payments made to the Vice President as well as other travel, meals/entertainment, procard transactions, and various operating expenses. Approximately thirteen percent of all operational and travel expenditures totaling \$115,633.55 were selected for testwork.</p> <p>Based on the testwork performed, it appears that the expenditures made from indices under the direct supervisory control of the Vice President complied with the applicable University policies and procedures. The audit objectives were met.</p>	

East Tennessee State University
Review of President's Expenses
For the Fiscal Year July 1, 2018 – June 30, 2019

Objectives	To comply with Tennessee Code Annotated, Title 49, Chapters 7 and 14, by performing an internal financial audit of the Office of the President for the Fiscal Year ending June 30, 2019; to determine compliance with state statutes and institutional policies regarding expenses; and to identify and report all expenses made by, at the direction of or for the benefit of the President regardless of the funding source.																																
Scope	The audit included all accounts under the direct budgetary control of the President, whether funded by institutional funds, foundation funds or external sources and other accounts as necessary. The audit was conducted in accordance with the <i>International Standards for the Professional Practice of Internal Auditing</i> , issued by the Institute of Internal Auditors and included tests of the accounting records and such other auditing procedures considered necessary.																																
Analysis	<p>Financial Services along with the President's Office prepares a detailed annual expense report of the President's Office. These schedules were reviewed and verified for accuracy and completeness during the audit. The following is a summary by funding source of (1) expenses made by, at the direction of, or for the benefit of the President, and (2) salary and benefits and any other operating expenses for the President's office during the fiscal year ended June 30, 2019:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 50%;"></th> <th style="width: 15%; text-align: center;">Institutional</th> <th style="width: 15%; text-align: center;">Foundation</th> <th style="width: 10%; text-align: center;">Total</th> </tr> </thead> <tbody> <tr> <td>Salary & Benefits – President & Staff</td> <td style="text-align: right;">\$ 779,681.98</td> <td style="text-align: right;">\$ -</td> <td style="text-align: right;">\$ 779,681.98</td> </tr> <tr> <td>Travel – President</td> <td style="text-align: right;">36,936.44</td> <td style="text-align: right;">-</td> <td style="text-align: right;">36,936.44</td> </tr> <tr> <td>Travel – Other Personnel</td> <td style="text-align: right;">5,942.03</td> <td style="text-align: right;">4,956.46</td> <td style="text-align: right;">10,898.49</td> </tr> <tr> <td>Business Meals & Hospitality</td> <td style="text-align: right;">14,941.74</td> <td style="text-align: right;">24,072.22</td> <td style="text-align: right;">39,013.96</td> </tr> <tr> <td>Other Expenses of the President</td> <td style="text-align: right;">14,900.00</td> <td style="text-align: right;">-</td> <td style="text-align: right;">14,900.00</td> </tr> <tr> <td>Miscellaneous Operating Expenses</td> <td style="text-align: right;">60,974.94</td> <td style="text-align: right;">67,823.79</td> <td style="text-align: right;">128,798.73</td> </tr> <tr> <td>Total Expenses</td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">\$ 913,377.13</td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">\$ 96,852.47</td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">\$ 1,010,229.60</td> </tr> </tbody> </table> <p>Additional Disclosures:</p> <p>Salary and Benefits – Salary and Benefits for the President totaled \$491,320.73 and includes both the Discretionary and Vehicle Allowances.</p> <p>Discretionary Allowance – The President was provided a discretionary spending allowance of \$22,500.02 for the fiscal year. Use of the allowance was not included in tests performed during the audit because the President elected for it to be paid as taxable income.</p> <p>Vehicle – The President was provided a vehicle allowance of \$10,370 during Fiscal Year 2019. This allowance was paid as taxable income.</p> <p>Housing – The President was provided the use of a residence. Operating and maintenance costs for the residence, totaling \$29,066.17 for the period, were recorded in Facilities and not included in the above totals; the scope of the review related to these expenses was limited. Home improvement costs, however, are included above in Other Expenses of the President.</p> <p>Food Allowance – A food allowance to be used for university catering and events through the President's Office totaling \$37,500 was provided by Sodexo. This amount is not reflected in the above totals.</p> <p>Membership – The President was provided a membership to Blackthorn Country Club. The country club membership was paid by ETSU Intercollegiate Athletics and totaled \$3,594 during Fiscal Year 2019. This amount is not reflected in the above totals.</p>		Institutional	Foundation	Total	Salary & Benefits – President & Staff	\$ 779,681.98	\$ -	\$ 779,681.98	Travel – President	36,936.44	-	36,936.44	Travel – Other Personnel	5,942.03	4,956.46	10,898.49	Business Meals & Hospitality	14,941.74	24,072.22	39,013.96	Other Expenses of the President	14,900.00	-	14,900.00	Miscellaneous Operating Expenses	60,974.94	67,823.79	128,798.73	Total Expenses	\$ 913,377.13	\$ 96,852.47	\$ 1,010,229.60
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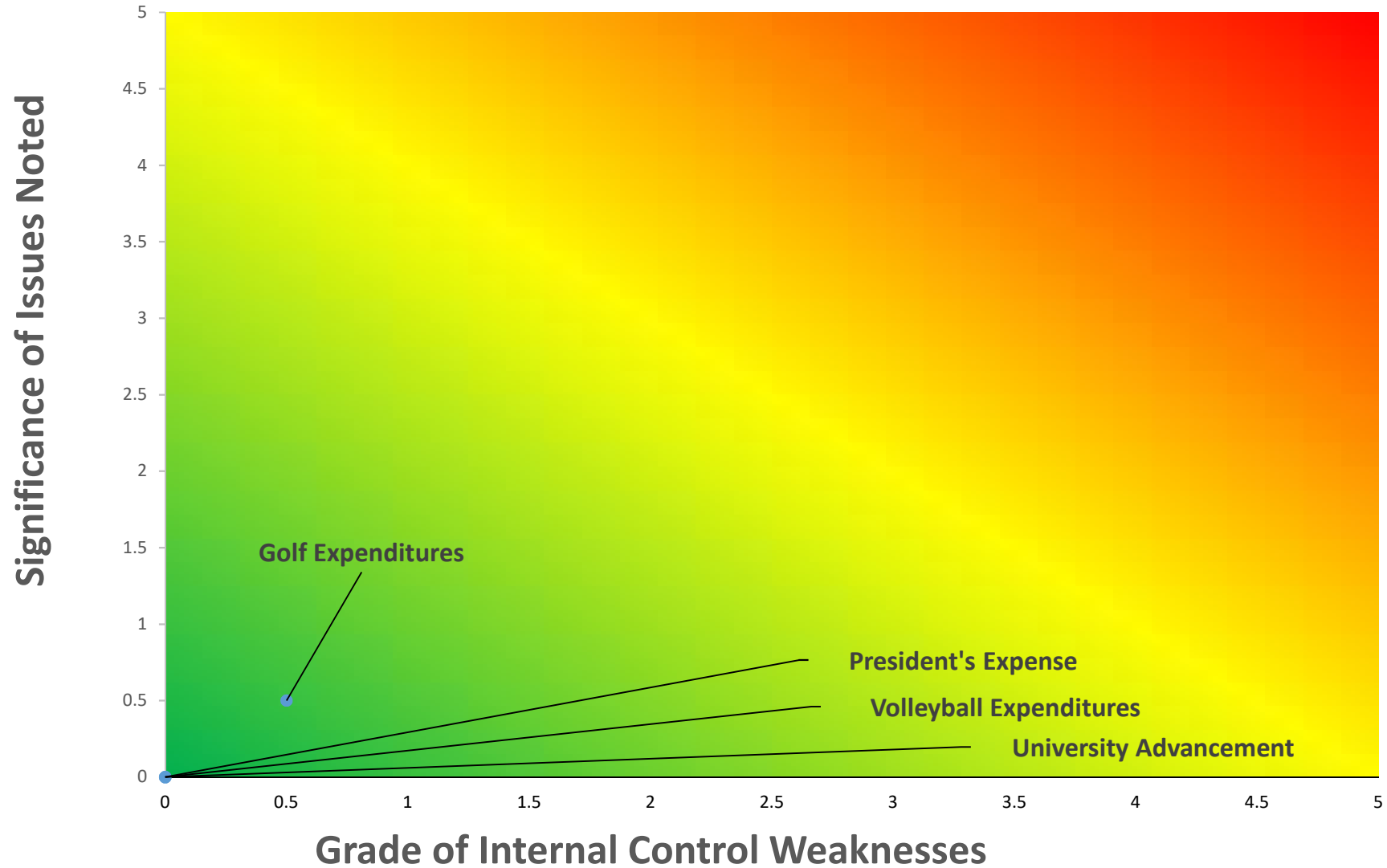
Questioned Costs	None	Recoveries	N/A
Conclusion	The objectives of the President's expense audit for the Fiscal Year ending June 30, 2019 were met. The audit revealed no significant statutory or policy violations, material omissions from the expense reports or deficiencies in internal controls.		

**East Tennessee State University
Volleyball Expenditures
July 1, 2017 – December 31, 2018**

Key Staff Person: Former Volleyball Coach	Auditor: Internal Audit Staff
<p>Introduction</p> <p>An audit of East Tennessee State University’s Volleyball 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 December 2018, the Volleyball Head Coach (Coach) resigned.</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 and procedures. 3. To make recommendations for correcting deficiencies or improving operations. 	
<p>Scope</p> <p>The audit was performed in accordance with the <i>International Standards for the Professional Practice of Internal Auditing</i> and included procedures as were considered necessary in the circumstances.</p>	
Total Questioned Costs/Losses: None	Total Recoveries: N/A
<p>Conclusions</p> <p>During the audit, the Coach had direct control over one institutional index within the Banner Finance System entitled Women’s Volleyball. Operational and travel expenditures paid from this index were reviewed and tested for compliance with university policies and procedures. The items tested included all payments made to the Coach, as well as a sample of expenditures related to travel, purchasing card (procard) transactions, and miscellaneous operating expenses.</p> <p>Based on the testing performed, it appears that the Coach’s expenditures comply with the applicable University policies and procedures.</p> <p>There were no observations or findings result from this audit. The objectives of the audit were met.</p>	

Heat Map of Completed Audits

from September 1 - October 31, 2019



EAST TENNESSEE STATE UNIVERSITY
BOARD OF TRUSTEES

INFORMATION ITEM

DATE: November 15, 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 October 31, 2019		
Area	Recommendation	Status
Off Campus Domestic & International Programs	Controls over Off Campus Domestic & International Programs needs improvement.	Green
Baseball Expenditures	Procedures related to team travel need improvement.	Blue
	Student workers should be compensated for all hours worked.	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
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
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
Golf Expenditures	Management should ensure all hotel deposits are credited on the final invoice.	Green

Legend:	
Actions completed since previous Audit Committee Meeting	Blue
Actions are progressing in a timely fashion or not yet due	Green
Actions are slightly overdue	Yellow
Actions are significantly overdue	Red