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6-9-2017

### 2017 June 9 - Board of Trustees Audit Committee Meeting

Board of Trustees, East Tennessee State University

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

8:30am EDT  
Friday  
June 9, 2017

Meeting Room 3  
D.P. Culp University Center  
412 J.L. Seehorn Road  
Johnson City, TN

AGENDA

- I. Call to Order
- II. Roll Call
- III. [Approval of the Minutes of May 8, 2017](#)
- IV. [Audit Plan for 2017-18](#)
- V. [Recommendation Log](#)
- VI. [Recently Completed Audits](#)
- VII. Other Business
- VIII. Executive Session to Discuss Active Audits
- IX. Adjournment

EAST TENNESSEE STATE UNIVERSITY  
BOARD OF TRUSTEES

ACTION ITEM

DATE: June 9, 2017

ITEM: Approval of the Minutes of May 8, 2017

COMMITTEE: Audit Committee

RECOMMENDED ACTION: Approve

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

The minutes of the May 8, 2017 meeting of the Audit Committee are included in the meeting materials

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

**RESOLVED: The reading of the minutes of the May 8, 2017 meeting of the Audit Committee is omitted, and the minutes are approved as presented in the meeting materials, provided that the Secretary is authorized to make any necessary edits to correct spelling errors, grammatical errors, format errors, or other technical errors subsequently identified.**

EAST TENNESSEE STATE UNIVERSITY  
BOARD OF TRUSTEES  
AUDIT COMMITTEE

MINUTES

May 8, 2017  
Johnson City, Tennessee

The East Tennessee State University Board of Trustees Audit Committee held its first meeting at 9 a.m. on Monday, May 8, 2017, in the President's Conference Room in Burgin Dossett Hall on ETSU's main campus in Johnson City, Tennessee.

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.

II. **Roll Call**

Secretary Dr. David Linville led the roll call. Trustees in attendance were:

Dorothy Grisham (WebEx)  
Ron Ramsey  
David Golden

Secretary Linville asked Trustee Grisham two questions in accordance with Tennessee Code 8-44-108 section (c)(3). He asked her if she was able to clearly hear the individuals in the President's Conference Room, to which she said yes. He then asked trustees in the President's Conference Room if they could hear Trustee Grisham, and they all affirmed they could. Secretary Linville also asked Trustee Grisham to identify any persons present in the room with her, and she indicated that she was alone.

Guests in the President's Conference Room included Becky Lewis, chief internal auditor; Martha Stirling, internal auditor; Richard Scheuch, information systems auditor; Angela Finney, internal auditor; Deputy Secretary Nathan Dugger; Kristen Swing, director of communications; Robert Nelson, director of ITV services; Chad Fraley, technology coordinator; Ed Kelly, university counsel; Troy Perdue, deputy university counsel; Joe Smith from University Relations (taking minutes) and Nathan Morabito, reporter at WJHL-TV 11.

Chair Golden announced this was the first audit committee meeting and said the work being done by the committee today was necessary in preparation for the upcoming visit by the Southern Association of Colleges and Schools Commission on Colleges (SACSCOC).

III. **Introduction of Office of Internal Audit Staff and Functions**

[Return to Agenda](#)

Chair Golden introduced Becky Lewis, chief internal auditor. Ms. Lewis stated she had been with the Office of Internal Audit at ETSU since 2001 and became director in 2011. She holds a bachelor's degree in mathematics from ETSU as well as a master of accountancy degree. Ms. Lewis introduced members of the Internal Audit staff who were in attendance at the meeting. They were:

- **Martha Stirling**, assistant director of internal audit. Ms. Stirling joined the office in 2012 and holds a bachelor's degree in accountancy from Morehead State University as well as an active CPA license;
- **Richard Scheuch**, who joined the ETSU office in 2006 and serves as the information systems auditor. He holds a bachelor's degree in mathematics from Florida Atlantic University and maintains an active CISSP license; and
- **Angie Finney**, who joined the ETSU staff in 2002 and moved to the internal audit office in 2015. She holds a bachelor's degree in accountancy from ETSU and an active CPA license.

Ms. Lewis provided an overview of the role of the internal audit office at ETSU. She stated that an annual audit plan is developed each year and that the fiscal year 2018 plan will be presented at the next audit committee meeting. The types of audits conducted by the office include required audits as well as audits that are requested by administration or the Audit Committee. The staff also has audits which are carry-forward from the previous year, follow-up audits, and fraud, waste, and abuse audits. Ms. Lewis asked committee members to notify her of any requested audits they may have within the next few weeks. Recent audits performed include president's expenses, access and diversity funds, financial aid, off-campus international educational programs, NCAA compliance, miscellaneous course fees, and WETS-FM radio. Ms. Lewis said that when an audit is performed, the scope may include one or more of the following: reviewing the reliability and integrity of financial and operational information; accessing compliance with policies, plans, procedures, laws, and regulations; verifying assets are safeguarded; assessing efficiencies; and comparing results to goals and objectives. She said that she and her staff are looking forward to working with the Audit Committee and the Board of Trustees. There were no questions from the committee.

#### **IV. Adoption of Audit Committee Charter**

Ms. Lewis said an audit committee charter is required by state law and that it defines the power, duties, and mission of the committee. It was modeled after the one maintained by the Tennessee Board of Regents and it has been reviewed by university counsel and the president.

Trustee Ramsey made a motion to adopt the charter and Trustee Grisham seconded the motion. The motion passed 3-0.

#### **V. Adoption of Internal Audit Charter**

Ms. Lewis stated that an internal audit charter is required by the Institute of Internal Auditors Mandatory Guidance. It describes the purpose, authority and scope, roles and responsibilities, organizational status, reporting structure and outlines how often the charter should be reviewed. It is a revised charter in response to the creation of the Board of Trustees and has been reviewed by the committee, the president, and university counsel. Trustee Grisham commented on how this charter was exactly what the committee needed.

Trustee Ramsey made a motion to adopt the charter and Chair Golden seconded the motion. The motion passed 3-0.

## **VI. Adoption of Policies**

Ms. Lewis presented two additional policies for the committee to consider. The first was the Internal Audit Policy, which addresses staffing and the responsibility of internal audit functions, audit planning, and reporting on internal audit activities. The second policy was the Preventing and Reporting Fraud, Waste, and Abuse Policy, which provides the university community with guidance for preventing and reporting these activities. These are new policies modeled after the TBR. The Preventing and Reporting Fraud, Waste, and Abuse Policy has been reviewed by the committee, the president, and university counsel.

Ms. Lewis noted one correction on page 19 whereas a reference is made to the “Tennessee Board of Regents conflict of interest policy.” This will be changed to state the ETSU conflict of interest policy.”

Trustee Ramsey made a motion to adopt the two policies and Chair Golden seconded the motion. The motion passed 3-0.

## **VII. Other Business**

Chair Golden asked if there were any other business matters to discuss. Given there were no further business matters raised, Chair Golden adjourned the open portion of the meeting and stated that after a brief recess the committee would go into Executive Session.

EAST TENNESSEE STATE UNIVERSITY  
BOARD OF TRUSTEES

ACTION ITEM

DATE: June 9, 2017

ITEM: Audit Plan

COMMITTEE: Audit Committee

RECOMMENDED ACTION: Approve

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

The audit plan is developed through a process known as risk assessment. 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, developed at the beginning of each fiscal year and subject to revision, lists areas to be audited. The plan is submitted to the Comptroller of the Treasury, Division of State Audit.

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

**RESOLVED: The Audit Plan for 2017-18 is approved as presented in the meeting materials.**

**East Tennessee State University  
Internal Audit Plan  
Fiscal Year Ended June 30, 2018**

Rank	Type	Area	Audit
Required by State Audit	R	FM	Cash Counts/Inventories
Required by State Statute	R	FM	President's Expense
Required by CPB	R	FM	WETS-FM
Required by Bank	R	IT	NACHA Web Transactions Data Security FY 2017
Required by State Audit	R	FM	Risk Assessments
Required	R	IS	Quality Assurance and Improvement Program (Peer Review)
Follow-Up	F	FM	State Audit Follow-Up
Follow-Up	F	IA	Follow-Up Off Campus Domestic & International Programs
Follow-Up	F	IS	Follow-Up Behavioral Health & Wellness Clinic
Follow-Up	F	AT	Follow- UP NCAA - Camps & Clinics and Financial Aid Eligibility
Follow-Up	F	FM	Follow-Up Misc Course Fees
Follow-Up	F	IT	Follow-Up Web Application Security
Follow-Up	F	IS	Follow-Up Timekeeping FY 2017 Audit
Follow-Up	F	IA	Follow-Up Rural Health Leave
Follow-Up	F	AT	Follow-Up Athletics Federal Work Study
Follow-Up	F	PP	Follow-Up Physical Plant Inclement Weather
Follow-Up	F	AT	Follow-Up Men's Tennis Expenditures
Investigations	I	IA	Investigation 17-11
Investigations	I	AT	Investigation 17-13
Investigations	I	IS	Unscheduled Investigations
Consulting	C	IS	General Consultation
Project	P	IS	ACUA Track Coordinator FY 2018
Project	P	IS	ARGOS Report Writing
Project	P	IS	Audit Committee Meeting (Includes Prep)
Brought Forward Special Request	S	IA	Johnson City Community Health Center Patient Safety
Brought Forward Special Request	S	IA	College of Nursing Clinics Financial Procedures
Special Request	S	IT	Third Party Servers FY 2018
Special Request	S	PP	OSA Procedures Review
Special Request	S	FM	Executive Level Audit
Brought Forward	A	FM	Bursar's Office
Brought Forward	A	AT	Athletic Ticket Office
Brought Forward	A	SS	Title IV/Clery Act
Brought Forward	A	FM	Agency Accounts
Risk Based	A	AT	NCAA Compliance FY 2017
Risk Based	A	IS	Additional Earnings
Risk Based	A	IT	ITS General Controls (TBR Audit Program)
Risk Based	A	AT	Intercollegiate Athletics Travel and Entertainment

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

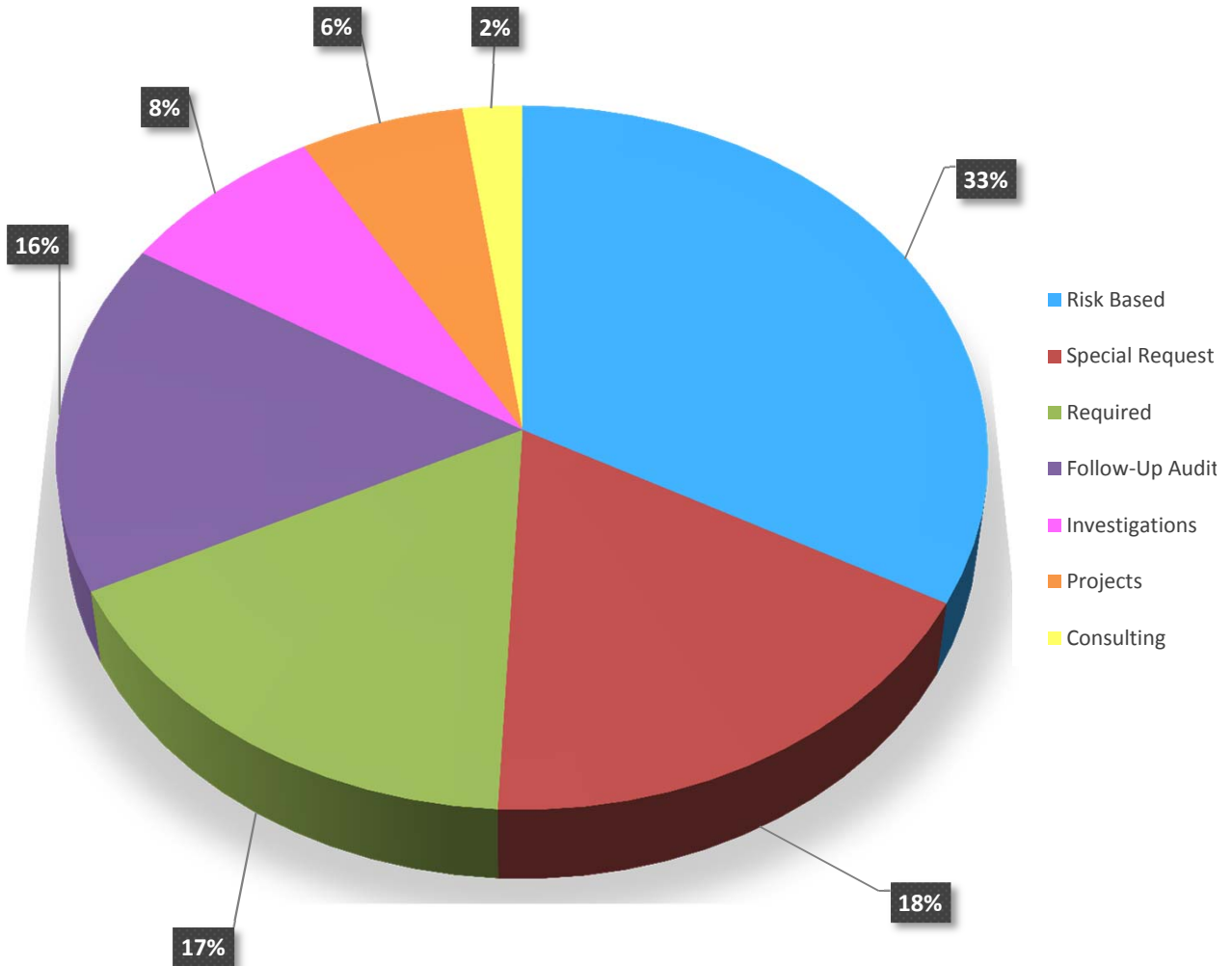
**Functional Areas:**  
AD - Advancement  
AT - Athletics  
AX - Auxiliary  
FM - Financial Management  
IA - Instruction & Academic Support  
IS - Institutional Support  
IT - Information Technology  
PP - Physical Plant  
RS - Research  
SS - Student Services



**East Tennessee State University  
Internal Audit Plan  
Fiscal Year Ended June 30, 2018**

<b>Audits by Type of Review</b>	<b>Planned</b>	
	<b># of Audits</b>	<b># of Hours</b>
Risk Based	8	1475
Special Request	5	800
Required	6	755
Follow-Up Audit	11	725
Investigations	3	350
Projects	3	275
Consulting	1	100
<b>Total</b>	<b>37</b>	<b>4480</b>

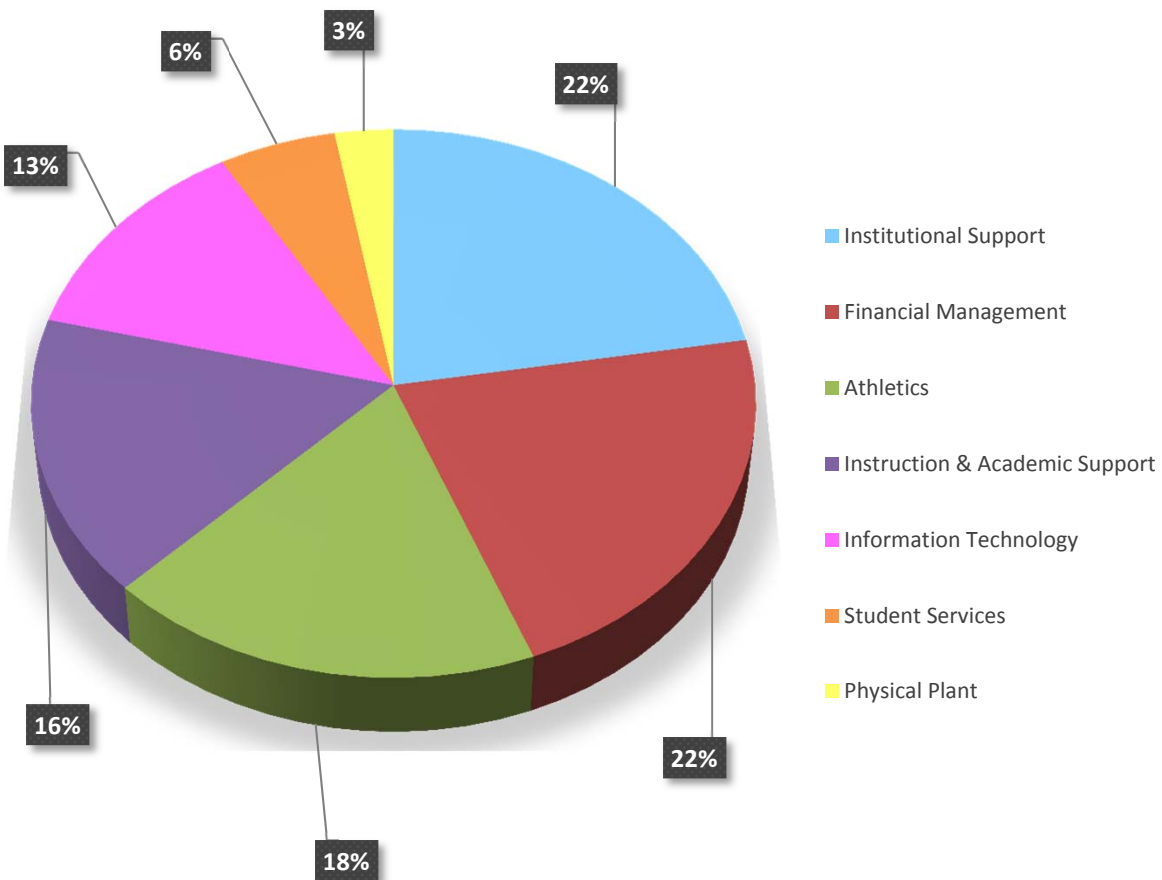
**Budgeted Audit Hours by Type**



**East Tennessee State University  
Internal Audit Plan  
Fiscal Year Ended June 30, 2018**

<b>Audits by Functional Area</b>	<b>Planned</b>	
	<b># of Audits</b>	<b># of Hours</b>
Institutional Support	9	1000
Financial Management	9	975
Athletics	7	825
Instruction & Academic Support	5	735
Information Technology	4	570
Student Services	1	250
Physical Plant	2	125
Advancement	0	0
Auxiliary	0	0
Research	0	0
<b>Total</b>	<b>37</b>	<b>4480</b>

**Budgeted Audit Hours by Functional Area**



EAST TENNESSEE STATE UNIVERSITY  
BOARD OF TRUSTEES

INFORMATION ITEM

DATE: June 9, 2017

ITEM: Recommendation Log


COMMITTEE: Audit Committee

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

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

**Recommendation Log as of May 31, 2017**

Area	Recommendation	Status
PCI Compliance Readiness Audit	PCI Questionnaire (SAQ-D) needs to be completed.	
Off Campus Domestic & International Programs	Controls over Off Campus Domestic & International Programs needs improvement.	
Behavioral Health and Wellness Clinic	Management should resolve the insurance payment issue as quickly as possible so that the Clinic Director no longer receives payments into her personal bank account.	
	Management should consider hiring a full or part-time staff member to handle billing and payment collections.	
NCAA Athletics Compliance	Intercollegiate Athletics should adhere to regulations related to Financial Aid Eligibility of student-athletes.	
	Intercollegiate athletics should adhere to the policies related to sports camps and clinics.	
Miscellaneous Course Fees	Unspent revenue carried forward into the next year should be monitored and justified.	
Web Applications Security (Limited Official Use Report)	Weaknesses discovered which lessened the internal controls in two specific areas should be resolved.	
Timekeeping	Timesheets and Time Reporting System (TRS) entries should comply with ETSU policies.	
	Timesheets should agree to backup documentation.	
Rural Health Leave	Annual/sick leave should be reported on timesheets and in TRS.	
	Any errors discovered during the audit should be submitted to Payroll for corrections.	
	Approvers should compare TRS to timesheets prior to approval.	
	Employees involved in timekeeping should attend appropriate training.	
Office of Intercollegiate Athletics Timekeeping/Pay of Student Workers	Timesheets should reflect actual hours worked.	
	Students should be paid for all hours worked.	
	Student worker should not be allowed to volunteer time for their paid position.	
Inclement Weather Pay	Underpaid employees identified in the review should be compensated.	
	In the future, all emergency crew personnel working inclement weather days should be compensated in accordance with policy.	
	Management should conduct periodic training sessions with timekeepers of emergency crew personnel.	

<p><b>Legend:</b>                  Actions are progressing in a timely fashion or not yet due                  Actions are slightly overdue                  Actions are significantly overdue</p>	
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EAST TENNESSEE STATE UNIVERSITY  
BOARD OF TRUSTEES

INFORMATION ITEM

DATE: June 9, 2017

ITEM: Recently Completed Audits

COMMITTEE: Audit Committee

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

Included in the meeting materials is a summary of the investigations completed between March 1 and May 31, 2017

# **List of Audits and Investigations Completed**

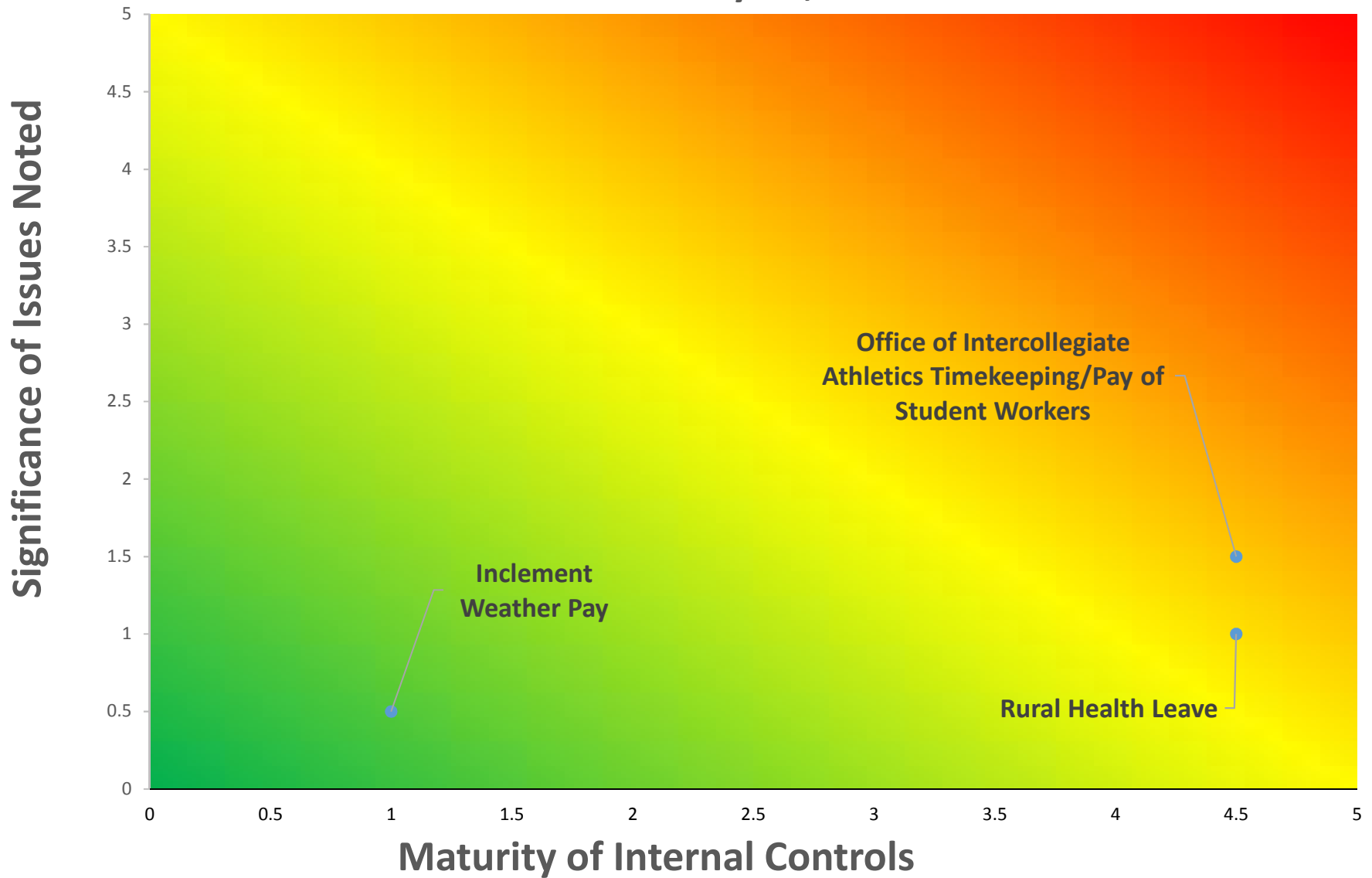
**March 1 – May 31, 2017**

## **Investigations:**

1. Rural Health Leave (FWA 17-10)
2. Office of Intercollegiate Athletics Timekeeping/Pay of Student Workers (FWA 17-08)
3. Inclement Weather Pay (FWA 17-05)

# Heat Map of Completed Audits

from March 1 - May 31, 2017





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# EAST TENNESSEE STATE UNIVERSITY

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

## MEMORANDUM

**TO:** Trustee David Golden, Audit Committee Chair  
**FROM:** Becky Lewis, Director of Internal Audit  
**SUBJECT:** Completed Investigations  
**DATE:** June 8, 2017

Below is a summary of the investigations completed between March 1 and May 31, 2017.

### **Rural Health Leave (FWA 17-10)**

We received an allegation regarding the possible abuse of leave. While we were unable to substantiate the allegation, it was discovered that the timesheets did not always match Time Reporting System (TRS). This has resulted in leave balances being overstated for the employees in this department. Management has put controls in place to properly monitor timekeeping and has plans to reduce the leave balances of any hours identified during the investigation as needed.

### **Office of Intercollegiate Athletics Timekeeping/Pay of Student Workers (FWA 17-08)**

We received an allegation regarding timekeeping and pay of student workers. We confirmed that these employees were being paid for the maximum contracted hours rather than the actual hours worked. Typically these students worked more hours than the contracted hours during the Fall term and less in the Spring. Beginning in Fall 2017, students will be paid for actual hours worked.

### **Inclement Weather Pay (FWA 17-05)**

We received an allegation regarding the possible underpayment of emergency crew personnel. We confirmed that emergency crew employees were underpaid for hours worked in excess of 7.5 hours per day during the closure period. We have determined that 57 employees were underpaid a total of \$7,424.75 from January 2012 to December 2016. Management plans to compensate these individuals and establish controls to prevent any future underpayments.



EAST TENNESSEE STATE UNIVERSITY  
BOARD OF TRUSTEES  
AUDIT COMMITTEE

MINUTES

June 9, 2017

8:30 a.m.

Johnson City, Tennessee

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

**I. Call to Order**

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

**II. Roll Call**

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

David Golden, chair  
Ron Ramsey  
Dorothy Grishim

Secretary Linville told Chair Golden he had a quorum.

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

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

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

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

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

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

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

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

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

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

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

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

## **VI. Recently Completed Audits**

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

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

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

## **VII. Other Business**

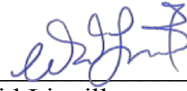
There was no other business.

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

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

Adjournment

Respectfully submitted,



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David Linville  
Secretary of the Board of Trustees

Approved by the Board of Trustees at its September 8, 2017 meeting.