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2020 November 13 - Board of Trustees Audit Committee Agenda and Minutes

Board of Trustees, East Tennessee State University

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EAST TENNESSEE STATE UNIVERSITY
BOARD OF TRUSTEES
AUDIT COMMITTEE
NOVEMBER 2020 MEETING

8:00-9:00 am ET
Friday
November 13, 2020

Telephonic Meeting

AGENDA

- I. Call to Order
- II. Roll Call
- III. [Minutes of the Audit Committee October 21, 2020](#) (2 minutes) - *Green*
- IV. [Approval of Audit Committee Charter](#) (2 minutes) – *Lewis*
- V. [Review of Audit Committee Responsibilities](#) (5 minutes) – *Lewis*
- VI. [Approval of Charter of the ETSU Internal Audit Department](#) (2 minutes) - *Lewis*
- VII. [Audit Work Performed April 2020 through October 2020](#) (15 minutes) - *Lewis*
 - A. [Dependent/Spouse Tuition Discount](#)
 - B. [Men’s Basketball Expenditures](#)
 - C. [President’s Expenditure Audit](#)
 - D. [Memorandum on Investigations](#)
 - E. [Completed Audit Heat Map](#)
- VIII. [Recommendation Log Status as of October 31, 2020](#) (2 minutes) – *Lewis*
- IX. [Report of the Audit Function for FY 2020](#) (5 minutes) – *Lewis*
- X. [Approval of Internal Audit Employee Profiles](#) (2 minutes) – *Lewis*
- XI. [Internal Audit Operating Expense Budget FY 2021](#) (2 minutes) – *Lewis*
- XII. [Approval of Revisions to the Audit Plan](#) (2 minutes) - *Lewis*
- XIII. Other Business
- XIV. Executive Session to Discuss Active Audits and Enterprise Risk Management (20 minutes)
- XV. Adjournment

EAST TENNESSEE STATE UNIVERSITY
BOARD OF TRUSTEES

ACTION ITEM

DATE: November 13, 2020
ITEM: Approval of Minutes from October 21, 2020
COMMITTEE: Audit Committee
RECOMMENDED ACTION: Approval
PRESENTED BY: Adam Green
Secretary of the Board

The minutes of the October 21, 2020 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 October 21, 2020 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

October 21, 2020
Johnson City, Tennessee

The ETSU Board of Trustees Audit Committee met in a called meeting at 11:30 a.m. on Wednesday, October 21, 2020. The virtual meeting was held on Zoom and was broadcast over YouTube.

I. Call to Order

President Brian Noland welcomed the participants and introduced Melissa Steagall-Jones, a member of the ETSU Board of Trustees who was selected by the Board to serve as the Chair of the Audit Committee. Chairman Steagall-Jones called the committee meeting to order at 11:31 a.m.

II. Roll Call

Board of Trustees Secretary Adam Green explained that before a roll call could be taken, a series of questions must be presented to the committee members, and that due to some trustees participating remotely, all votes taken must be done so by roll call. Trustees Steagall-Jones and Ron Ramsey were physically present making a quorum present on-ground for the meeting. Trustee Scott Niswonger indicated that he could hear clearly and that there was no one present in the room with him. Committee members present were: Melissa Steagall-Jones, Scott Niswonger, and Ron Ramsey. Other Trustees present were Janet Ayers, Virginia Foley, Linda Latimer and Austin Ramsey.

Secretary Green continued with information around meeting necessity in light of the remote participation by the public due to COVID-19. In accordance with Tennessee Executive Order 60 permitting safe, open and transparent public meetings by electronic means, Secretary Green stated that the committee business is critical to the operations of the university, and in light of the COVID-19 virus outbreak and the statewide recommendations as well as those from the Centers for Disease Control and Prevention, social distancing measures and a limit on groups that gather are being observed. Secretary Green stated that a quorum of the Board members by electronic or other means of communication is necessary and he requested a roll call vote to determine the necessity of holding the meeting.

A motion was made by Trustee Ramsey and was seconded by Trustee Niswonger. A roll call vote was taken and the motion passed 3-0.

III. Adjournment and Move to Executive Session

Chairman Steagall-Jones stated that the purpose of the meeting was to keep her informed of active audits currently taking place at ETSU, and she requested that the committee move into Executive Session. Trustee Ramsey made a motion to move into executive session, and Trustee Niswonger seconded the motion. A roll call vote was taken and the motion passed 3-0.

The committee meeting adjourned at 11:35 a.m. and went into executive session.

EAST TENNESSEE STATE UNIVERSITY
BOARD OF TRUSTEES

ACTION ITEM

DATE: November 13, 2020

ITEM: Approval of the Audit Committee Charter

COMMITTEE: Audit Committee

RECOMMENDED ACTION: Approval

PRESENTED BY: Rebecca A. Lewis
Chief Audit Executive

With the State of Tennessee Audit Committee Act of 2005, a state governing board, council, commission, or equivalent body that has the authority to hire and terminate its employees shall create an audit committee. The specifications in TCA § 4-35-103 require that an audit committee develop a charter addressing the committee's purpose, powers, duties, and mission.

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

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

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

East Tennessee State University

Audit Committee Charter

I. **Purpose and Mission**

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

The Audit Committee will provide oversight in the following areas:

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

II. **Authority**

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

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

III. Responsibilities

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

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

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

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

B. External Audits

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

C. Internal Audit Activities

1. Ensure that the Chief Internal Auditor reports directly to the Audit Committee and has direct and unrestricted access to the chair and other committee members,
2. Review and approve the charter for the East Tennessee State University's Internal Audit department,
3. Review and approve the annual audit plans for East Tennessee State University's Internal Audit department, including management's request for unplanned audits,

4. Receive and review significant results of internal audits performed,
5. Work with East Tennessee State University management and Internal Audit to assist with the resolution of cooperation issues and to ensure the implementation of audit recommendations,
6. Review the results of the year's work with the Chief Internal Auditor, and
7. Assure compliance with *the International Standards for the Professional Practice of Internal Auditing (Standards)*, the Office of Internal Audit must implement and maintain a quality assurance and improvement program that incorporates both internal and external assessments.
 - a. Internal assessments are ongoing, internal evaluations of the internal audit activity, coupled with periodic self-assessments and/or reviews.
 - b. External assessments enable the internal audit activity to evaluate conformance with the *Standards*; internal audit and audit committee charters; the organization's risk and control assessment; the effective use of resources; and the use of successful practices.
 - c. An external assessment must be performed at least every five years by an independent reviewer or review team.
 - d. Results of the external assessment will be communicated to the Audit Committee and management.

D. Internal Audit Administration

1. Ensure the Chief Internal Auditor reports functionally to the Audit Committee of the Board and reports to the President for administrative purposes only.
2. Ensure that East Tennessee State University Internal Audit has adequate resources in terms of staff and budget to effectively perform its responsibilities.
3. Review and approve the appointment, compensation, reassignment, or dismissal of the Chief Internal Auditor, and
4. Review and approve the compensation and dismissal of campus internal auditors.

E. Risk, Internal Control and Compliance

2. Consider the effectiveness of the internal control system and compliance with laws and regulations, including computerized information system controls and security,
3. Understand the scope of internal and external auditors' reviews of internal controls over financial reporting,
4. Make recommendations to improve management's internal control and compliance systems to ensure the safeguarding of assets and prevention and detection of errors and fraud. The components of the control system are:
 - a. control environment—creating a culture of accountability;
 - b. risk assessment—performing analyses of program operations to determine if risks exist;
 - c. control activities—taking actions to address identified risk areas;
 - d. information and communication—using and sharing relevant, reliable, and timely information; and

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

IV. Independence

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

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

V. Membership

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

VI. Meetings

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

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

Approvals

Approved by: _____ Date: _____
Melissa Steagall-Jones
Chair of the Audit Committee

Approved by: _____ Date: _____
Scott Niswonger
Chairman of the Board

EAST TENNESSEE STATE UNIVERSITY
BOARD OF TRUSTEES

INFORMATION ITEM

DATE: November 13, 2020
ITEM: Audit Committee Responsibilities
COMMITTEE: Audit Committee
PRESENTED BY: Rebecca A. Lewis
Chief Audit Executive

Ms. Lewis will provide an overview of the roles and responsibilities of the Audit Committee as outlined in the meeting materials.

Roles and Responsibilities of Audit Committee

<u>Policy/Law</u>	<u>Requirement</u>	<u>Meeting</u>
Annual Audit Plan and Year-end Status Report		
TN 49-14-102 (b)	The internal auditor shall file a report on the audit work with the audit committee at least annually.	Annual Audit Plan - First Meeting of new FY
AC Charter III.C.6	Review the results of the year's work with the Chief Internal Auditor	Each AC Meeting as needed
AC Charter III.C.3 & ETSU's Internal Audit Policy V. C.	Review & approve the annual audit plan including management's request for unplanned audits. Review and approve audit plan revisions	Annual Report on Audit Activity - Fall
Quality Assurance and Improvement Program		
AC Charter III.C.7	Ensure audit function maintains a quality assurance & improvement program.	Update Committee As Needed
Audit Reports and Recommendations		
AC Charter III.C.4	Receive and review significant results of internal audits performed.	Each Meeting
ETSU's Internal Audit Policy VII. F.	The Chief Internal Auditor will provide a copy of each report to the Audit Committee.	
AC Charter III.C.5	Ensure implementations of audit recommendations.	
Fraud, Waste, and Abuse		
AC Charter III.F. 1-2.	Ensure that the Board and the institution have an effective process in place to prevent, detect, and report fraud, waste and abuse. Establish a process for employees, taxpayers and other citizens to confidentially report suspected illegal, improper, wasteful, or fraudulent activity.	Annual Report on Audit Activity - Fall
TN 49-14-103 (a)	The internal auditor shall establish a process by which students, employees, taxpayers or other citizens may confidentially report suspected illegal, improper, wasteful or fraudulent activity. Each year the internal auditor shall include with the auditor's annual report a summary of all completed audit activities pursuant to this chapter.	

Roles and Responsibilities of Audit Committee

<u>Policy/Law</u>	<u>Requirement</u>	<u>Meeting</u>
State and External Audits		
AC Charter III.A.2.	Review results of the Comptroller's examination of financial statements and another other matters related to the conduct of the audits	Spring and as needed
AC Charter III.B.2.	Review results of external auditors' examination and any other matters related to the conduct of the external audits	
Presidential Expenses Reporting and Audits		
TN 49-7-3001 (c)	Each state university board shall require an annual internal financial audit of the office of the president of the institution. The audit shall be reviewed by the institution's governing board and the comptroller of the treasury.	Winter - Due annual by December 1st.
TN 49-14-106 (c)	Annual or other periodic audits of chief executives shall be performed by an internal auditor or auditors who are not employees of the institution of the chief executive being audited. Notwithstanding the foregoing, internal auditors or auditors who report to the board audit committee may perform annual or other periodic audits of the chancellor of the board of regents system or the University of Tennessee president.	
TN 49-14-104	The governing boards of all public institutions of higher education shall establish a policy requiring that annual reports detailing expenditures made by, at the direction of, or for the benefit of a system head or chief executive of an institution are to be filed with their respective boards. It is the legislative intent that the policy require the report of discretionary expenditures, which shall include, but not be limited to, unrestricted gifts, foundation funds, athletic funds, sponsorship fees, licenses and royalty funds, and other such funds that would not be included in the operating budget for the system head's or chief executive's office. System heads or chief executives shall not have the authority to grant themselves an exception to fiscal, spending, or travel policies established by their boards or by statute.	This can be reviewed with audit due Dec. 1.

Roles and Responsibilities of Audit Committee

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

EAST TENNESSEE STATE UNIVERSITY
BOARD OF TRUSTEES

ACTION ITEM

DATE: November 13, 2020
ITEM: Approval of the Internal Audit Charter
COMMITTEE: Audit Committee
RECOMMENDED ACTION: Approval
PRESENTED BY: Rebecca A. Lewis
Chief Audit Executive

The Office of Internal Audit adheres to the Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the *International Standards for the Professional Practice of Internal Auditing (Standards)*. To that end, the Office of Internal Audit has a charter, which outlines the following, the Office's: purpose; authority and scope; role and responsibility; organizational status/reporting structure; audit standards and ethics; and how often the charter should be reviewed.

The proposed charter for the Office of Internal Audit has been reviewed and approved by the office staff and by the president.

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

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

East Tennessee State University Internal Audit Charter

Introduction

East Tennessee State University is governed by a Board of Trustees, consisting of 10 members (the Board) as determined by state law. The Audit Committee is a standing committee of the Board. The Chief Internal Auditor reports functionally to the Audit Committee of the Board and reports to the President for administrative purposes. This reporting structure assures the independence of the internal audit function.

Purpose

Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve East Tennessee State University management systems. Internal Audit helps East Tennessee State University accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of management's risk management, control, and governance processes. Internal Audit assists East Tennessee State University's management in the effective discharge of their duties and responsibilities by evaluating activities, recommending improvements and providing other information designed to promote effective controls.

Assurance services involve the internal auditor's objective assessment of evidence to provide an independent opinion or conclusions regarding an entity, operation, function, process, system, or other subject matter. The nature and scope of the assurance engagement are determined by the internal auditor. There are generally three parties involved in assurance services: (1) the person or group directly involved with the entity, operation, function, process, system, or other subject matter — the process owner, (2) the person or group making the assessment — the internal auditor, and (3) the person or group using the assessment — the user.

Consulting services are advisory in nature, and are generally performed at the specific request of an engagement client. The nature and scope of the consulting engagement are subject to agreement with the engagement client. Consulting services generally involve two parties: (1) the person or group offering the advice — the internal auditor, and (2) the person or group seeking and receiving the advice — the engagement client. When performing consulting services, the internal auditor should maintain objectivity and not assume management responsibility.

East Tennessee State University's management has the primary responsibility for establishing and maintaining a sufficient system of internal controls as well as the enterprise risk management process.

Authority and Scope

Internal Audit's review of operations may include the examination and evaluation of the effectiveness of all aspects of operations at East Tennessee State University. In the course of its work, Internal Audit has full and complete direct access to all East Tennessee State University books, electronic and manual records, physical properties, and personnel information relative to the performance of duties and responsibilities. All documents and information given to Internal Audit during their work will be handled in the same prudent manner that East Tennessee State University expects of the employees normally accountable for them.

Other than its work performed in conjunction with its quality assurance and improvement program, Internal Audit has neither direct responsibility for, nor authority over, any of the activities, functions, or tasks it reviews nor shall their review relieve others of their responsibilities. The internal auditors must maintain a high degree of independence and not be assigned duties or engage in any operations or decision making in any activities that they would normally be expected to review or evaluate as part of the normal audit function.

Role and Responsibility

The role of Internal Audit is to assist members of the organization in the effective discharge of their responsibilities. Meaningful internal auditing requires cooperation among Internal Audit, East Tennessee State University's administration, and the department being audited. In fulfilling their responsibilities, Internal Audit will:

- Comply with auditing standards established by the Institute of Internal Auditors to ensure the effectiveness and quality of the internal audit effort.
- Develop and implement audit plans after consultation with the President and the Audit Committee that respond to both risk and cost effectiveness criteria.
- Review the reliability and integrity of information, and the information technology processes that produce that information.
- Verify compliance with applicable policies, guidelines, laws, and regulations.
- Suggest policies and procedures or improvements to existing policies and procedures where appropriate.
- Provide audit reports that identify internal control issues and make cost-effective recommendations to strengthen control.
- Facilitate the resolution of audit issues with administrators who have the most direct involvement and accountability.
- Review institutional operations (financial and other) on an advisory basis to inform and assist management in the successful execution of their duties.
- Assist with audits or perform certain agreed upon procedures for external parties. External parties include but are not limited to audit offices of federal and state governments and related agencies.
- Review management's risk assessment process and advise management on the reasonableness and propriety of the assessment.
- Promote and evaluate fraud prevention and identification programs and investigate allegations involving fraud, waste, and abuse.

- Demonstrate and promote appropriate ethics and values within the organization.
- Communicate activities and information among the board, internal auditors, external auditors and the administration.

Organizational Status/Reporting Structure

The Chief Internal Auditor reports functionally to the Audit Committee of the Board and reports to the President for administrative purposes.

The internal auditing services provided by Internal Audit are reported directly to the President and the Audit Committee of the Board. All audit work is summarized in timely written reports distributed to management to ensure that the results are given due consideration. In addition to management, reports or summaries are distributed to all members of the Audit Committee and to the State of Tennessee, Comptroller’s Office. Management is provided a discussion draft of the audit report prior to the report being issued. Internal Audit is responsible for following up timely on audit findings to ascertain the status of management’s corrective actions.

Audit Standards and Ethics

The Internal Audit function adheres to The Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the *International Standards for the Professional Practice of Internal Auditing (Standards)*. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity’s performance.

Periodic Review of Internal Audit Charter

This charter will be periodically assessed by the Chief Internal Auditor to determine whether the purpose, authority, and responsibilities defined in this charter are adequate to enable the internal auditing activity to accomplish its objectives. The results of the periodic assessment will be communicated to the President and the Audit Committee.

President, East Tennessee State University	Date
Chair, ETSU Board of Trustees Audit Committee	Date
Chief Internal Auditor, East Tennessee State University	Date

EAST TENNESSEE STATE UNIVERSITY
BOARD OF TRUSTEES

INFORMATION ITEM

DATE: November 13, 2020
ITEM: Audits and Investigations Performed
COMMITTEE: Audit Committee
PRESENTED BY: Rebecca A. Lewis
Chief Audit Executive

Ms. Lewis will provide an overview of the audits and internal investigations completed during the period April 1, 2020 to October 31, 2020.

Audits

- Dependent/Spouse Tuition Discount – An audit of the universities Dependent/Spouse Tuition Discount Program was conducted by Internal Audit in accordance with the unit’s Annual Audit Plan. The objectives of the audit were to evaluate the adequacy of internal controls, to determine compliance with university policies and procedures, and the make recommendations for correcting deficiencies or improving operations.
- Men’s Basketball Expenditures – An audit of Men’s Basketball Expenditures within the Department of Intercollegiate Athletics was conducted by Internal Audit personnel in accordance with the Annual Audit Plan. At the request of university administration, the Office of Internal Audit conducts audits of head coaches at the end of their employment as part of the transition process prior to the arrival of the new head coach. In April 2020, the head coach of the men’s basketball team resigned. The objectives of the audit were to evaluate the adequacy of the internal controls, to determine compliance with university policies and procedures, and to make recommendations for correcting deficiencies or improving operations.
- President’s Expenditure Audit – 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, 2020. 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.

Investigations

- Department of Psychology Investigation (20-01) – After performing a routine petty cash count in Financial Services, an investigative review was conducted regarding a fund maintained by a professor in the Department of Psychology. The objectives were to investigate the validity of the issues identified during the review, determine the extent of any violations of University policies and procedures, evaluate the adequacy of internal controls over petty cash and other expenditures related to IRB protocols and RDC funding, and to make recommendations to improve deficiencies.
- College of Nursing, Office of Practice Missing Deposit (20-10) – An investigation was conducted related to a missing deposit. The objectives of the investigation were to obtain information regarding the missing deposit, assess the possibility of employee misfeasance, evaluate the adequacy of internal controls over deposits and cash receipts, and make recommendations to improve deficiencies.
- Child Study Center Missing Petty Cash (20-11) – An investigation was conducted related to a missing petty cash. The objectives of the investigation were to obtain information regarding the missing funds, assess the possibility of employee misfeasance, evaluate the adequacy of internal controls over petty cash procedures, and make recommendations to improve deficiencies.
- College of Nursing Missing Petty Cash (21-01) – An investigation was conducted related to a missing petty cash. The objectives of the investigation were to obtain information regarding the missing funds, assess the possibility of employee misfeasance, evaluate the adequacy of internal controls over petty cash procedures, and make recommendations to improve deficiencies.

**East Tennessee State University
Dependent/Spouse Tuition Discount Program
Spring 2019 Semester**

Key Staff Person: Human Resources and Financial Aid	Auditor: Internal Audit Staff
<p>Introduction:</p> <p>An audit of East Tennessee State University's Dependent/Spouse Tuition Discount Program was conducted by Internal Audit personnel in accordance with the Annual Audit Plan. The rules and regulations regarding the dependent and spouse discount are detailed in ETSU Policy PPP-13.</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>Total Questioned Costs/Losses: Spring 2019 - \$ 4,747.26 Prior terms - \$ 32,694.50</p>	<p>Total Recoveries: N/A</p>
<p>Current Audit Results</p> <p><u>Finding 1:</u> During the course of the audit, it was discovered that three students were ineligible for the tuition discount they received during the Spring 2019 term. These students' Banner accounts were reviewed further to determine if any discounts they received for other terms were valid. The audit revealed questioned costs for ineligible discounts totaling \$37,441.76. Of this amount, \$4,747.26 was related to the Spring 2019 term.</p> <p>The Office of Human Resources is taking steps to ensure all spouses/dependents are eligible for the fee discount, including verifying the reason for separation and the date of retirement or death.</p> <p><u>Finding 2:</u> A sample of 59 students receiving the discount during Spring 2019 was selected for testwork. In addition to the three ineligible students discussed in Finding 1, HR files were reviewed to determine if eligibility could be confirmed for the remaining 56 students based on documentation maintained. There were thirty (30) instances in which supporting documentation was not available to verify the relationship between the employee and the student. In addition, supporting documentation was not available to confirm the age of eight (8) student dependents who attended a state institution other than ETSU.</p> <p>The Office of Human Resources has instituted a procedure to verify spouse/dependent status that includes obtaining documentation to validate the relationship between the employee and the spouse/dependent.</p>	

**East Tennessee State University
Men's Basketball Expenditures
For July 1, 2019 – April 30, 2020**

Key Staff Person: Former Men's Basketball Coach	Auditor: Internal Auditor
<p>Introduction An audit of <i>Men's Basketball 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 April 2020, the Head Coach (Coach) for the men's basketball team 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 Men's Basketball. Operational and travel expenditures paid from this index were reviewed and tested for compliance with university policies and procedures. The items selected for testwork included all direct payments to the Coach, as well as a sample of other indirect expenditures. These included not only travel and miscellaneous operating expenses but also purchasing card (procard) transactions.</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>	

East Tennessee State University
Audit of President's Expenses
For the Fiscal Year July 1, 2019 – June 30, 2020

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 July 1, 2019 to June 30, 2020; 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 expenses made by, at the direction of, or for the benefit of the President, and salary and benefits and any other operating expenses for the President's office during the fiscal year ended June 30, 2020:</p> <table border="1" data-bbox="422 898 1502 1192"> <thead> <tr> <th></th> <th style="text-align: right;">Institutional</th> <th style="text-align: right;">Foundation</th> <th style="text-align: right;">Total</th> </tr> </thead> <tbody> <tr> <td>Salary & Benefits – President & Staff</td> <td style="text-align: right;">\$ 904,462.83</td> <td style="text-align: right;">\$ -</td> <td style="text-align: right;">\$ 904,462.83</td> </tr> <tr> <td>Travel – President</td> <td style="text-align: right;">24,761.71</td> <td style="text-align: right;">-</td> <td style="text-align: right;">24,761.71</td> </tr> <tr> <td>Travel – Other Personnel</td> <td style="text-align: right;">6,227.71</td> <td style="text-align: right;">2,889.43</td> <td style="text-align: right;">9,117.14</td> </tr> <tr> <td>Business Meals & Hospitality</td> <td style="text-align: right;">11,635.42</td> <td style="text-align: right;">39,377.05</td> <td style="text-align: right;">51,012.47</td> </tr> <tr> <td>Other Expenses of the President</td> <td style="text-align: right;">61,014.22</td> <td style="text-align: right;">-</td> <td style="text-align: right;">61,014.22</td> </tr> <tr> <td>Miscellaneous Operating Expenses</td> <td style="text-align: right;">35,998.47</td> <td style="text-align: right;">65,553.25</td> <td style="text-align: right;">101,551.72</td> </tr> <tr> <td>Total Expenses</td> <td style="text-align: right;"><u>\$ 1,044,100.36</u></td> <td style="text-align: right;"><u>\$ 107,819.73</u></td> <td style="text-align: right;"><u>\$ 1,151,920.09</u></td> </tr> </tbody> </table> <p>Additional Disclosures: Salary and Benefits – Salary and Benefits for the President totaled \$466,687.91 and includes the Discretionary and Vehicle Allowances. Discretionary Allowance – The President was provided a discretionary spending allowance of \$20,000.00 for the period. Use of the allowance was not included in testwork performed since it was paid as taxable income. Vehicle – The President was provided a vehicle allowance of \$1,000.00 per month, which was paid as taxable income. Housing – The President was provided the use of a residence. Operating and maintenance costs for the residence, totaling \$24,613.15 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 in Other Expenses above. Membership – The President is provided a membership to Blackthorn Country Club. The country club membership is paid for by Intercollegiate Athletics and totaled \$3,643.50 for the period. This amount is not reflected in the above totals.</p>		Institutional	Foundation	Total	Salary & Benefits – President & Staff	\$ 904,462.83	\$ -	\$ 904,462.83	Travel – President	24,761.71	-	24,761.71	Travel – Other Personnel	6,227.71	2,889.43	9,117.14	Business Meals & Hospitality	11,635.42	39,377.05	51,012.47	Other Expenses of the President	61,014.22	-	61,014.22	Miscellaneous Operating Expenses	35,998.47	65,553.25	101,551.72	Total Expenses	<u>\$ 1,044,100.36</u>	<u>\$ 107,819.73</u>	<u>\$ 1,151,920.09</u>
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Questioned Cost - None	Recoveries - N/A																																
Conclusion	The audit objectives related to the expenses of the Office of the President for East Tennessee State University for the fiscal year July 1, 2019 through June 30, 2020 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

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, Chief Audit Executive *B Lewis*

SUBJECT: Completed Investigations – April 1 to October 31, 2020

DATE: November 13, 2020

Below is a summary of the investigations completed between April 1 and October 31, 2020.

Department of Psychology (FWA 20-01): The investigation revealed that a \$3,000 petty cash fund was maintained by a Professor for almost six years after the study ended. In addition, expenditures related to the research study totaling \$3,552.62 did not agree with the Professor's RDC grant agreement and/or approved IRB study. This included expenses for Amazon MTurk, postage, video conferencing, and follow-up surveys. It was also discovered that the Professor did not always follow IRB policies. While the actions taken by the Professor did not appear to constitute fraud, several violations of compliance occurred related to university policies and procedures.

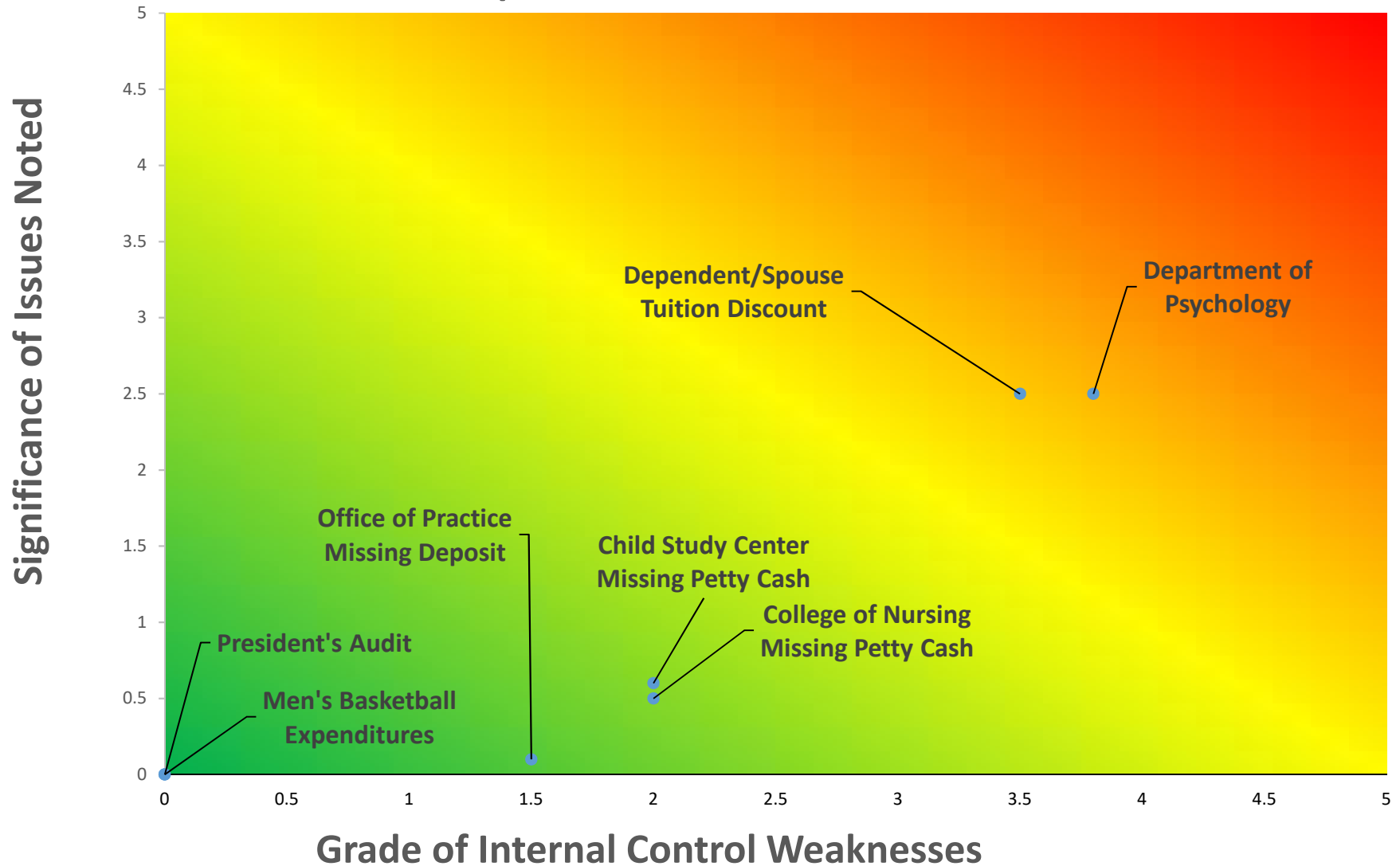
College of Nursing – Office of Practice Missing Deposit (FWA 20-10): Internal Audit received information from the Bursar's Office that a deposit, consisting of both cash and checks, from the College of Nursing's Office of Practice was missing. Based on the investigation performed, the deposit was later located a few weeks later in a desk drawer within the Bursar's Office. Even though the funds were discovered intact, additional controls have been put in place to help ensure deposits are properly recorded and processed by the Bursar's Office.

Child Study Center Missing Petty Cash (FWA 20-11): The investigation revealed that a \$75 petty cash fund within the Child Study Center (CSC) was missing. No employee dishonesty was discovered. Additional controls were not implemented since the CSC recently closed.

College of Nursing Missing Petty Cash (FWA 21-01): The investigation revealed that a \$100 petty cash fund within the College of Nursing's Office of Practice was missing. No employee dishonesty was discovered. Additional controls have been put into place to help ensure petty cash is properly accounted for at all times.

Heat Map of Completed Audits

from April 1 - October 31, 2020



EAST TENNESSEE STATE UNIVERSITY
BOARD OF TRUSTEES

INFORMATION ITEM

DATE: November 13, 2020
ITEM: Recommendation Log
COMMITTEE: Audit Committee
PRESENTED BY: Rebecca A. Lewis
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, 2020		
Area	Recommendation	Status
Off Campus Domestic & International Programs	Controls over Off Campus Domestic & International Programs needs improvement.	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.	Blue
Office of Equity & Diversity	Internal Controls related to the use of Access & Diversity funds for promoting the recruitment and retention of faculty, staff, and students needs improvement.	Green
	Internal Controls related to diversity scholarships needs improvement.	Green
Johnson City Community Health Centers - Financial Procedures	Cash receipting procedures need improvement.	Green
	Patient account and billing procedures need improvement.	Green
Johnson City Community Health Centers - Patient Safety	Privileging and credentialing procedures need improvement.	Green
	Follow-up appointment procedures need improvement.	Green
	Physicians review of charts procedures need improvement.	Green
Third Party Servers	Weaknesses in five specific areas need corrected in order to improve internal controls. Corrective actions have been implemented for two of these.	Green
Jeanne Clery Act Compliance	ETSU's Annual Security & Fire Safety Report should match the Department of Education crime statistics.	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
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
Women's Soccer Expenditures	Management should continue to review Procard charges during the reconciliation process to ensure overpayments do not exist. If overpayments are identified, refunds should be requested.	Green
Honors College Timekeeping	Timesheets need to be maintained for all employees in accordance with ETSU policies.	Green
	Procedures related to working overtime needs improvement.	Green
Internal Medicine	Current policies and procedures over grants need to be reviewed and strengthened within various academic departments, the Office of Research and Sponsored Programs, and Grant Accounting.	Green
Psychology	Controls over petty cash funds for research projects needs improvement.	Green
	Expenditures made with research funds should agree with the grant agreement and/or approved IRB study.	Green
	Researchers should follow all IRB policies and procedures.	Green
College of Nursing - Office of Practice	Internal controls over deposit processes within the Bursar's Office needs improvement.	Green
Dependent/Spouse Tuition Discount	Procedures related to dependent/spouse tuition discounts needs improvement.	Green
College of Nursing - Office of Practice	Internal controls over the handling and safeguarding of petty cash needs 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 slightly overdue	Yellow
Actions are significantly overdue	Red

EAST TENNESSEE STATE UNIVERSITY
BOARD OF TRUSTEES

INFORMATION ITEM

DATE: November 13, 2020
ITEM: Annual Report on Audit Function
COMMITTEE: Audit Committee
PRESENTED BY: Rebecca A. Lewis
Chief Audit Executive

The Annual Report for the Department of Internal Audit for the 2020 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 2020 audit efforts of Internal Audit.



Department of Internal Audit
East Tennessee State University

2019-20 Annual Report

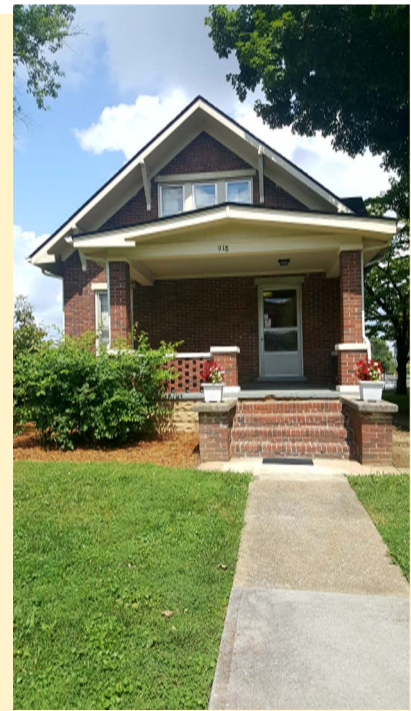
Message from the Chief Audit Executive

It is our pleasure to present the Annual Report for ETSU’s Department of Internal Auditing. Fiscal Year 2019-20 was a very productive year for us, even with a global pandemic occurring. Our accomplishments include the following:

- ◆ Completed a total of 9 Audits
- ◆ Completed 19 Procard Reviews
- ◆ Followed up on 6 Prior Audit Reports
- ◆ Conducted 7 Investigations

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

Becky Lewis, CPA
Chief Audit Executive



The Rest of the Team

Martha Burge, CPA
Associate Director

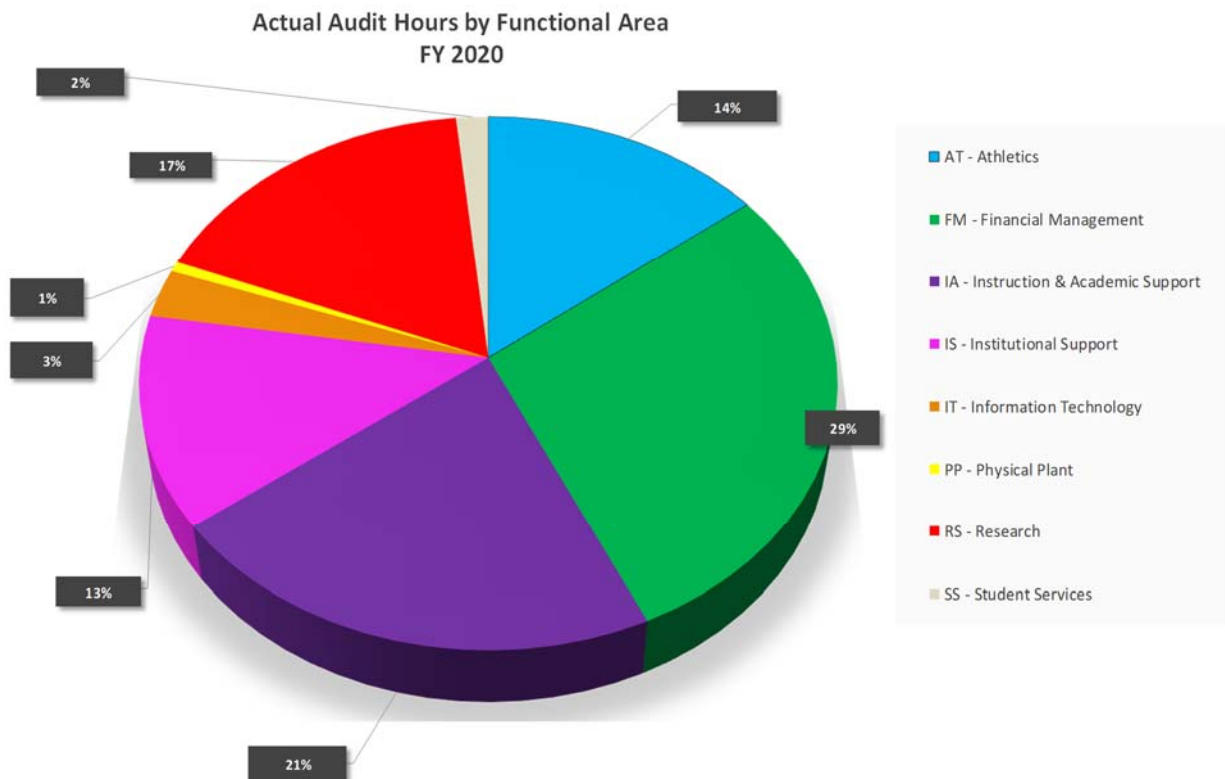
Logan Greer
Internal Auditor

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Audit Activity In Progress	3
Satisfaction Surveys	3
Other Services	3
KPI’s	4
Mandatory Disclosures	4

East Tennessee State University
Audit Activity Completed
Fiscal Year Ended June 30, 2020

Audits - Required	FM	President's Expense FY 2019
	FM	Cash Counts/Inventories
	FM	WETS-FM
Audits - Special Requests	IT	NACHA Web Transactions Data Security FY 2020
	AT	Volleyball Expenditures
	AT	Golf Expenditures
	IA	Art & Design
	FM	Executive Level Audit
Follow-Ups Reviews	AT	Women's Soccer Expenditures
	AT	Follow-Up Tennis Expenditures
	AT	Follow-Up Baseball Expenditures
	IA	Follow-Up Physical Therapy
	IA	Follow-Up Timekeeping—Library Administration
	IA	Follow-Up Center for Academic Achievement
Investigations	IA	Follow-Up Timekeeping—Families First
	IA	Investigation 19-04
	IA	Investigation 19-06
	IA	Investigation 19-10
	RS	Investigation 20-02
	IA	Investigation 20-03
	IS	Investigation 20-05
	FM	Investigation 20-06



East Tennessee State University
Audit Activity in Progress
As of June 30, 2020

Audits - Required	FM	President's Expense FY 2020
	FM	Risk Assessments
Audits - Special Requests	IA	Center of Excellence in Math and Science Education
	AT	Men's Basketball Expenditures
Audits - Risk Based	IS	Dependent Tuition Discount
	IA	Non-Student Minors on Campus
Follow-Ups Reviews	IA	Follow-Up Johnson City Community Health Center Financial Procedures
	IA	Follow-Up Johnson City Community Health Center Patient Safety
	IT	Follow-Up Third Party Servers
Investigations	IA	Investigation 18-03
	RS	Investigation 20-01
	SS	Investigation 20-04
	IA	Investigation 20-07
	PP	Investigation 20-08
	FM	Investigation 20-09
	IA	Investigation 20-10
	IA	Investigation 20-11

Customer Satisfaction Survey

Starting in July 2018, Internal Audit implemented an anonymous customer satisfaction survey. In January and July, surveys were sent to employees who recently had significant contact with Internal Audit. Each individual was asked to complete a 10 question survey. The results of the FY 2020 surveys are below:

Number of Surveys Sent Out	27
Number of Positive Surveys Returned	10
Number of Surveys not Returned	17

Other Services

- **Fraud Training:** In FY 2018 Internal Audit began offering fraud training to the campus community. Four employees attended during FY 2020.
- **Procard Reviews:** Due to the risks associated with procards, our office began assisting Procurement with their periodic procard reviews. During FY 2020, audit completed 19 reviews.

Key Performance Indicators	FY 19/20	FY 18/19	FY 17/18
Number of Audits Completed	9	9	14
Number of Follow-Ups on Prior Audit Findings	6	11	6
Number of Investigations Completed	7	9	6
Number of Procard Reviews	19	16	3
Number of Other Audit Activities Completed (i.e. consulting, projects, etc.)	3	3	3
Percentage of Effort Spent on Audit Activities	58%	74%	69%
Average Number of Years of Professional Experience	18	17	16

Mandatory Disclosures:

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

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

Impairments to Independence or Objectivity: If independence or objectivity is impaired in fact or appearance, the details of the impairments must be disclosed. There were no impairments to independence or objectivity for any engagements performed during the 2019-2020 fiscal year.

Disclosures of Nonconformance: Occasionally circumstances require the completion of projects and/or engagements in a manner that is not consistent with applicable standards. When this occurs, the Office of Internal Audit must disclose the nonconformance and the impact to Senior Management and the Board. During the 2019-2020 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 2019-2020 fiscal year.

EAST TENNESSEE STATE UNIVERSITY
BOARD OF TRUSTEES

ACTION ITEM

DATE: November 13, 2020
ITEM: Internal Audit Employee Profiles
COMMITTEE: Audit Committee
RECOMMENDED ACTION: Approval
PRESENTED BY: Rebecca A. Lewis
Chief Audit Executive

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

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

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

ETSU Internal Audit Employee Profile - FY 2021

Name	Position	Professional Certification	Current Annual Salary	Years of Professional Experience	Years of Experience at ETSU
Rebecca Lewis	Chief Audit Executive	CPA	\$ 104,000	26	22
Martha Burge	Associate Director	CPA	\$ 68,000	15	8
Logan Greer	Internal Auditor	-	\$ 47,860	8	5

EAST TENNESSEE STATE UNIVERSITY
BOARD OF TRUSTEES

INFORMATION ITEM

DATE: November 13, 2020
ITEM: Internal Audit Operating Expenses
COMMITTEE: Audit Committee
PRESENTED BY: Rebecca A. Lewis
Chief Audit Executive

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

Internal Audit Travel and Operating Budget for FY 2021

	Total Budget	Average Per Auditor
Current Travel Budget	\$ 4,750.00	\$ 1,583.33
Current Operating Budget	\$ 10,790.00	\$ 3,596.67

Travel Budget covers:

- Audit Work
- Continuing Professional Development for 3 Staff Members

Operating Budget covers:

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

EAST TENNESSEE STATE UNIVERSITY
BOARD OF TRUSTEES

ACTION ITEM

DATE: November 13, 2020
ITEM: Revisions to the FY 2020-2021 Audit Plan
COMMITTEE: Audit Committee
RECOMMENDED ACTION: Approval
PRESENTED BY: Rebecca A. Lewis
Chief Audit Executive

Ms. Lewis will provide a listing of additions and deletions to the fiscal year 2020-2021 audit plan since the last meeting.

Additions

Investigation 20-09

Deletions

None

EAST TENNESSEE STATE UNIVERSITY
BOARD OF TRUSTEES
AUDIT COMMITTEE

MINUTES

November 13, 2020
Johnson City, Tennessee

The ETSU Board of Trustees Audit Committee met at 8 a.m. on Friday, November 13, 2020, during a virtual meeting held on Zoom that was broadcast for the public's participation.

I. Call to Order

Committee Chairperson Melissa Steagall-Jones called the meeting to order at 8:02 a.m.

II. Roll Call

Board of Trustees Secretary Adam Green explained that before roll call could be taken, he needed to present a series of questions to the committee members, and that due to the trustees participating remotely, all votes taken must be done so by roll call. Committee members Grisham, Ramsey, Niswonger, and Steagall-Jones indicated they could hear clearly and that there was no one present in the room where each was located.

Committee members present were: Melissa Steagall-Jones, Scott Niswonger, Dorothy Grisham, and Ron Ramsey. Other ETSU Board of Trustees members present for the committee meeting were Virginia Foley, Linda Latimer and Austin Ramsey.

In accordance with Tennessee Code § 8-44-108 Section (b) (2), Green stated that this was a regularly scheduled quarterly meeting of the Audit Committee, that the committee business is critical to the operations of the university, and in light of the COVID-19 virus outbreak and the statewide recommendations as well as those from the Centers for Disease Control and Prevention, social distancing measures and a limit on group gatherings are being observed. Green requested a roll call vote to determine the necessity of holding the meeting. Trustee Niswonger made a motion which was seconded by Trustee Grisham. Motion passed.

III. Minutes of the Audit Committee Meeting from October 21, 2020

The minutes from the October 21, 2020, meeting were reviewed. Trustee Grisham moved for them to be approved and Trustee Niswonger seconded the motion. A roll call vote was taken, and the motion passed unanimously.

IV. Approval of Charter of the ETSU Internal Audit Department

Ms. Rebecca Lewis noted that the Audit Committee Charter is typically reviewed by the Audit Committee each spring. However, due to the presence of a new committee chair, she brought the charter to the committee for approval. She noted that there have not been

any changes from the last version. If approved, this charter would need to be signed by both Trustee Steagall-Jones and Chairman Niswonger. Afterwards, it will be sent to the State of Tennessee's Division of State Audit for final approval.

Trustee Niswonger made a motion for approval; Trustee Grisham seconded the motion. A roll call vote was taken, and the motion passed unanimously.

V. Review of Audit Committee Responsibilities

Ms. Lewis provided a summary sheet in the material of the roles and responsibilities of the audit committee. This summary consolidates the responsibilities outlined in the audit committee charter, state statute, and internal audit policies. These included responsibilities related to the audit work of her office as well as the annual audit plan and status reports. The summary also notes the committee's responsibilities related to fraud, waste, and abuse and the department's Quality Assurance and Improvement Programs commonly referred to as the peer review process.

Also included is information regarding the committee's role related to the President's Expense Audit, State and External Audits, as well as other miscellaneous duties.

VI. Approval of Charter of the ETSU Internal Audit Department

Similar to the Audit Committee Charter, the Internal Audit Department's Charter is typically reviewed annually by the Audit Committee each spring.

Due to the change of committee chair, this charter was also presented for approval. Ms. Lewis noted that there have not been any changes from the last version. If approved, this charter would need to be signed by President Noland, Trustee Steagall-Jones and herself.

Trustee Niswonger made a motion for approval; Trustee Grisham seconded the motion. Motion passed unanimously from a roll call vote.

VII. Audits and Investigations Performed

Ms. Lewis reported that since April 2020, Internal Audit has completed a total of three audits and four investigations. Information on each of those reviews was included in the audit committee materials.

Audits

A. Dependent/Spouse Tuition Discount Program

Ms. Lewis explained that these discounts are a part of the state's employee benefit package. The main objective of the audit was to determine if controls are in place to ensure that individuals receiving the discount were eligible. The audit revealed that controls related to relationship verification and eligibility need improvement. Human Resources has begun implementing changes in their processes and Internal Audit will conduct a follow-up audit in the near future to ensure proper controls are in place.

B. Men's Basketball Expenditures

Current university policies require an audit of expenditures at the end of a head coach's employment. The audit revealed compliance with all significant university policies and procedures.

C. President's Expenditure Audit

Internal Audit completed an annual review of the President's Expenditures as required by State Statute. The audit revealed no material omissions from the expense reports, statutory or policy violations, or deficiencies in internal controls.

D. Memorandum of Investigations

The first investigation involved a professor in the Department of Psychology. The investigation involved a research study funded by an internal RDC (Research Development Committee) grant. When reviewing the expenses paid with the RDC grant, it was discovered that some of the funds were spent on other research projects not approved by the RDC. In addition, Institutional Review Board (IRB) policies were not always followed by the faculty member. All research involving human subjects must obtain prior approval of the IRB and principal investigators must adhere to the IRB's established regulations. Internal Audit will conduct a follow-up review to ensure controls have been put in place to help ensure compliance with RDC and IRB requirements in the future.

Internal Audit also completed three case resolution reports involving a missing deposit and two missing petty cash funds. The missing deposit was later discovered during the investigation. However, the two missing petty cash funds were not discovered. The loss for these funds totaled \$175.

E. Completed Audit Heat Map

The Internal Audit Heat Map was included in the materials.

VIII. Recommendation Log Status as of October 31, 2020

After an audit report is issued, Internal Audit conducts "mini audits" to ensure prior recommendations and management action plans have been implemented. The recommendation log is used to track the status of these recommendations and action plans. If a follow-up audit reveals that corrective actions were not taken, a formal follow-up audit report will be issued. If actions have been taken, these are noted, as are any information on items that are significantly or slightly overdue or are progressing in a timely fashion.

IX. Report of the Audit Function for FY 2020

In addition to providing the audit committee with audit reports, Internal Audit also prepares an annual report that summarizes the accomplishments of the department during the past fiscal year.

This report includes a list of completed and in-progress audits, an analysis of audit hours by functional area, and key performance indicators. The department also has mandatory disclosures on customer service satisfaction surveys. Ms. Lewis requested feedback from

Trustee Steagall-Jones regarding any additional performance measures she would like to see in the future.

X. Approval of Internal Audit Employee Profiles

The department's employee profiles were included in the meeting materials. These profiles include each employee's name, position, certification, current salary and years of experience. As required by the Audit Committee Charter, salaries must be approved annually for all audit personnel.

Trustee Steagall-Jones expressed appreciation to Ms. Lewis and her staff for all they have done.

Trustee Grisham made a motion for approval of the salaries, and Trustee Ramsey seconded the motion. After a roll call vote, the motion passed unanimously.

XI. Internal Audit Operating Expense Budget FY 2021

The department's operating budget for FY 2021 was presented as an informational item. This is done to ensure that the department has a sufficient budget to perform audit duties.

XII. Approval of Revisions to the Audit Plan

One addition to the annual Audit Plan was omitted from the plan that was approved at the last meeting. Trustee Niswonger made a motion to approve the revision; Trustee Grisham seconded the motion. The motion passed unanimously with a roll call vote.

XIII. Other Business

No other business items were presented.

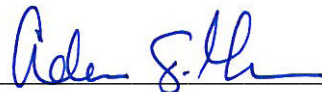
XIV. Executive Session to Discuss Active Audits and Enterprise Risk Management

Trustee Ramsey made a motion to go into executive session; Trustee Grisham seconded the motion. A roll call vote was taken, and the motion passed unanimously. Trustee Steagall-Jones noted that no action will be taken in executive session and that the Audit Committee will not reconvene following the executive session.

XV. Adjournment

The committee adjourned at 8:23 a.m.

Respectfully submitted,



Adam Green
Secretary of the Board of Trustees

Approved by the Board of Trustees at its February 19, 2021 meeting.