

EAST TENNESSEE STATE UNIVERSITY  
BOARD OF TRUSTEES  
AUDIT COMMITTEE  
SEPTEMBER 2018 MEETING

9:00-10:00am EDT  
Friday  
September 21, 2018

The Reece Museum  
363 Stout Drive  
Johnson City, TN

AGENDA

- I. Call to Order
- II. Roll Call
- III. [Approval of the Minutes of the Audit Committee April 27, 2018](#)
- IV. [FY 2018-19 Audit Plan \(5 minutes\)](#)
- V. [Audits and Investigations Performed \(15 minutes\)](#)
  - A. [Johnson City Community Health Center Patient Safety Executive Summary](#)
  - B. [College of Nursing Financial Procedures Executive Summary](#)
  - C. [NACHA Web Transactions Data Security FY 2017 Executive Summary](#)
  - D. [Men's Soccer Expenditures Executive Summary](#)
  - E. [State Audit Follow-Up Executive Summary](#)
  - F. [Memorandum on Investigations](#)
  - G. [Completed Audit Heat Map](#)
- VI. [Recommendation Log Status as of August 31, 2018 \(5 minutes\)](#)
- VII. [Quality Assurance and Improvement Program \(10 minutes\)](#)
  - A. [Self-Assessment](#)
  - B. [External Validation](#)
- VIII. [Annual Report on Audit Activity FY 2018 \(5 minutes\)](#)
- IX. Other Business
- X. Executive Session to Discuss Active Audits (15 minutes)
- XI. Adjournment

EAST TENNESSEE STATE UNIVERSITY  
BOARD OF TRUSTEES

ACTION ITEM

DATE: September, 21 2018

ITEM: Approval of the Minutes of April 27, 2018

COMMITTEE: Audit Committee

RECOMMENDED ACTION: Approve

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

The minutes of the April 27, 2018 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 27, 2018 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

April 27, 2018  
Johnson City, Tennessee

The East Tennessee State University Board of Trustees Audit Committee met at 9 a.m. on Friday, April 27, 2018, in the third floor meeting room of the D.P. Culp University Center.

**I. Call to Order**

Mr. David Golden, chair of the Audit Committee and vice chair of the Board of Trustees, called the meeting to order at 9:03 a.m.

**II. Roll Call**

Nathan Dugger, in place of Board of Trustees Secretary Dr. David Linville, led the roll call. Trustees in attendance were:

Dorothy Grisham  
Ron Ramsey  
David Golden

Guests at the meeting were Nathan Dugger; Becky Lewis, chief internal auditor; Martha Stirling, internal auditor; Dr. Brian Noland, ETSU president; Kristen Swing, director of communications; and Joe Smith, executive assistant to the president for University Relations (taking minutes).

**III. Approval of Minutes of the Audit Committee from February 23, 2018**

The minutes of the February 23, 2018 meeting of the Audit Committee were presented and approved.

**IV. Annual Review of Audit Committee Charter**

Ms. Lewis presented a copy of the Audit Committee Charter which the board and the Comptroller of the Treasury approved in September 2017. No corrections or additions were identified by Ms. Lewis or by Trustee Golden.

**V. Amended Internal Audit Charter**

Ms. Lewis said the charter for the Office of Internal Audit was approved by the Audit Committee in May 2017. Since then, one revision has been identified. In January 2017, the Institute of Internal Auditors added "Core Principles for the Professional Practice of Internal Auditing" to the list of items the office is required to follow.

**VI. Amended Internal Audit Policy**

Ms. Lewis reported that the Internal Audit Policy needs one revision to update the mandatory guidance of the Institute of Internal Auditors as discussed in item five of the agenda. The change involves the “Core Principles for the Professional Practice of Internal Auditing.”

**VII. Review of Existing Policies**

Ms. Lewis referenced two policies – the ETSU Preventing and Reporting FWA Policy and the TBR Conflict of Interest Policy – that were provided in the committee materials. The audit committee is required to review these annually. The ETSU Office of Internal Audit did not identify any changes to the FWA policy. ETSU is currently under the TBR’s Conflict of Interest Policy. A committee has been working to develop a University Conflict of Interest Policy that will replace the TBR one. Ms. Lewis added that the audit committee is also required to review the University’s Code of Conduct. Prior to the FOCUS Act, neither ETSU nor TBR had one. She has had discussions with Human Resources staff and various administrators about the need for ETSU to have a Code of Conduct.

Trustee Golden made a motion to amend the Audit Policy and Audit Charter. The motion was seconded by Ron Ramsey. Motion passed.

**VIII. Revisions to the FY 2017-2018 Audit Plan**

Three new audits have been conducted since the previous Audit Committee meeting. These include two FWA investigations as well as a review of men’s soccer expenditures given that the head men’s soccer coach is no longer at ETSU.

Ms. Lewis requested that the two investigations be added to the Audit Plan as well as the review of Men’s Soccer Team Expenditures. Based on a prior audit, it was requested that ETSU Internal Audit perform an audit of all head coaches upon their retirement or resignation.

Ron Ramsey made a motion to approve the audit plan revisions, and Trustee Golden seconded the motion. Motion passed.

**IX. Audits and Investigations Performed**

Ms. Lewis discussed two audits and two investigations that have been completed since the last audit committee meeting.

**Executive Level Expenditures:** At the request of President Noland, an executive level expenditure audit will be performed annually on a member of his executive staff. For this particular audit, the expenditures of Dr. B.J. King, chief financial officer, were reviewed. She was randomly selected and will not be included in the list of possible audits next year. There were no findings or observations as a result of this audit.

**Office of Equity and Diversity:** This audit was also requested by Dr. Noland due to the retirement of the Special Assistant to the President who worked in this area. The purpose of the audit was to identify ways to improve efficiency and effectiveness of this department. Equity and Diversity is charged with assisting students who are members of underrepresented groups. ETSU Internal Audit staff felt that the work they performed was in the best interest of the students, but the audit did find areas in which policies and controls were insufficient. Corrective actions are being implemented that should improve the transparency, procedures, and efficiencies of the department.

**Center for Physical Activity:** An investigation took place after \$91 in cash collected during an employee's shift was missing. The cash was left unsecured by the employee, and no employee dishonesty was discovered. Steps to improve controls were discussed and should be implemented.

**Language and Culture Resource Center:** This investigation found that deposits were not made intact and were being used to pay for expenditures directly. It was also discovered that sales tax was not being paid on the food vendor fees. In addition, it was noted that records for revenues and expenditures from a festival were not always maintained.

X. **Recommendation Log**

The current recommendation log shows the status of audit recommendations from previous audits. All actions taken by management appear to be progressing in a timely fashion or are not yet due. Updates have been provided regarding the PCI questionnaire that was discussed at the November 2017 audit committee meeting, and the project is progressing toward an August completion date. One other follow-up has been completed since the last minute in which appropriate actions have been implemented.

XI. **Quality Assurance and Improvement Plan**

As part of the Quality Assurance and Improvement Program, ETSU has chosen to do the self-assessment with external validation. Betsy Bowers, an internal auditor at the University of West Florida, will lead the external assessment team for the ETSU Internal Audit review. Ms. Bowers worked at ETSU from 1982-1990 and has been at UWF since 1993, and Ms. Lewis and her staff have only dealt with Ms. Bowers through her work at UWF. The team will also include Susanne Walker from Pellissippi State Community College and Robert Berry from the University of South Alabama.

Ms. Lewis said the self-assessment is underway and should be completed soon. She anticipates the site review team being on campus at the end of July or the beginning

of August. More than likely they will request to speak with Trustee Golden and possibly the other committee members.

The self-assessment is required to be completed by ETSU every 2.5 years with the external validation and review every 5 years.

**XII. Review of Audited Financial Statements from the Comptroller of the Treasury**

A copy of the final audit report of ETSU's financial statements has been provided to the committee members. The audit opinion was unmodified; however there were two findings. One was related to incorrect accumulated depreciation being reported. Management has indicated this was due to the Banner system miscalculating depreciation. Financial Services will calculate depreciation expense each year and reconcile the amount to the complete equipment listing.

The second finding was related to the return of Title IX funds from federal financial aid. The issue involved students who officially or unofficially withdrew and the federal regulations related to school breaks. The Office of Financial Aid will review all students who officially or unofficially withdraw to ensure compliance with federal regulations. The Office of Internal Audit will follow-up on these findings before the next Audit Committee meeting.

**XIII. Other Business**

Work will begin in June 2018 on the 2018-19 Audit Plan. The committee agreed that Ms. Lewis would submit the audit plan to Trustee Golden by June 15. Based on his review, Trustee Golden will review the plan and tentatively approve the audit plan. It will be formally approved at the September 2018 audit committee meeting. All committee members were in agreement with this decision. Any suggested audits need to be sent to ETSU Internal Audit by June 1.

Ms. Lewis also reported that the mission of Internal Audit was recently updated. A copy of the mission is available in the committee materials and on the office's web page.

Trustee Golden asked if there were any other business items to discuss. Given that none were announced, the public portion of the committee meeting adjourned and committee members moved into executive session.

EAST TENNESSEE STATE UNIVERSITY  
BOARD OF TRUSTEES

ACTION ITEM

DATE: September 21, 2018

ITEM: Audit Plan

COMMITTEE: Audit Committee

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

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 approve the Audit Plan for 2018-19 as presented in the meeting materials.**

**East Tennessee State University  
Internal Audit Plan at of 8/31/2018  
Fiscal Year Ended June 30, 2019**

Rank	Type	Area	Audit
Required by State Audit	R	FM	Cash Counts/Inventories
Required by State Statute	R	FM	President's Expense FY 2018
Required by State Statute	R	FM	President's Expense FY 2019
Required by CPB	R	FM	WETS-FM
Required by Bank	R	IT	NACHA Web Transactions Data Security FY 2019
Required by Many	R	FM	Risk Assessments
Required	R	IS	Quality Assurance and Improvement Program (External
Follow-Up	F	FM	State Audit Follow-Up
Follow-Up	F	IT	Follow-Up PCI Compliance Readiness
Follow-Up	F	IA	Follow-Up Off Campus Domestic & International Programs
Follow-Up	F	AT	Follow-Up NCAA - Camps & Clinics
Follow-Up	F	AT	Follow-Up NCAA - Financial Aid Eligibility
Follow-Up	F	AT	Follow-Up Intercollegiate Sports (Tennis and Baseball)
Follow-Up	F	AT	Follow-Up Athletic Ticket Office
Follow-Up	F	AX	Follow-Up Parking Services (Revenue Collection)
Follow-Up	F	IS	Follow-Up Office of Equity & Diversity
Follow-Up	F	AX	Follow-Up Center for Physical Activity
Follow-Up	F	IA	Follow-Up Language & Culture Resource Center
Follow-Up	F	SS	Follow-Up Nursing Student Services
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
Brought Forward Invest	I	IA	Investigation 18-03 Students With Dependents Grant (Little Bucs)
Brought Forward Invest	I	IA	Investigation 18-05 Child Study Center & Little Bucs
Investigations	I	SS	Investigation 19-01 Tuition & Attendance Complaint
Investigations	I	FM	Investigation 19-02 Payroll Services Fraud
Investigations	I	IA	Investigation 19-03 Physical Therapy
Investigations	I	FM	Unscheduled Investigations
Consulting	C	IS	General Consultation
Consulting	C	IT	IT Consultation
Consulting	C	FM	Leave Analysis
Consulting	C	FM	Procard Consulting
Project	P	IS	ACUA Track Coordinator FY 2018
Project	P	IS	ACUA Track Coordinator FY 2019
Project	P	IS	ARGOS Report Writing
Project	P	IS	Audit Committee Meeting (Includes Prep)
Brought Forward Special Request	S	IT	Third Party Servers FY 2018
Brought Forward Special Request	S	AT	Football Expenditures
Special Request	S	IT	Third Party Servers FY 2019
Special Request	S	PP	OSA Procedures Review
Special Request	S	FM	Executive Level Audit
Special Request	S	IT	VPN/RDG Access
Special Request	S	IA	ORSPA Grant
Special Request	S	IS	Timekeeping - 3 departments
Special Request	S	AT	Intercollegiate Athletics - Vehicle Expense Analysis
Brought Forward	A	SS	Title IV/Clery Act
Brought Forward	A	FM	Agency Accounts
Brought Forward	A	IS	Additional Earnings
Risk Based	A	IT	ITS General Controls
Risk Based	A	IA	Minors on Campus
Risk Based	A	AT	NCAA Compliance
Risk Based	A	AT	Global Sports Leadership
			Total

Estimate-Hours Available For Audits = 4,920 (see calculation of available audit hours)

**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 21, 2018

ITEM: Audits and Investigations Performed

COMMITTEE: Audit Committee

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

Ms. Lewis will provide an overview of the audits and internal investigations completed during the time period April 1 – August 31, 2018.

**Audits:**

1. Johnson City Community Health Center Patient Safety
2. College of Nursing Financial Procedures
3. National Automated Clearing House Association (NACHA)
4. Men's Soccer Expenditures
5. State Audit Follow-Up

**Investigations:**

1. Nursing Student Services – Report 1 (FWA 18-04)
2. Nursing Student Services – Report 2 (FWA 18-04)
3. Payroll Services Fraud (FWA 19-02)

**East Tennessee State University  
Johnson City Community Health Centers Patient Safety  
September 2017 through January 2018  
Executive Summary**

<b>Key Staff Person:</b> Business Coordinator and Credentialing Coordinator	<b>Auditor:</b> Assistant Director
<b>Introduction:</b> An audit of East Tennessee State University’s (ETSU) Johnson City Community Health Center (JCCHC) was conducted by the Department of Internal Audit due to a special request by the Associate Dean for the Office of Practice. The audit was to include a review of the clinic’s patient safety guidelines.	
<b>Objectives:</b> The main objectives of the audit were to evaluate the adequacy of the internal controls & procedures of the Clinic, to determine if the applicable policies and procedures are properly followed, and to make recommendations for correcting deficiencies or improving operations.	
<b>Total Questioned Costs/Losses:</b> \$0	<b>Total Recoveries:</b> N/A
<p><b>Findings:</b></p> <p>1) <i>Privileging and credentialing procedures need improvement</i>  In order to prescribe a controlled substance, medical professionals must complete at least two contact hours of continuing professional education (CPE) designed specifically to address controlled substances. Thirteen individuals were tested. One individual did not meet the required CPE, two did not respond to audit’s request, and one individual stated that they had the required training but could not locate their CPE certificate.</p> <p>2) <i>Follow-up appointment procedures need improvement</i>  When a patient has a hospital visit, a follow-up appointment with their general practitioner is required within 5-7 days of the discharge date. Twenty patients who had a “hospital discharge” appointment were selected for testwork. Eight of the patients tested did not have a follow-up appointment within 7 days and four did not have a discharge date listed in the system.</p> <p>3) <i>Procedures related to physician’s review of charts need improvement</i>  A physician is required to review at least 20% of all nurse practitioner charts and 100% of all charts in which a controlled substance was prescribed. Three of the eight nurse practitioners did not have any charts reviewed by a physician in January 2018. One of the eight nurse practitioners did not have at least 20% of the charts reviewed by a physician in January 2018. As of May 2018, the most recent chart review for non-specialist nurse practitioners was performed for January 2018 appointments. According to the Tennessee State Board of Medical Examiners, chart reviews are supposed to be completed within 30 days.</p> <p>Management concurred with the findings and recommendations and will be taking actions to correct the deficiencies.</p> <p>The audit objectives were met.</p>	

**East Tennessee State University  
Johnson City Community Health Centers - Financial Procedures  
January through March 2017  
Executive Summary**

<b>Key Staff Person:</b> Manager	<b>Auditor:</b> Assistant Director
<b>Introduction:</b> An audit of East Tennessee State University's (ETSU) Johnson City Community Health Center (JCCHC) was conducted by the Department of Internal Audit due to a special request by the Associate Dean for the Office of Practice. The audit included a review of the financial procedures for the front office staff.	
<b>Objectives:</b> The main objectives of the audit were to evaluate the adequacy of the internal controls & procedures of the Clinic, to determine if the applicable policies and procedures are followed, and to make recommendations for correcting deficiencies or improving operations.	
<b>Total Questioned Costs/Losses:</b> \$0	<b>Total Recoveries:</b> N/A
<p><b>Findings:</b></p> <p>1) <i>Cash Receipting Procedures Need Improvement</i> Supporting documentation was not always prepared and maintained in accordance with record retention policies. Deposits were not always made in a timely fashion or reconciled to the supporting documentation.</p> <p>2) <i>Patient Account and Billing Procedures Need Improvement</i> Patient charges per the Current Procedural Terminology Code (CPT code) did not always match the approved fee schedule. In addition, fifteen CPT codes that were charged to patient accounts were not listed on the approved fee schedule. There were also a couple of instances discovered in which the sliding fee charged to the patient did not match the sliding fee scale.</p> <p>Management concurred with the finding and recommendations and is taking the necessary actions to correct the deficiencies.</p> <p>The audit objectives were met.</p>	

**East Tennessee State University  
NACHA Web Transactions Data Security Audit  
For the Period November 2017  
Executive Summary**

<p><b>Title of Key Staff Person:</b> Assistant Bursar and Chief Information Security Officer</p>	<p><b>Auditor:</b> Assistant Director of Internal Audit and Internal Auditor</p>
<p><b>Background:</b></p> <p>The National Automated Clearing House Association (NACHA) sets forth operating rules and guidelines to help address the unique risk inherent to the Internet payment environment. An audit is conducted annually to help ensure adequate levels of security exists related to the following:</p> <ul style="list-style-type: none"> <li>• Physical security - to protect against theft, tampering, or damage,</li> <li>• Administrative, technical, and physical access controls – to protect against unauthorized access and use, and</li> <li>• Network security – to ensure secure capture, transmission, storage, distribution, and destruction of financial information.</li> </ul>	
<p><b>Objectives:</b></p> <ol style="list-style-type: none"> <li>1. To evaluate the university’s compliance with the NACHA authorization requirements.</li> <li>2. To determine if security practices and procedures comply with NACHA's risk management requirements and adequate to protect consumer financial information.</li> <li>3. To determine if risk management practices and procedures are in compliance with NACHA requirements and are adequate to protect consumer financial information.</li> <li>4. To make recommendations for correcting deficiencies or improving operations.</li> </ol>	
<p><b>Total Questioned Costs/Losses:</b> None</p>	<p><b>Total Recoveries:</b> N/A</p>
<p><b>Findings:</b></p> <p>There were no findings in this audit.</p>	
<p><b>Audit Conclusions:</b></p> <p>ETSU appears to comply with the <i>2017 NACHA Operating Rules and Guidelines</i>. The audit objectives were met.</p>	

**East Tennessee State University  
Men's Soccer Expenditures  
For July 1, 2017 – February 16, 2018  
Executive Summary**

<b>Key Staff Person:</b> Former Men's Soccer Coach	<b>Auditor:</b> Internal Audit Staff
<p><b>Introduction</b></p> <p>An audit of Men's Soccer Expenditures at ETSU was conducted by Internal Audit personnel in accordance with the Annual Audit Plan. At the request of administration, the Office of Internal Audit will audit head coaches at the end of their employment with the university. In February 2018, the Men's Soccer Head Coach (Coach) resigned.</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>Conclusions</b></p> <p>Operational and travel expenditures paid from the accounts under the direct control of the Coach were reviewed and tested for compliance with university policies and procedures. The items tested included payments made to the Coach, recruitment and team travel, procurement card (Procard) transactions, and various operating expenses. In addition, sick and annual leave recorded on the timesheets was analyzed to determine if the amount reported appeared reasonable.</p> <p>Internal controls related to the Men's Soccer Team travel appear strong due to the following:</p> <ul style="list-style-type: none"> <li>• Expenses paid with cash or personal credit card were minimal.</li> <li>• All expenses were accounted for and reconciled through the travel claim process.</li> <li>• Reimbursement to the Coach was minimal since expenses were paid directly by the university.</li> <li>• Cash advances were not obtained.</li> </ul> <p>There were no findings or observations resulting from this audit. The objectives of the audit were met.</p>	

**East Tennessee State University  
Follow-Up to the State Audit Report  
For Fiscal Year 2017  
Executive Summary**

<b>Key Staff Person:</b> Comptroller, Director of Financial Aid, and Director of Financial Accounting	<b>Auditor:</b> Director and Assistant Director of Internal Audit
<b>Introduction</b> East Tennessee State University’s financial statement audit for the year ended June 30, 2017 contained two findings. As required, Internal Audit performed a follow-up review of actions taken in response to the findings.	
<b>Objectives</b> The objective of the follow-up is to determine if management has implemented corrective actions for the findings noted in the Division of State Audit’s annual audit report for the fiscal year ended June 30, 2017.	
<b>Total Questioned Costs/Losses:</b> None	<b>Total Recoveries:</b> N/A
<b>Findings and Current Status</b>	
<u>Finding 1:</u> <i>Staff incorrectly reported depreciation of equipment assets</i>	
<u>Current Status 1:</u> During Fiscal Year 2018, the Office of Financial Services reassessed the financial procedures over fixed assets and related depreciation. The cause of the miscalculations was identified and processes were changed to properly record and correct the depreciable basis of the assets as well as the date the assets were placed into service. Information Technology Services (ITS) then developed a Banner report that shows detailed asset information. Accumulated depreciation was recalculated by the Office of Internal Audit and compared to the report from ITS. In addition, current year’s depreciation expense was recalculated and compared to Banner. Based on the testwork performed, it appears that procedures have been put in place to correct any miscalculations related to accumulated depreciation and annual depreciation expense for both new and existing assets. Only immaterial differences were noted in accumulated depreciation totaling \$5.79.	
<u>Finding 2:</u> <i>The university did not comply with return of funds requirements for federal student financial aid</i>	
<u>Current Status 2:</u> During Fiscal Year 2018, the Office of Financial Aid reevaluated the process for calculating Return of Title IV funding. All Return of Title IV calculations, including both official and unofficial withdraws, are handled by the Office of Financial Aid. In addition, Financial Aid consulted with the Records Office, who is responsible for the academic calendar, to ensure the correct number of days was included in the calculation. As required by federal regulations, breaks of five or more consecutive days are excluded from the calculations. The Return of Title IV funding was recalculated by the Office of Internal Audit for a sample of students who withdrew during Spring 2018. No discrepancies were noted during the review. It appears procedures have been implemented to correct the deficiencies noted regarding the Return of Title IV requirements.	
The audit objectives 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: 423/439-6155

## MEMORANDUM

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

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

**SUBJECT:** Completed Investigations – April 1, 2018 to August 31, 2018

**DATE:** September 21, 2018

Below is a summary of the investigations completed from April 1, 2018 to August 31, 2018.

### ***Nursing Student Services – Report 1 (FWA 18-04):***

The issue involves a non-exempt employee in Nursing Student Services who claimed to have worked 410 hours in uncompensated overtime between 2011 and 2018. Based on a review of emails, it appears the employee sometimes worked outside her normal work hours but the amount of work performed and the related time could not be determined. Documentation, including emails, were discovered however which questioned the integrity of the overtime claimed by the employee as well as her regular hours worked. Additional concerns regarding a potential abuse of intermittent family medical leave were identified during the audit related to the employee. These concerns were communicated to and addressed by the Office of Legal Counsel and Human Resources. The College of Nursing are taking proper steps to help ensure personnel policies, the Fair Labor Standards Act, and the Family Medical Leave Act are adhered to properly.

### ***Nursing Student Services – Report 2 (FWA 18-04):***

The audit revealed that the Director allowed a non-exempt employee on intermittent FMLA to not only work overtime without compensation but also work more hours than permissible. In addition, the Director purchased or approved procurement card (procard) transactions totaling \$491.41 for items/services that are considered personal in nature. Additional procard transactions were discovered that violated ETSU's Procard Handbook or appeared wasteful. The College of Nursing are taking proper steps to help ensure personnel policies, the Fair Labor Standards Act, and the Family Medical Leave Act are adhered to properly.

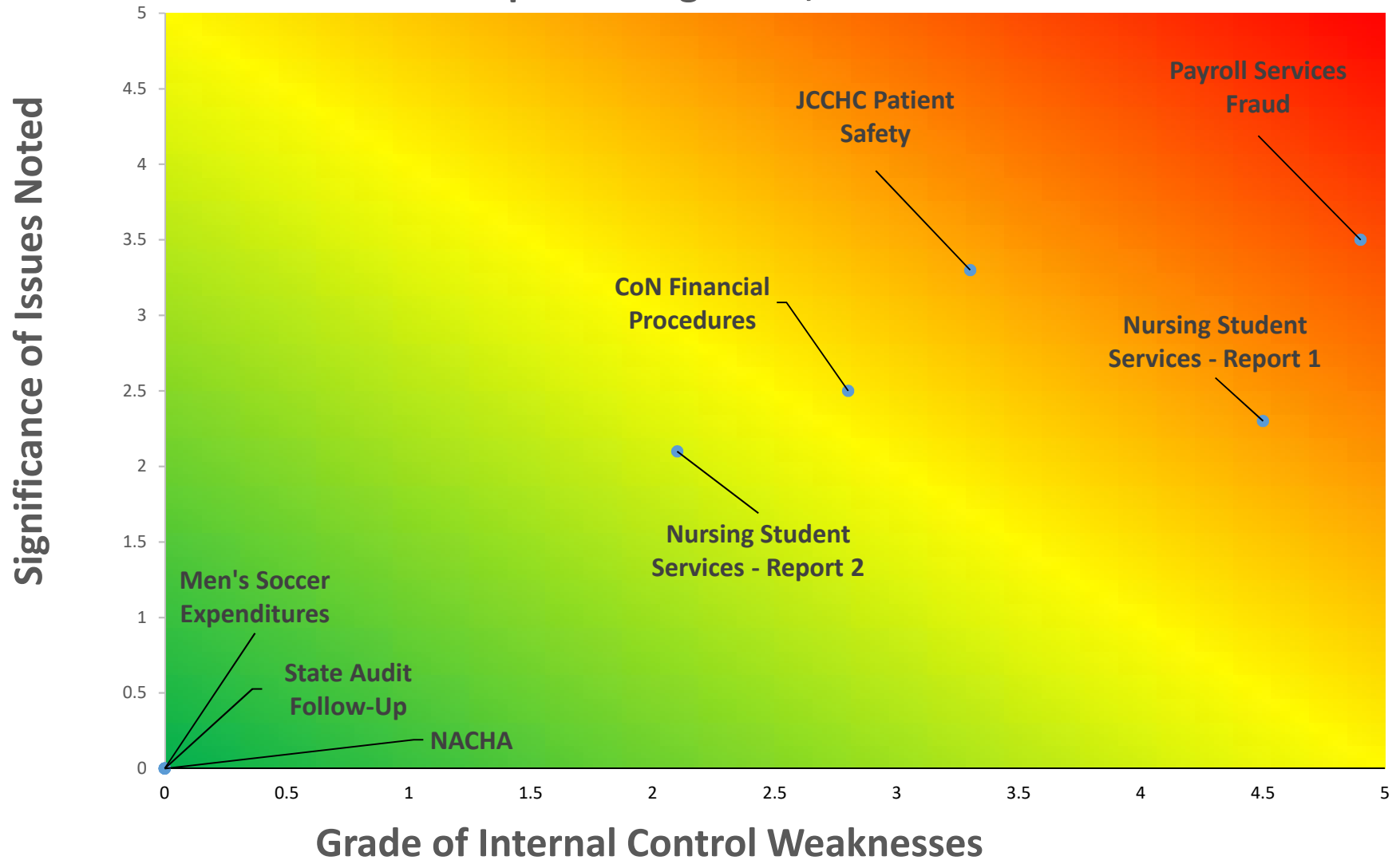
***Payroll Services Fraud (FWA 19-02):***

The Office of Internal Audit was notified on August 1, 2018 that the direct deposit of two employees was sent to a fraudster's bank account. The investigation confirmed that a total of \$21,159.69 had been diverted. It appears the scheme began when the employees responded to a phishing email. At the conclusion of the audit, \$6,000 had been recovered from the bank. The Department of Financial Services has implemented new controls to help prevent this from occurring in the future. In addition, Information Technology Services plans to enhance their training efforts for the campus and propose the use of two-factor authentication for emails.



# Heat Map of Completed Audits

from April 1 - August 31, 2018



EAST TENNESSEE STATE UNIVERSITY  
BOARD OF TRUSTEES

INFORMATION ITEM

DATE: September 21, 2018

ITEM: Recommendation Log

COMMITTEE: Audit Committee

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

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, 2018**

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.	Green
NCAA Athletics Compliance	Intercollegiate Athletics should adhere to regulations related to Financial Aid Eligibility of student-athletes.	Blue
	Intercollegiate athletics should adhere to the policies related to sports camps and clinics.	Blue
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	Green
	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.	Green
	Internal controls related to donations and refunds received need improvement	Green
	Internal controls related to reporting of leave used by the coaches need improvement	Green
Baseball Expenditures	Procedures related to team travel need improvement.	Green
	Student workers should be compensated for all hours worked.	Green
Athletic Ticket Office	Deposits should be submitted to the Bursar's Office in a timely fashion.	Blue
	Events and services subject to sales tax should be properly identified and applicable taxes should be paid.	Blue
Women's Tennis Expenditures (Coach C)	Expenditures which could be considered compensation should not be submitted on the travel claim.	Green
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
Parking Services	Internal Controls related to collection of parking fines and permit revenue needs improvement.	Green
Center for Physical Activity	Internal Controls related to cash collections needs improvement.	Blue
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.	Green
	Internal Controls related to the remittance of sales tax on vendor revenue needs improvement.	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
Nursing Student Services (2 Reports)	Management should take appropriate steps to ensure the University's Personnel Policies and Procedures, Fair Labor Standards Act, and the Family Medical Leave Act are followed.	Green
	Controls over proper procard spending within the department need 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
Payroll Services Fraud	Physicians review of charts procedures need improvement.	Green
	Internal controls over changes in an employee's direct deposit information need improvement.	Green

**Legend:**

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

EAST TENNESSEE STATE UNIVERSITY  
BOARD OF TRUSTEES

INFORMATION ITEM

DATE: September 21, 2018

ITEM: Quality Assurance and Improvement Program

COMMITTEE: Audit Committee

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

State law requires the Office of Internal Audit to follow the International Professional Practices Framework (IPPF) promulgated by the Institute of Internal Auditors (IIA). The IPPF requires external assessments be performed every five years by a qualified, independent assessor or assessment team from outside the organization. The IPPF defines two acceptable methods for an external assessment: a full external assessment or a self-assessment with independent validation.

At the November 10, 2017 Audit Committee Meeting, the self-assessment with independent validation was the selected method. The Office of Internal Audit completed the Self-Assessment in June 2018 and the Independent Validation report was completed on August 31, 2018. Ms. Lewis will discuss the results of both the self-assessment and the external validation.



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**EAST TENNESSEE STATE  
UNIVERSITY**

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

**Report on Quality Self-Assessment**

**June 13, 2018**

**EAST TENNESSEE STATE UNIVERSITY  
OFFICE OF INTERNAL AUDIT  
REPORT ON QUALITY SELF-ASSESSMENT**

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**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

June 13, 2018

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

Dear Dr. Noland:

In accordance with the *International Standards for the Professional Practice of Internal Auditing (Standards)*, issued by the Institute of Internal Auditors (IIA), as well as the IIA Definition of Internal Auditing, Code of Ethics, and Core Principles for the Professional Practice of Internal Auditing (Core Principles), we implemented a Quality Assurance and Improvement Program for the Office of Internal Audit. As required by the *Standards*, this program must include periodic external reviews and internal self-assessments, as well as ongoing internal monitoring covering all aspects of the internal audit activity.

The *Standards* require an external quality assurance review be performed every 5 years. Our previous external review report was issued in August 2013, and the next one is scheduled to be completed in August 2018. Standards indicate that this external review can be accomplished by a full external assessment or a self-assessment with independent validation. We have chosen a self-assessment with independent validation.

Accordingly, we performed an internal self-assessment during Fiscal Year 2018. The overall results of our assessment indicate we generally conform to the internal audit charter, IIA's Definition of Internal Auditing, *Standards*, Code of Ethics, and Core Principles. Any opportunities for improvement are noted in this report. The results of this self-assessment are attached and will be provided to the external reviewers for their independent validation.

Sincerely,

Rebecca Lewis, CPA  
Director, Internal Audit

## Introduction

The East Tennessee State University (ETSU) Office of Internal Audit conducted a quality self-assessment of the internal audit activity during Fiscal Year 2018. The principal objective of the quality self-assessment was to determine the internal audit activity's conformity to the Institute of Internal Auditors' (IIA) *International Standards for the Professional Practice of Internal Auditing (Standards)*, *Definition of Internal Auditing*, *Core Principle for the Professional Practice of Internal Audit (Core Principles)*, and *Code of Ethics*.

## Requirements for Quality Assessments

Tennessee Code Annotated Section 4-3-304 (9) required internal audit staffs of higher education institutions comply with the IIA's *Standards*. Those *Standards* require ETSU Internal Audit to have a quality assurance and improvement program, which includes periodic internal and external quality assessments and ongoing internal monitoring for conformance with the *Standards*. External assessments must be performed at least once every five years by a qualified, independent assessor or assessment team from outside the organization. To better prepare for an external quality assessment, the internal audit activity should complete an internal self-assessment prior to undergoing an external quality assessment.

Adherence to the *Standards* is essential for the professional practice of internal auditing. Within The IIA *Standards* are Attribute and Performance Standards. The IIA states that "Standards are the criteria by which the operations of an internal audit department are evaluated and measured. They are intended to represent the practice of internal auditing as it should be."

## Procedures Performed

As part of the quality assessment, the Office of Internal Audit prepared a self-study of conformance to the IIA requirements. The Office of Internal Audit also reviewed the risk analysis and audit planning processes, audit tools and methodologies, and engagement and staff management processes.

## Opinion as to Conformity to the Standards

The overall opinion is that East Tennessee State University's internal audit activity generally conforms to The IIA's *Standards*, *Definition of Internal Auditing*, *Core Principles*, and *Code of Ethics*. The internal audit activity is well-structured and progressive and audit management is endeavoring to provide useful audit tools and implement appropriate practices. For a detailed list of conformance to individual standards and definitions of generally conforms, partially conforms and does not conform, please see Attachment A.

The quality self-assessment review identified opportunities for further improvement, details of which are provided below.

## Observations

The concept of general conformance to the IIA *Standards* recognizes that there may still be room for improvement. Auditors strive for continuous improvement, and Quality Assurance Reviews provide a natural process for identifying those opportunities. The following recommendation has the potential to improve ETSU Internal Audit in relation to the *Standards* but does not change the overall conclusion that ETSU Internal Audit generally complies with the IIA's *Definition of Internal Auditing*, *Code of Ethics*, *Standards*, and *Core Principles*.



*Standard 1110– Organizational Independence*

“The CAE confirms to the board, at least annually, the organizational independence of the internal audit activity.”

While independence has been discussed during audit committee meetings, the CAE has not officially confirmed independence with the board. Our plans are to include in the FY 2018 Annual Report on Audit Activity the status of independence based on both the annual and engagement level disclosures, any independence impairments, and the steps taken concerning the impairment.

*Standard 1210 – Proficiency*

“Internal auditors have sufficient knowledge of key IT risks and controls and available technology-based audit techniques to perform their assigned work. Not all internal auditors are expected to have IT auditing experience.”

Our internal auditors are lacking in IT auditing experience. We have one Internal Auditor with a dual degree in IT and Accounting and are working on developing him into an IT auditor.

*Standard 1220 – Due Professional Care*

“Internal auditors consider the use of technology-based audit and other data analysis techniques.”

We do not utilize technology-based audit software. Our plans are to receive training in Argos report writing during the next fiscal year.

*Standard 2060 – Reporting to Senior Management and the Board*

“The CAE reports periodically to senior management and the board on the internal audit activity’s conformance with the Code of Ethics and the *Standards*. The CAE’s reports and communications to senior management and the board include information about conformance with the Code of Ethics and the *Standards* and action plans to address any significant conformance issues.”

The CAE has communicated with the Audit Committee the requirements to comply with IIA Standards but needs to disclose annually, or as needed, the departments’ compliance or lack thereof. Our plan is to include this disclosure in the FY 2018 Annual Report on Audit Activity.

*Standard 2240 – Engagement Supervision*

“The work programs is approved prior to its implementation, and any adjustments are approved promptly.”

Currently, we discuss the audit program during the audit planning stage, but no written approval is obtained prior to fieldwork. Our plan is to have the auditors develop the audit program and have it reviewed and approved by the CAE before fieldwork begins.

**SUMMARY EVALUATION OF CONFORMANCE TO THE STANDARDS**

**Attribute Standards**

	GC	PC	DNC	NA
1000 Purpose, Authority and Responsibility	X			
1010 Recognizing Mandatory Guidance in the Internal Audit Charter	X			
1100 Independence and Objectivity	X			
1110 Organizational Independence	X			
1111 Direct Interaction with the Board	X			
1112 Chief Audit Executive Roles Beyond Internal Auditing	X			
1120 Individual Objectivity	X			
1130 Impairments to Independence or Objectivity	X			
1200 Proficiency and Due Professional Care	X			
1210 Proficiency	X			
1220 Due Professional Care	X			
1230 Continuing Professional Development	X			
1300 Quality Assurance and Improvement Program	X			
1310 Requirements of the Quality Assurance and Improvement Program	X			
1311 Internal Assessments	X			
1312 External Assessments	X			
1320 Reporting on Quality Assurance and Improvement Program	X			
1321 Use of "Conforms with the <i>International Standards for the Professional Practice of Internal Auditing</i> "	X			
1322 Disclosures of Nonconformance				X

**Performance Standards**

2000 Managing the Internal Audit Activity	X			
2010 Planning	X			
2020 Communication and Approval	X			
2030 Resource Management	X			
2040 Policies and Procedures	X			
2050 Coordination and Reliance	X			
2060 Reporting to Senior Management and the Board	X			
2070 External Service Provider and Organizational Responsibility for Internal Auditing	X			
2100 Nature of Work	X			
2110 Governance	X			
2120 Risk Management	X			
2130 Control	X			
2200 Engagement Planning	X			
2201 Planning Considerations	X			
2210 Engagement Objectives	X			
2220 Engagement Scope	X			
2230 Engagement Resource Allocation	X			
2240 Engagement Work Program	X			
2300 Performing the Engagement	X			
2310 Identifying Information	X			
2320 Analysis and Evaluation	X			
2330 Documenting Information	X			
2340 Engagement Supervision	X			

	GC	PC	DNC	NA
2400 Communicating Results	X			
2410 Criteria for Communicating	X			
2420 Quality of Communications	X			
2421 Errors and Omissions	X			
2430 Use of "Conducted in Conformance with the <i>International Standards for the Professional Practice of Internal Auditing</i> "	X			
2431 Engagement Disclosure of Nonconformance				X
2440 Disseminating Results	X			
2450 Overall Opinions				X
2500 Monitoring Progress	X			
2600 Communicating the Acceptance of Risks				X
<b>Code of Ethics</b>	X			

### Definitions

**GC – “Generally Conforms”** means the assessor or assessment team has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual standard or elements of the Code of Ethics in all material respects. For the sections and major categories, this means there is general conformity to a majority of the individual Standard or element of the Code of Ethics and at least partial conformity to the others within the section/category. There may be significant opportunities for improvement, but these should not represent situations where the activity has not implemented the *Standards* or the Code of Ethics, and has not applied them effectively or achieved their stated objectives. As indicated above, general conformance does not require complete or perfect conformance, the ideal situation, or successful practice, etc.

**PC – “Partially Conforms”** means the assessor or assessment team has concluded that the activity is making good-faith efforts to comply with the requirements of the individual standard or elements of the Code of Ethics or a section or major category, but falls short of achieving some major objectives. These will usually represent significant opportunities for improvement in effectively applying the *Standards* or Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the internal audit activity and may result in recommendations to senior management or the board of the organization.

**DNC – “Does Not Conform”** means the assessor or assessment team has concluded that the activity is not aware of, is not making good-faith efforts to comply with, or is failing to achieve many or all of the objectives of the individual standard or element of the Code of Ethics or a section or major category. These deficiencies will usually have a significant negative impact on the activity’s effectiveness and its potential to add value to the organization. These may also represent significant opportunities for improvement, including actions by senior management or the board.

**N/A – “Not Applicable”** means that the standards does not apply.



# ETSU Internal Audit

## Independent Validation of Quality Assurance Self-Assessment

### August 31, 2018

Reviewers:

*Betsy Bowers, CIA, CFE, CGFM, CIG, CRMA*

*Robert Berry, CPA, CIA, CISA, CCEP*

*Suzanne Walker, CPA*

August 31, 2018

*This Validation of the Self-Assessment of the \_\_\_ETSU\_\_\_ Internal Audit Program was performed in accordance with The Institute of Internal Auditors (IIA) Quality Assessment Manual, 2017 Edition. The primary purpose of a Quality Assessment is to determine the internal audit function's conformance with the International Standards for the Professional Practice of Internal Auditing. There are three possible outcomes of the QA: the internal audit program **generally conforms, partially conforms or does not conform** to the Standards.*

Mr. David Golden, Audit Committee Chair  
Dr. Brian Nolan, President, ETSU University  
Ms. Becky Lewis, Chief Audit Executive

Greetings:

We were engaged as the validators to conduct an independent Validation of the Self-Assessment Quality Assessment (QA) of the East Tennessee State University Internal Audit Program as required every five years by the Institute of Internal Auditors *International Standards for the Professional Practice of Internal Auditing (IIA Standards)*. The objectives of the QA were to:

1. Assess conformance with the *IIA Standards*;
2. Assess the effectiveness and efficiency of the Internal Audit activity in providing services to the Board and management of East Tennessee State University (ETSU); and
3. To identify opportunities for improving the Internal Audit Program

In acting as independent validators, we are fully independent of ETSU and have the necessary knowledge and skills to undertake this engagement. We conducted the validation July 24 -26, 2018. It consisted primarily of reviewing and testing ETSU's self-assessment report and documentation issued June 13, 2018. Additionally, we interviewed other audit team members and several key administrators.

Overall, it is our opinion that the ETSU\_ Internal Audit Department (IAD) **Generally Conforms** to the *IIA Standards*. This is the highest rating available.

We noted opportunities that could improve the efficiency and effectiveness of the Internal Audit Program. These are described in this report. We have reviewed the results of the validation with Becky Lewis, Chief Audit Executive.

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Betsy Bowers, CIA, CRMA, CFE, CGFM, CIG  
Associate Vice President, Internal Auditing  
& Compliance  
University of West Florida  
Pensacola, FL  
Team Lead

Audit Committee- September 21, 2018

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Robert Berry, CPA, CIA, CISA, CCEP  
Director of Internal Audit  
University of South Alabama  
Mobile, AL

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Suzanne Walker, CPA  
Director, Internal Audit  
Pellissippi State Community College  
Knoxville, TN

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## Executive Summary

To be compliant with standards promulgated by the Institute of Internal Auditors (IIA) the East Tennessee State University (ETSU) internal audit activity is required to have an independent assessment of the activity at least once every 5 years. We were engaged as validators to conduct the assessment. The assessment, conducted July 24 - 26, 2018 is the organization's first.

Overall, it is our opinion that the ETSU Internal Audit Department (IAD) **Generally Conforms** to the IIA Standards. This is the highest rating available. There are three possible ratings, discussed in the details of this document. **Generally Conforms** is the highest rating and typically means that the unit is independent, objective, and able to render impartial and unbiased opinions on the organization's operations. The Associate Vice President and staff are qualified, proficient, and knowledgeable in the areas they audit.

There were several [Positive Attributes](#). Most were surrounding the staff's knowledge, level of trust within the organization and the responsiveness to management concerns. Please refer to **Appendix 1** on page 6.

Refer to **Appendix 2** beginning on page 7 [Internal Auditing Standards & Ratings](#) for a detailed description of the standards used and the ratings. The scope of work performed during the review included:

- Reviewing, verifying, and evaluating the self-assessment prepared by the audit activity
- Reviewing and evaluating questionnaires sent to current personnel
- Interviewing university staff and other members of management
- Reviewing and evaluating select audit projects
- Reviewing the policies and procedures, annual risk assessment, annual audit plan, audit charter, and other relevant documents.

**Appendix 3** beginning on page 9 [Opportunities for Continuous Improvement](#) discusses the three areas for enhancing the ETSU IAD operations. Please refer to the details those observations.

## Appendix Items



## Positive Attributes

## Appendix 1

The ETSU Internal Auditing Department (IAD) has a good grasp of auditing standards. Successful practices we observed were:

Professionalism: Key leadership expressed a positive view of the professionalism displayed by the Internal Audit Department (IAD). We found ETSU IAD maintains a good reputation and credibility with senior management and audit clients.

Trust: Key leadership expressed a great deal of confidence with credibility of the IAD.

Audit Committee: ETSU IAD has a strong relationship with the Audit Committee and frequently interacts with the Audit Committee chairman.

Knowledge: Most interviewed felt that the IAD possessed appropriate knowledge and competence. Additionally, the CAE's enthusiasm for the profession was noted by many.

Responsive: Key leaders expressed responsiveness of IAD on issues and concerns.

Organization: We found very organized, detailed documentation describing the internal audit operations and various procedures. Furthermore, many noted that the CAE was very organized and had completed adequate research before meeting with them.

### Rating Definitions

There are three levels of assurance (ratings) for expressing an opinion on this self-assessment.

“Generally Conforms” (GC) is the top rating and means that an IA activity has a charter, policies, and processes that are judged to be in conformance with the Standards.

“Partially Conforms” (PC) means deficiencies in practice that deviate from the Standards exist, but these deficiencies do not preclude the IA activity from performing its responsibilities in an acceptable manner.

“Does Not Conform” (DNC) means deficiencies are judged to be so significant as to seriously impair or preclude the IA activity from performing adequately in all or in significant areas of its responsibilities.

Overall, the ETSU Internal Audit Program was judged to **Generally Conform** to IIA Standards, the highest rating available. While improvement opportunities remain in various areas, they did not preclude this assessment. We concluded the following individual standards Generally Conform to the IIA Standards.

1000—Purpose, Authority and Responsibility

1100—Independence and Objectivity

1200—Proficiency and Due Professional Care

1300—Quality Assurance and Improvement Program

2000—Managing the Internal Audit Activity

2200—Engagement Planning

2300—Performing the Engagement

2400—Communicating Results

2500—Monitoring Progress

2600—Resolution of Senior Management’s Acceptance of Risk

**QUALITY ASSESSMENT EVALUATION**

**Overall Evaluation**                      **GENERALLY CONFORMS**

For each *Standard* identified below, ETSU University Internal Auditing Services  
**GENERALLY CONFORMS** (highest rating)

Standard Number	Title of <i>Standard</i>
<b>Attribute Standards</b>	
<b>1000</b>	<b>Purpose, Authority and Responsibility</b>
1010	Recognition of the Definition of Internal Auditing, the Code of Ethics, and the <i>Standards</i> in the Internal Audit Charter
<b>1100</b>	<b>Independence and Objectivity</b>
1110	Organizational Independence
1111	Direct Interaction with the Board
1120	Individual Objectivity
1130	Impairment to Independence of Objectivity
<b>1200</b>	<b>Proficiency and Due Professional Care</b>
1210	Proficiency
1220	Due Professional Care
1230	Continuing Professional Development
<b>1300</b>	<b>Quality Assurance and Improvement Program</b>
1310	Requirement of the Quality Assurance and Improvement Program
1311	Internal Assessments
1312	External Assessments
1320	Reporting on the Quality Assurance and Improvement Program (QAIP)
1321	Use of “Conforms with the <i>International Standards for the Professional Practice of Internal Auditing</i> ”
1322	Disclosure of Nonconformance
<b>Performance Standards</b>	
<b>2000</b>	<b>Managing the Internal Audit Activity</b>
2010	Planning
2020	Communication and Approval
2030	Resource Management
2040	Policies and Procedures
2050	Coordination
2060	Reporting to Senior Management and the Board
2070	External Service Provider and Organizational

Standard Number	Title of <i>Standard</i>
	Responsibility for Internal Auditing
2100	Nature of Work
2110	Governance
2120	Risk Management
2130	Control
<b>2200</b>	<b>Engagement Planning</b>
2201	Planning Consideration
2210	Engagement Objectives
2220	Engagement Scope
2230	Engagement Resource Allocation
2240	Engagement Work Program
<b>2300</b>	<b>Performing the Engagement</b>
2310	Identifying Information
2320	Analysis and Evaluation
2330	Documenting Information
2340	Engagement Supervision
<b>2400</b>	<b>Communicating Results</b>
2410	Criteria for Communicating
2420	Quality of Communications
2421	Errors and Omissions
2430	Use of “Conducted in Conformance with the <i>International Standards for the Professional Practice of Internal Auditing</i> ”
2431	Engagement Disclosure of Nonconformance
2440	Disseminating Results
2450	Overall Opinions
2500	Monitoring Progress
2600	Communicating the Acceptance of Risks
	The IIA’s Code of Ethics

Item Number 1

Responsible Party

Rebecca Lewis

Item	Recommendation	Action Plan
<p>The current process for following up on reported issues does not provide sufficient accountability to ensure items will be addressed sufficiently and timely.</p> <p>For example, audit reports contain management responses, however, reports lack (1) management’s intended implementation date and (2) the responsible party. Furthermore, internal audit’s procedures do not specify when an issue should be elevated to a higher level based on significance and/or time outstanding.</p> <p>Further, IIA Standards state</p> <p><b>2500 Monitoring</b> “The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.”</p> <p><b>2500. A1</b> “The chief audit executive must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.”</p> <p><b>2600</b> Communicating the Acceptance of Risks “When the chief audit executive concludes that management has accepted a level of risk that may be unacceptable to the organization, the chief audit executive must discuss the matter with senior management. If the chief audit executive determines that the matter has not been resolved, the chief audit executive must communicate the matter to the board.”</p>	<p>Regarding issues in ETSU IAD’s reports, the audit department should include the following items:</p> <p>a) Management’s intended implementation date and</p> <p>b) a responsible party.</p> <p>Additionally, the audit department should develop a protocol for escalating issues that (1) either do not contain a date or responsible party or (2) those in which committed dates have passed and issues have not been resolved.</p>	<p>ETSU’s Internal Audit Department concurs with the recommendation. For all issues identified/recommendations, the IAD will ensure management’s implementation dates and responsible individuals are obtained and disclosed in the audit reports. We will begin this practice with all audits issued after August 2018. The implementation dates and responsible individuals will be used in order to schedule follow-up reviews more efficiently. The status of all recommendations will continue to be disclosed to the audit committee at every meeting.</p>

Item	Recommendation	Action Plan
<p>The internal auditing activity performs an annual risk assessment that is designed to help identify risks and prioritize audit projects. However, this process does not include processes within the Quillen College of Medicine.</p> <p>Omitting this area from the risk assessment increases the risk of incomplete audit coverage.</p>	<p>ETSU IAD should update its risk universe to include separate line items for the Quillen College of Medicine.</p>	<p>ETSU’s Internal Audit Department concurs with the recommendation. We will review the audit universe of colleges that have medical schools to obtain a comprehensive list of potential audit engagements. We will begin our research during the current fiscal year. Specific audits involving the Quillen College of Medicine will be included in the audit universe and evaluated during the annual audit plan process for FY 2020</p>

Item	Recommendation	Action Plan
<p>Information Technology (IT) audit coverage currently is not comprehensive. IT is one of the biggest risk facing organizations. Incomplete and/or inadequate coverage from the primary assurance function (audit) (1) hinders the governance function in its oversight role and (2) possibly exposes the organization to unnecessary risks.</p> <p>The internal audit activity has one individual whose primary responsibility is IT auditing. By all accounts, he appears to extremely competent and qualified. However, he is fairly new to internal auditing.</p>	<p>It is recommended that the audit activity</p> <ul style="list-style-type: none"> <li>(1) Ensure IT auditors receive sufficient and relevant training.</li> <li>(2) Add more IT audits to the audit plan.</li> <li>(3) Conduct additional IT specific audit during the audit year.</li> </ul>	<p>The Internal Audit Department concurs with the recommendation. Currently, the department does not have an IT auditor, per se. We have an Internal Auditor who has a degree in both accounting and computer information systems. We plan to provide training to develop his skills in both internal auditing and IT auditing. As these skills develop, we plan to have more IT audit engagements on our audit plan. We will begin this process during FY 2019 and will continue to provide training that will enhance our audit efforts related to information technology.</p>

## Stakeholders Interviewed

### ***Board of Trustees***

Mr. David Golden, Chair, ETSU University Board of Trustees Audit Committee

### ***Senior ETSU Management***

Dr. Brian Nolan, President

Dr. Bert Bach, Provost/Vice President for Academic Affairs/Provost

Dr. BJ King, Vice President for Finance and Administration

Dr. Wilsie Bishop, Vice President Health Affairs

Dr. Pam Ritter, Vice President Advancement

Dr. Jeremy Ross, Vice President for Administration

Mr. Ed Kelly, General Counsel

Ms. Karen King, Chief Information Officer/Senior Vice Provost for ITS

Mr. Scott Carter, Athletic Director

## Biography of Reviewers

**Betsy Bowers** is the Vice President, Finance & Administration at the University of West Florida. Before the Vice Presidency, she served as the Associate Vice President/Chief Audit Executive for Internal Auditing and Compliance at the University for more than 24 years. Ms. Bowers is a past national president of the Association of College and University Auditors (ACUA). Since 1993, Ms. Bowers has been at UWF and served as the chief audit executive during the majority of time at UWF. In 2014/15, Ms. Bowers served as the interim vice president for Business, Finance, and Facilities at UWF; in September 2017, she returned to the interim vice presidency role and was made permanent in August 2018. Previously, she worked in Tennessee as the Internal Audit Director at Northeast State Technical Community College and Internal Auditor at East Tennessee State University resulting in a total higher education work experience exceeding 30 years. She completed the Institute of Internal Auditor's (IIA) Quality Assurance training and performed Quality Assurance Reviews at numerous other universities across the nation. Ms. Bowers is a Certified Internal Auditor (CIA), Certified Fraud Examiner (CFE), Certified Government Financial Manager (CGFM), Certified Inspector General (CIG), a Certificate in Risk Management Assurance (CRMA), and earned her BA in accounting and MBA from East Tennessee State University. She serves on the Board for the Northwest Florida Institute of Internal Auditors and the Board for the Northwest Florida Association of Certified Fraud Examiners (ACFE). Other professional memberships include the Association of Governmental Accountants, Southern Association of College & University Auditors (SACUBO), Society for Corporate Compliance and Ethics (SCCE), Association of College & University Women, and several civic organizations. Ms. Bowers taught White Collar Crime for UWF in the Justice Studies department and serves as an instructor for the IIA on the topics of new internal auditor and new audit manager.

**Robert Berry** is the Executive Director of Internal Audit and Chief Financial Compliance Officer at the University of South Alabama. Previously he was the Chief Audit Executive at the University of North Florida for almost a decade. Prior to joining UNF, he held positions in internal audit, risk management, accounting and compliance in the private sector including (1) Director of Sarbanes Oxley for a multi-billion dollar financial institution, (2) Assistant Vice President of Internal Auditing for EverBank, (3) Consultant at a Big 4 public accounting firm, and (4) Accountant and Internal Auditor at Fortune 500 retail grocer Winn Dixie. Robert earned his B.S. in Accounting from Auburn University in Montgomery and a MBA from UNF. He is known as a risk, compliance and internal auditing advocate, innovator and educator. He serves on the national Board for the Association of College and University Auditors (ACUA). Mr. Berry frequently presents for the Institute of Internal Auditors and has been ranked as one of the IIA's "All Star" speakers (a coveted honor for those in the internal auditing profession). Recently he taught in Singapore at an IIA conference. Mr. Berry provides education and insight through his writings at [www.thatauditguy.com](http://www.thatauditguy.com), is the creator and owner of the Auditor Exchange collaboration services ([www.auditorexchange.com](http://www.auditorexchange.com)), is an instructor for the IIA's CIA exam review course and serves as an IIA Quality Assurance Review volunteer. He holds the following professional certifications: Certified Public Accountant (CPA), Certified Internal Auditor (CIA), Certified Compliance and Ethics Professional (CCEP), Certified Information Systems Auditor (CISA) and Certified Coding Specialist (CCS).

**Suzanne Walker** is the Internal Audit Director for Pellissippi State Technical Community College and has been with the College for more than 25 years. She is a graduate of the University of Tennessee, Knoxville, with a bachelors in accounting and is a CPA in Tennessee. Before working at the College Ms. Walker worked for the Tennessee Division of State Audit and was part of the team auditing ETSU during her tenure with State Audit. She is a member of the Association of Governmental Accountants and Tennessee Society of CPAs.

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The members of the Review Team appreciate the opportunity to be of service to ETSU University and the courtesies and cooperation extended to us during this review.



EAST TENNESSEE STATE UNIVERSITY  
BOARD OF TRUSTEES

INFORMATION ITEM

DATE: September 21, 2018

ITEM: Annual Report of 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 2018 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 2018 audit efforts of Internal Audit.



**EAST TENNESSEE STATE  
UNIVERSITY**

## **Office of Internal Audit**

# **Annual Report Fiscal Year 2018**

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

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

**Annual Report for Fiscal Year 2018**

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EAST TENNESSEE STATE  
UNIVERSITY

August 9, 2018

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 ETSU's Office of Internal Audit for the 2018 fiscal year. An annual report of audit work is required by TCA 4-14-102. This report contains the status of the 2018 annual audit plan noting the audits 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 2018 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

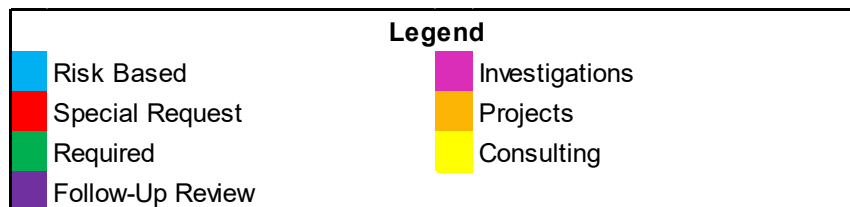
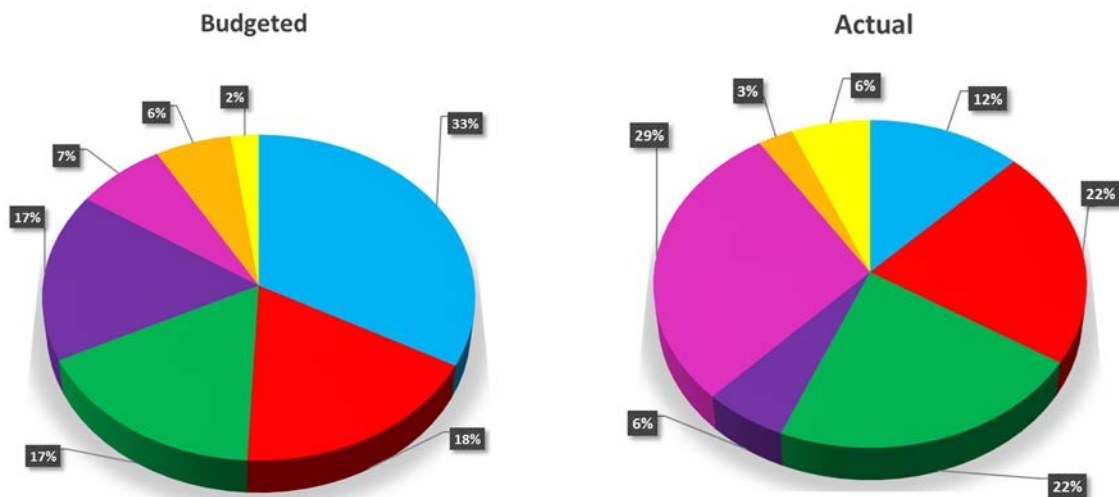
## INTRODUCTION

The mission of Internal Audit at ETSU is to provide an independent, objective assurance and consulting service that is designed to add value and improve the University's operations. Internal Audit aims to help the University accomplish its objectives by bringing a systematic, disciplined approach to evaluate and identify opportunities for improvement in the areas of risk management, internal controls, efficiency, policies, and procedures. In addition, Internal Audit promotes integrity and compliance across all University operations. The Internal Audit staff uses their knowledge and professional judgment to provide an independent assessment of ETSU's financial, operational, and control activities in all areas of the University.

## AUDIT EFFORT

An audit plan is developed annually by the Office of Internal Audit, which is approved by the audit committee. Due to special requests and fraud, waste, and abuse (FWA) 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.

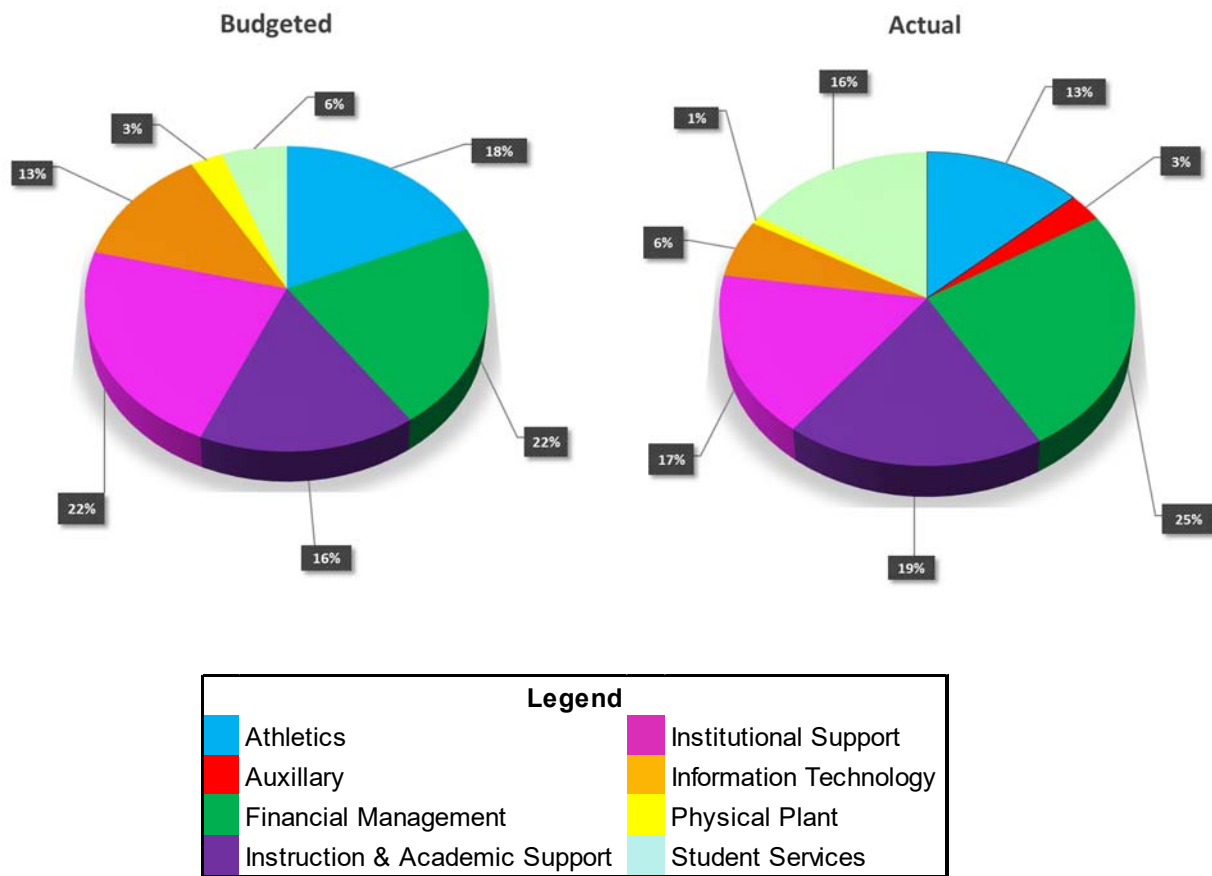
**Audit Effort by Type for FY 2018**



As illustrated above, the department planned to focus the majority of its audit effort performing risk-based audits (33%) and special requests (18%). Due to unanticipated allegations received, 29% of our time was spent performing fraud, waste, and abuse investigations. Investigations typically begin from management concerns of possible fraud, waste, or abuse, a hotline complaint of possible improper or dishonest acts, or discovery 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 Student Services than anticipated and less effort on Institutional Support.

### Audit Effort by Functional Area for FY 2018



A listing of all Audits/Projects completed or in progress at the end of Fiscal Year 2018 is located on the following page. Thirty-one audits/projects were completed during the year. In addition, twelve audits/projects were in process as of June 30, 2018. These should be finalized during the Fiscal Year 2019.

During FY 2019, the department plans to focus more of its effort on risk-based reviews.

<b>East Tennessee State University</b>		
<b>Year-End Status Report on the Internal Audit Plan</b>		
<b>Fiscal Year Ended June 30, 2018</b>		
<b>Required Audits</b>	FM	Cash Counts/Inventories
	FM	President's Expense FY 2017
	* FM	President's Expense FY 2018
	FM	WETS-FM
	IT	NACHA Web Transactions Data Security
	FM	Risk Assessments
	IS	Quality Assurance and Improvement Program
<b>Follow-Ups</b>	IS	Follow-Up Behavioral Health & Wellness Clinic
	* AT	Follow-Up NCAA - Camps & Clinics
	* AT	Follow-Up NCAA - Financial Aid Eligibility
	FM	Follow-Up Misc Course Fees
	IT	Follow-Up Web Application Security
	IS	Follow-Up Timekeeping FY 2017 Audit
	IA	Follow-Up Rural Health Leave
	AT	Follow-Up Athletics Federal Work Study
	PP	Follow-Up Physical Plant Inclement Weather
	<b>Investigations</b>	IA
AT		Investigation 17-13
SS		Investigation 18-01
AX		Investigation 18-02
* FM		Investigation 18-03
IA		Investigation 18-04
* SS		Investigation 18-05
<b>Consulting</b>	AX	Investigation 18-06
	* IS	Leave Analysis Review
	IS	Procard Consulting
<b>Projects</b>	IS	General Consultation
	IS	ACUA Track Coordinator FY 2017
	* IS	ACUA Track Coordinator FY 2018
<b>Special Requests</b>	IS	Audit Committee Meeting (Includes Prep)
	IA	Johnson City Community Health Center Patient Safety
	IA	College of Nursing Clinics Financial Procedures
	AT	Baseball Expenditures
	* IT	Third Party Servers
	FM	Executive Level Audit
	FM	Office of Equity & Diversity
<b>Risk Based</b>	* AT	Football Expenditures
	AT	Men's Soccer Expenditures
	FM	Bursar's Office
	AT	Athletic Ticket Office
	* SS	Title IV/Clery Act
	* FM	Agency Accounts
	* IS	Additional Earnings
<b>Functional Areas:</b>		
AD - Advancement	IS - Institutional Support	
AT - Athletics	IT - Information Technology	
AX - Auxiliary	PP - Physical Plant	
FM - Financial Management	RS - Research	
IA - Instruction & Academic Support	SS - Student Services	
* = Audits/Projects In Progress as of June 30, 2018		

## INTERNAL AUDIT RECOMMENDATIONS

Opportunities for improvement are often discovered by Internal Audit. Significant opportunities for improvement are included in the audit report as recommendations. Less significant opportunities are communicated to management in a management point letter.

The audit reports contain management comments regarding the recommendations including the corrective action plan. Once management has implemented the corrective actions, the Office of Internal Audit will perform a follow-up review to determine if management has adequately addressed the recommendations.

One measure of internal audit effectiveness is reviewing how many audit recommendations management implements. Below is a summary of recommendations for Fiscal Year 2018:

Audit Recommendation Included in Audit Reports Carried Forward from FY 2017	24
Audit Recommendation in FY 2018	19
Report Recommendation Adequately Addressed by Management	16
Report Recommendations Not Adequately Addressed by Management	0
Recommendations where Corrective Action was not due by June 30, 2018	27

## 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 2018:

Investigations Brought Forward from the Prior Year	2
New Cases Opened	6
Cases Administratively Closed	0
Reports Issued	6
Investigations Outstanding at June 30, 2018	2

During 2018, 6 new investigations of possible fraud, waste, or abuse were opened. This is the typical number of new cases when compared to prior years. The number of new investigations for the past three years were 13 in FY 2017, 9 in FY 2016, 6 in FY 2015.

## OTHER ACCOMPLISHMENTS

**Customer Satisfaction Survey** – The Office of Internal Audit is committed to a continuous quality assessment and improvement program. Starting in July 2018, Internal Audit implemented an anonymous customer satisfaction survey. The survey will be conducted every January and July. Clients who had significant contact with the Office of Internal Audit since the previous survey are asked to complete an anonymous, ten-question survey. The result of the July 2018 surveys are below:

Number of Surveys Sent Out	25
Number of Positive Surveys Returned	12
Number of Negative Surveys Returned	0
Number of Surveys not Returned	13

Below are some of the comments received on the surveys.

- “The internal audit department consistently provides very helpful assistance and counsel. They are helpful during the audit processes to ensure we understand the process and procedures and quickly respond to questions. In addition, any time I call them for clarity on procedures they respond in a quick, courteous, and professional manner. All units on the ETSU campus could take a lesson from Internal Audit with regard to the efficiency and effectiveness with which they work.”
- “I especially liked the professional manner in which the audit process was completed. Rebecca Lewis and Martha Stirling are exceptional at their jobs. They are thorough and work with the office being audited in a respectful way that does not disrupt the work day.”
- “I appreciate the way they keep the priorities of the University in the forefront.”

- “There were some delays on both of our teams for getting started. Once the process got started, it went quickly. It would be nice if we could automate the process more.”
- “They were very professional.”

All individuals surveyed were asked to indicate whether they agreed, somewhat agreed, somewhat disagreed, or disagreed to eight statements regarding the audit engagement. Positive feedback was received for all the surveys except as noted below:

- One individual “somewhat disagreed” that the review was conducted to minimally disrupt operations in their area.
- One individual “somewhat disagreed” that the review was completed in a reasonable time frame.

**Enhanced the Office’s Fraud, Waste, and Abuse Awareness Efforts** – The Office of Internal Audit took several steps to increase fraud, waste, and abuse awareness among University employees. A new, online FWA reporting mechanism was created and can be accessed on Internal Audit’s webpage. In addition, the “Reporting FWA” section of the website was revamped to provide users a better understanding of what constitutes fraud, waste, and abuse and how to report concerns. Next, FWA presentations were conducted on campus by Internal Audit staff for the first time. Additional fraud training for University employees will be scheduled during FY 2019. A summary of fraud training efforts for FY 2018 are below:

Number of Employees Invited	63
Number of Employees Attended	42

Finally, we conducted fraud risk assessments across campus to gauge employees’ awareness of fraud risks within their areas and to identify areas of concerns. The results from the FY 2018 fraud risk assessments are below:

Number of Assessments Sent Out	116
Number of Assessments Returned	82

**According to the employees surveyed:**

- The top five ways in which fraud could be committed are (1) time theft/abuse of leave, (2) disclosure of confidential information, (3) theft of assets, (4) inappropriate procard transactions, and (5) manipulation of information.
- FWA “red flags” identified were (1) employees who appear to be living beyond their means, (2) bullying or intimidation, (3) employees who are frequently annoyed at reasonable questions or who provide unreasonable responses, (4) employees not recording leave when they are absent from work, (5)

inconsistency in responses, (6) overprotective of data or information, and (7) inappropriate/unreasonable purchasing habits.

- When asked how fraud, waste, or abuse could be committed in their area, the majority indicated that they were unsure or that it would be impossible due to the controls in place. Some other responses included collusion among employees, carrying university property out in “large bags”, changing the address of vendors, submitting fake reimbursement request, and stealing assets after hours.
- Most employees surveyed indicated that they knew how to report suspected fraud, waste, or abuse. However, the majority did not know about the anonymous FWA Report Form on ETSU’s Internal Audit Webpage.
- The majority of employees surveyed felt that reporting suspected FWA to the University could be completely anonymous.

## **QUALITY ASSURANCE AND IMPROVEMENT PROGRAM**

In accordance with the *International Standards for the Professional Practice of Internal Auditing (Standards)*, issued by the Institute of Internal Auditors (IIA), as well as the IIA Definition of Internal Auditing, Code of Ethics, and Core Principles for the Professional Practice of Internal Auditing (Core Principles), a Quality Assurance and Improvement Program (QAIP) was implemented by the Office of Internal Audit. As required by the *Standards*, this program must include period external reviews and internal self-assessments, as well as ongoing internal monitoring covering all aspects of the internal audit activity.

The *Standards* require an external quality assurance review be performed every 5 years. Our previous external review report was issued in August 2013, and the next one is scheduled to be completed in August 2018. *Standards* indicate that this external review can be accomplished by a full external assessment or a self-assessment with independent validation. After discussing these options with the Board of Trustees’ Audit Committee, a self-assessment with independent validation was the chosen method.

The overall results of our self-assessment indicate the Office of Internal Audit generally conform to the internal audit charter, IIA’s Definition of Internal Auditing, *Standards*, Code of Ethics, and Core Principles. A few areas of improvement were identified during the self-assessment. An external, independent validation team visited campus in July 2018 and will be issuing a report in August.

## **MANDATORY DISCLOSURES**

The Office of Internal Auditing’s activities are governed by standards promulgated by the Institute of Internal Auditors. These standards require the reporting of specific items to an organizations’ Board and Senior Management. The following is a list of required disclosures not previously addressed in the body of 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 function.

**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 2017-2018 fiscal year.

**Disclosure of Nonconformance** – Occasionally circumstances require the completion of projects/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 2017-2018 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 2017-2018 fiscal year.