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9-17-2021

### 2021 September 17 - 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  
SEPTEMBER 2021 MEETING

8:00-9:30 am EDT  
Friday  
September 17, 2021

East Tennessee Room  
D.P. Culp Student Center  
412 J.L. Seehorn Road  
Johnson City, TN

AGENDA

- I. Call to Order
- II. Roll Call
- III. [Approval of Minutes from October 21, 2020 and April 23, 2021](#)
- IV. [Annual Audit Plan for FY 2022 \(5 minutes\)](#)
  - A. [FY 2021-22 Audit Plan](#)
- V. [Audit Work Performed April through August 2021 \(5 minutes\)](#)
  - A. [Follow-up to Sunset Audit issued by State Audit](#)
  - B. [Memorandum on Investigations](#)
  - C. [Completed Audit Heat Map](#)
- VI. [Recommendation Log Status as of August 31, 2021 \(5 minutes\)](#)
- VII. [Report of Audit Functions for FY 2021 \(5 minutes\)](#)
- VIII. [Internal Audit Employee Profiles \(5 minutes\)](#)
  - A. [Internal Audit Employee Profiles](#)
- IX. [Internal Audit Operating Expenses \(5 minutes\)](#)
- X. [Board of Trustees' Conflict of Interest Policy \(5 minutes\)](#)
- XI. Other Business
- XII. Executive Session to Discuss Active Audits and Enterprise Risk Management (25 minutes)
- XIII. Adjournment

EAST TENNESSEE STATE UNIVERSITY  
BOARD OF TRUSTEES

ACTION ITEM

DATE: September 17, 2021

ITEM: Approval of the Minutes from October 21, 2020 and April 23, 2021

COMMITTEE: Audit Committee

RECOMMENDED ACTION: Approve

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

The minutes of the October 21, 2020 and April 23, 2021 meetings 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 and April 23, 2021 meetings 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

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 via teleconference and was livestreamed.

**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**

In accordance with Tennessee Code § 8-44-108 section (c) (3), 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 taken by roll call. Trustee Steagall-Jones and Ron Ramsey were physically present. Trustee Scott Niswonger, participating via Zoom, indicated that he could hear clearly and that there was no one present in the room with him. Trustees Stegall-Jones and Ramsey confirmed that they could hear Trustee Niswonger.

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 committee 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.

Secretary Green closed by noting that other Non-Audit Committee Trustees present included Janet Ayers, Virginia Foley, Linda Latimer and Austin Ramsey.

**III. Adjournment and Move to Executive Session**

Chair Steagall-Jones stated that the purpose of the meeting was to keep her informed as the new chair of the committee 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  
AUDIT COMMITTEE

MINUTES

April 23, 2021  
Johnson City, Tennessee

The ETSU Board of Trustees Audit Committee met at 8 a.m. on Friday, April 23 at the Model Mill, 602 Sevier Street, the new home of ETSU's Alumni Association and Advancement offices. The meeting was livestreamed.

**I. Call to Order**

Committee Chair Melissa Steagall-Jones called the meeting to order at 8:01 a.m.

**II. Roll Call**

Secretary Adam Green called roll and confirmed to Trustee Steagall-Jones that a quorum was present. Committee members present were Melissa Steagall-Jones, Ron Ramsey, Scott Niswonger, and Dorothy Grisham.

**III. Minutes of the Audit Committee Meeting from February 19, 2021**

The minutes from the February 19, 2021 Audit Committee meeting were reviewed. Trustee Ramsey moved for them to be approved and Trustee Grisham seconded the motion. The motion passed unanimously.

**IV. Annual Review of Audit Policies**

Ms. Rebecca Lewis discussed the Internal Audit Policy and the Preventing and Reporting Fraud, Waste, and Abuse Policy. She reported that no changes have been made to these policies since the last review. The Audit Charter requires that these policies are reviewed annually. The committee had no questions or concerns about the two policies

Ms. Lewis noted that ETSU is still under the Conflict of Interest Policy of TBR. A committee was formed to revise this policy, and feedback has been sent to Kay Lennon-McGrew from ETSU University Counsel. She hopes to have a revised policy ready for review by fall.

The audit committee is also required to review the University's Code of Conduct. At the present time, ETSU has not issued a Code of Conduct but discussion have been held regarding the need. Ms. Lewis hopes the Code of Conduct as well as the Conflict of Interest Policy to both be ready by the September audit committee meeting.

**V. Revisions to the FY 2019-20 Audit Plan**

Ms. Lewis reported that three audits have been added to the plan since the last meeting. These include Women’s Basketball Expenditures and Men’s Basketball Expenditures. It is normal practice to require an audit anytime a head coach leaves their position. Also added to the plan is the follow-up to the State Audit Report. Ms. Lewis noted that her office did delete the NACHA (National Automated Clearing House Association) audit from the audit plan. This has been required by the bank in the past but is no longer required. If Financial Services wants her staff to complete this audit in the future, she is happy to do so at their request since the regulations are still in effect. This audit deals with ACH transfers.

Trustee Ramsey made a motion to approve the revisions to the audit plan; Trustee Grisham seconded the motion. The motion passed unanimously.

Ms. Lewis stated that her office had completed one audit and two investigations. Additional information on the audits is available in the audit committee materials.

**VI. Audit Work Performed February 2021-March 2021**

A. Memorandum of Investigations: Ms. Lewis discussed one investigation which served as the follow-up to a recent theft in Central Receiving. The majority of the items stolen were recovered. Her team reviewed the additional controls that have been put in place to help prevent similar instances from occurring and, according to Ms. Lewis, it appears management has made significant improvements.

Trustee Grisham asked about the types of items that were stolen, which did include vehicles. Those vehicles were recovered.

B. Completed Audit Heat Map: The Internal Audit Heat Map was included in the materials.

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

For this report, Ms. Lewis turned the meeting over to ETSU’s Chief Financial Officer, Dr. B.J. King.

Dr. King explained that the Financial and Compliance Audit report for fiscal year 2019-20 is performed by the Comptroller of the Treasury (Division of State Audit). An exit conference was held on February 28 via zoom. A link to the published report was sent to all the board members by State Audit. According to Dr. King, the university received an unqualified opinion, and no audit adjustments were required.

ETSU did receive a finding regarding inadequate internal controls over three areas. A summary of the finding was included in the committee materials. Two items were identified during a comprehensive review of information technology and systems audit conducted prior to the financial and compliance audit. The third item was identified by management, and an internal audit report was provided to the financial

and compliance audit team. All areas of inadequate internal controls have been remedied, and the corrective action plan has been filed with the Comptroller's office.

A summary of comparative information from FY19 to FY20 is presented in the Management's Discussion and Analysis provided to the committee. Dr. King presented highlights of the report, which included:

- Current assets increased 27%; cash increased \$8.9 million;
- Accounts receivable also increased primarily due to CARES Act funding (\$3.7 million);
- Capital assets increased primarily due to Martin Center construction and D.P. Culp Student Center renovation;
- Deferred outflows decreased in 2020 due to changes in the pension plan;
- Current liabilities were up due to unearned revenue primarily in grants and contracts, and because the institution bonded three capital investments (Martin Center, Culp Center, Millennium Center) in FY20;
- Noncurrent liabilities decreased due to OPEB liability, net pension liability, a Perkins Loan fund decrease and a TSSBA debt increase due to Martin Center and Culp Center;
- Deferred inflows increased related to pensions and OPEB;
- Net investment in capital assets increased due to the Martin Center and the Culp Student Center;
- In operating revenues, tuition and fees increased due to an average 2.3% fee increase and increases in other non-mandatory fees;
- Grants and contracts increased mainly due to several new private grants, including two grants totaling \$3.2 million;
- Auxiliary revenues decreased due to the pandemic in fiscal year 2020;
- With operating expenses, salaries benefits increased in fiscal year 2020 due to a 2.0% across the board pay increase and an increase in compensated absences;
- Other services expenses increased with professional and administrative services and supplies;
- Scholarships and fellowships increased largely due to the emergency grants to students under the CARES Act;
- Depreciation increased slightly due to the completion of several renovation projects in the previous year.
- In terms of non-operating revenue and expenses, state appropriations increased 5% in FY20. This includes an increase in outcomes funding and salary increase of \$1.3 million;
- Non-operating grants and contracts increased during 2020 due to the receipt of CARES Act funding totaling \$9.1 million;
- Interest on capital asset-related debt increased with Martin Center and Culp Center;



- Other non-operating revenue increased with insurance recoveries from flood damage experienced in Lamb Hall fall 2019;
- Capital appropriations decreased \$15 million due to funding for Martin in the prior year; and
- Capital gifts decreased due to large gifts recognized in the previous year Millennium Center and Pedestrian Sky Bridge in FY19.

## **VIII. Recommendation Log Status as of March 31, 2021**

### **A. Recommendation Log:**

Ms. Lewis highlighted the Recommendation Log and noted that her team has performed several follow up reviews of prior audit findings since the last Audit Committee meeting. Those are noted in blue on the Recommendation Log and indicated corrective actions have been taken.

## **IX. Other Business**

There were no other business items to discuss.

## **X. Executive Session to Discuss Active Audits and Enterprise Risk Management**

Trustee Steagall-Jones announced the committee will move into executive session and noted that no action will be taken in executive session. Trustee Ramsey made a motion to move into executive session, and the motion was seconded by Trustee Dorothy Grisham. The motion passed unanimously.

## **XI. Adjournment**

The meeting adjourned at 8:20 a.m.

EAST TENNESSEE STATE UNIVERSITY  
BOARD OF TRUSTEES

ACTION ITEM

DATE: September 17, 2021

ITEM: Audit Plan

COMMITTEE: Audit Committee

RECOMMENDED ACTION: Approve

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

The annual audit plan is developed through a risk assessment process. Risk factors include previous audit results, internal control systems, policy or personnel changes, size, sensitivity, and external audit coverage. Special requests by Board of Trustees and university management are also considered when scheduling audits. The audit plan is developed at the beginning of each fiscal year and is subject to revision throughout the year. The approved plan is also submitted to the Comptroller of the Treasury, Division of State Audit.

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

**RESOLVED: The Audit Plan for 2021-22 is approved as presented in the meeting materials.**

**East Tennessee State University  
Internal Audit Plan  
Fiscal Year Ended June 30, 2022  
as of August 23, 2021**

Rank	Type	Area	Audit	Original Budgeted Hours
Required by State Audit	R	FM	Cash Counts/Inventories	40
Required by State Statute	R	FM	President's Expense FY 2021	100
Required by State Statute	R	FM	President's Expense FY 2022	150
Required by CPB	R	FM	WETS-FM	150
Required by Many	R	FM	Risk Assessments	150
Follow-Up	F	IA	Follow-Up Johnson City Community Health Center Financial Procedures	50
Follow-Up	F	IA	Follow-Up Johnson City Community Health Center Patient Safety	50
Follow-Up	F	IT	Follow-Up Third Party Servers	25
Follow-Up	F	IT	Follow-Up State Audit	100
Follow-Up	F	IT	Follow-Up Off Campus Domestic & International Programs	250
Follow-Up	F	IS	Follow-Up Office of Equity & Diversity	100
Follow-Up	F	IA	Follow-Up Little Bucs & Child Study Center (DHS)	100
Follow-Up	F	RS	Follow-Up Internal Medicine	100
Follow-Up	F	RS	Follow-Up Psychology	100
Follow-Up	F	IA	Follow-Up College of Nursing - Office of Practice (missing checks and petty cash loss)	50
Follow-Up	F	IS	Follow-Up Dependent/Spouse Tuition Discount	100
Follow-Up	F	IA	Follow-Up Human Patient Simulation Laboratory	100
Follow-Up	F	IA	Follow-Up Ronald E. McNair Program	75
Investigations	I	IA	Investigation 18-03	50
Investigations	I	SS	Investigation 20-04	50
Investigations	I	IA	Investigation 21-02	25
Investigations	I	IA	Investigation 21-03	100
Investigations	I	IA	Investigation 21-05	100
Investigations	I	IA	Investigation 21-06	50
Investigations	I	IA	Investigation 21-07	50
Investigations	I	FM	Investigation 22-01	150
Investigations	I	IS	Investigation 22-02	10
Investigations	I	IA	Investigation 22-03	10
Consulting	C	IS	General Consultation	100
Project	P	IS	Board of Trustees (Prep for Meetings, Meetings, etc.)	200
Project	P	IS	IIA Quality Assurance Self Assessment	100
Special Request	S	IA	Center of Excellence in Math & Science Education	100
Special Request	S	AT	Men's Basketball Expenditures FY 2021	50
Special Request	S	IA	College of Nursing - Dean's Office	75
Special Request	S	AT	Women's Basketball Expenditures	50
Special Request	S	RS	RDC Grants	150
Special Request	S	AT	Softball Expenditures	150
Special Request	S	PP	OSA Procedures Review	150
Special Request	S	FM	Executive Level Audit FY 2021	150
Special Request	S	FM	Executive Level Audit FY 2022	150
Special Request	S	IA	ORSPA Grant	150
Special Request	S	RS	R15 Research Grants	150
Risk Based	A	FM	Agency Accounts	50
Risk Based	A	IA	Minors on Campus	50
Risk Based	A	FM	Procards (New System)	150
Risk Based	A	AT	NCAA Compliance	150
Risk Based	A	AT	Complimentary Athletic Tickets	150
Risk Based	A	IA	Academic Integrity	150
Risk Based	A	FM	ID Bucs (used on campus)	150
			<b>Total</b>	<b>4960</b>

Estimate-Hours Available For Audits = 4,688 (4 staff auditors: 3 for 12 months and 1 for 11 months)

**Audit Types:**

- R - Required
- A - Risk-Based (Assessed)
- S - Special Request
- I - Investigation
- P - Project (Ongoing or Recurring)
- M - Management's Risk Assessment
- 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

EAST TENNESSEE STATE  
UNIVERSITY BOARD OF TRUSTEES

INFORMATION ITEM

DATE: September 17, 2021

ITEM: Audits and Investigations Performed

COMMITTEE: Audit Committee

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

Ms. Lewis will provide an overview of the audits and internal investigations completed during the period April 1, 2021 to August 31, 2021.

**Audits**

Follow-up to the Performance Audit of the Board of Trustees – The Department of Internal Audit has performed a follow-up of the Tennessee Comptroller of the Treasury Performance Audit finding and recommendations contained in the audit report for July 1, 2016 thru May 31, 2020. The follow-up was conducted under the authority delegated in East Tennessee State University’s *Internal Audit Policy*. The objective of the follow-up was to determine whether adequate corrective actions have been implemented to comply with audit recommendations.

**Investigations**

Ronald E. McNair Postbaccalaureate Achievement Program (21-04) – In May 2021, the Office of Internal Audit was notified of allegations received regarding the Ronald E. McNair Postbaccalaureate Achievement Program (McNair Program). The United States Department of Education requested that an investigation into these allegations be performed by the university. The primary objectives were to investigate the validity of the allegations, evaluate the adequacy of internal controls, and make recommendations to improve deficiencies.

Slocumb Galleries (21-02) – Due to concerns associated with the sale of donated artwork, an investigative review of Slocumb Galleries at East Tennessee State University (ETSU) was conducted by Internal Audit. The primary objectives were to investigate the validity of the issues identified during the review; determine the extent of any violations related to applicable policies, procedures, or regulations; evaluate the adequacy of internal controls over financial transactions at Slocumb Galleries; and make recommendations to improve deficiencies.

**East Tennessee State University  
Follow-Up to the Performance Audit  
of the Board of Trustees  
For July 1, 2016 thru May 31, 2020  
Executive Summary**

<b>Key Staff Person:</b> Public Safety Staff	<b>Auditor:</b> Internal Audit Staff
<b>Introduction</b> East Tennessee State University’s performance audit for July 1, 2016 thru May 31, 2020 contained one finding. As required, Internal Audit performed a follow-up review of actions taken in response to the finding.	
<b>Objectives</b> The objective of the follow-up is to determine if management has implemented corrective actions for the finding noted in the Division of State Audit’s performance audit report for July 1, 2016 thru May 31, 2020.	
<b>Total Questioned Costs/Losses:</b> None	<b>Total Recoveries:</b> N/A
<b>Background and Current Status</b>	
<p><u>2020 Performance Audit Finding 1:</u> <i>ETSU management did not design and implement internal controls to ensure the Clery daily crime log was accurate.</i></p> <p><u>Current Status:</u> According to personnel, ETSU Public Safety focused on Clery training as well as implementing additional controls to help ensure crime logs are accurately reported during the first quarter of 2021. As part of its review, Internal Audit staff randomly selected twenty-eight of the fifty-six Clery crime log entries (50%) between January and March 2021 for review. The crime log entries were compared to ETSU’s Computer-Aided Dispatch (CAD) software reports as well as the reports in ETSU’s Watson software that contain the officer’s narratives. In order to ensure corrective actions were taken, the following items related to the crime entries were reviewed for accuracy: the date reported; the nature, date, and time of the incident; the general location where the incident occurred; and the disposition of the case. In addition, staff compared the date the incident was reported to the date the crime was entered into the log to ensure it was disclosed within two business days unless this would jeopardize an ongoing investigation, as required. Based on our review, significant improvements have been made to Clery crime log entries since the initial audit.</p> <p>The audit objectives were met.</p>	



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# EAST TENNESSEE STATE UNIVERSITY

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Department of Internal Audit  
Box 70566  
Johnson City, TN 37614-1707  
Telephone: 423/439-6155

## MEMORANDUM

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

**FROM:** Becky Lewis, Chief Audit Executive *B Lewis*

**SUBJECT:** Completed Investigations – April 1 to August 31, 2021

**DATE:** September 17, 2021

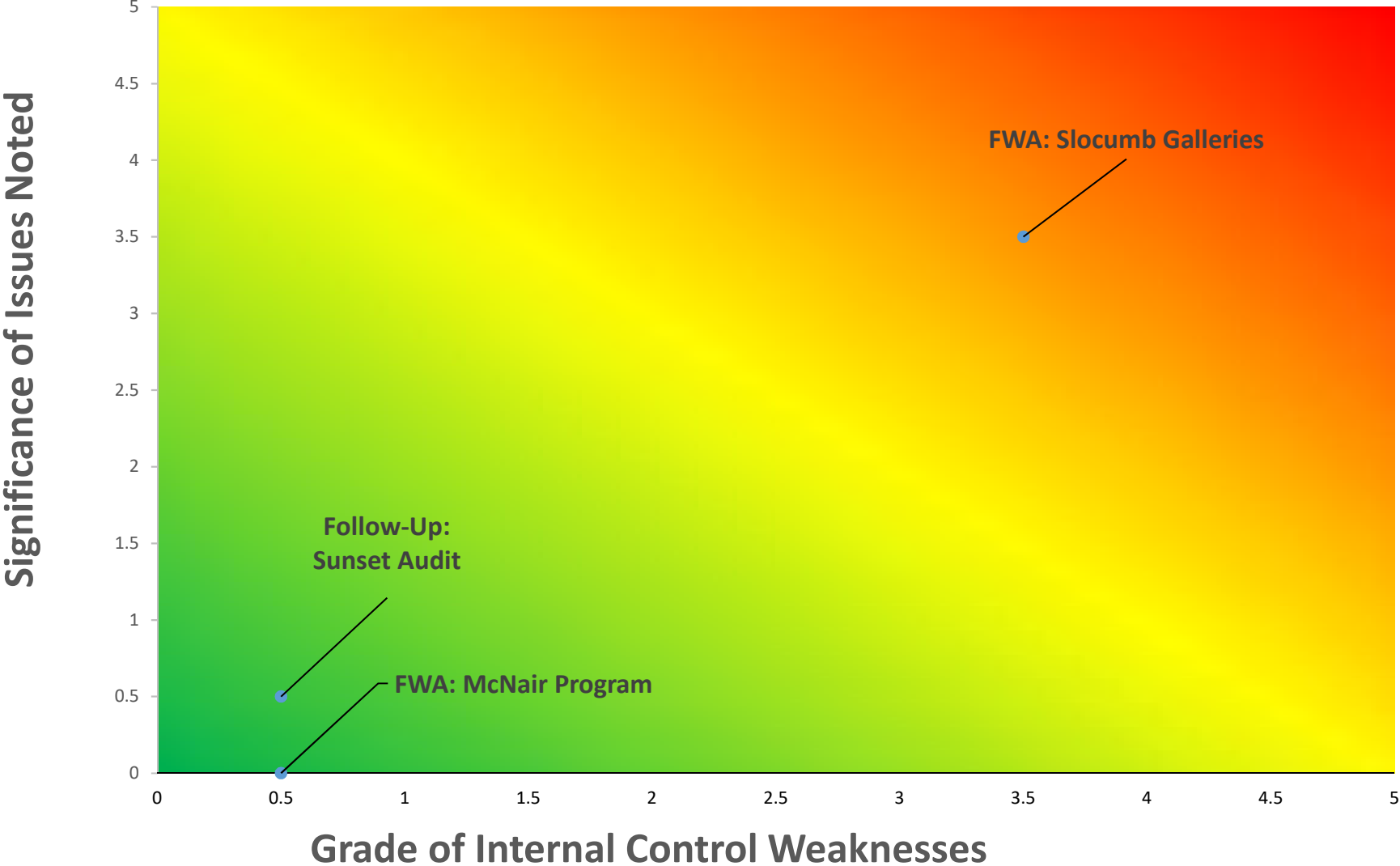
Below is a summary of the investigations completed between April 1 and August 31, 2021.

***Ronald E. McNair Postbaccalaureate Achievement Program (FWA 21-04):*** The investigation revealed that the allegations related to inaccurate payments to participants were primarily unsubstantiated. Most McNair participants between May 2019 and April 2021 received the proper amount based on documentation reviewed. There were, however, two participants whose supporting documentation was not readily available and one participant who was overpaid \$9 due to a clerical error. The stipends are based on task completed and are processed through the Financial Aid Office. These stipends could reduce the students' other financial aid awards in order to prevent an over award. In addition, the stipends could be used to pay an outstanding balance owed to the university prior to disbursement. Additional expenditures of the program were also reviewed. Based on our review, it appears that McNair funds are being used to support the students and the program. Furthermore, there was no evidence discovered to indicate that meeting requests between the participants and the McNair staff had been denied.

***Slocumb Galleries (FWA 21-02):*** The investigation revealed policies and procedures were not followed regarding cash receipts, acceptance of gifts, gifts-in-kind, disposal of surplus property, and deposit of funds. Although proper policies were established by the University, controls and procedures need to be in place within Slocumb Galleries and Mary B. Martin School of the Arts to ensure compliance. The corrective action plan outlined by the college should help prevent future violations from occurring.

# Heat Map of Completed Audits

from April 1 - August 31, 2021



EAST TENNESSEE STATE  
UNIVERSITY BOARD OF TRUSTEES

INFORMATION ITEM

DATE: September 17, 2021

ITEM: Recommendation Log

COMMITTEE: Audit Committee

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

Audit reports often contain recommendations to improve internal controls or procedures. For each recommendation, management must respond with a corrective action plan. A follow-up review of these corrective action plans is later performed by Internal Audit. A log is maintained to track the status of prior audit recommendations and is communicated to the Board of Trustees' Audit Committee each meeting.



East Tennessee State University		
Internal Audit Recommendation Log as of August 31, 2021		
Area	Recommendation	Status
Off Campus Domestic & International Programs	Controls over Off Campus Domestic & International Programs needs improvement.	Green
Office of Equity & Diversity	Internal Controls related to the use of Access & Diversity funds for promoting the recruitment and retention of faculty, staff, and students needs improvement.	Green
	Internal Controls related to diversity scholarships needs improvement.	Green
Johnson City Community Health Centers (JCCHC) - Financial Procedures	Cash receipting procedures need improvement.	Green
JCCHC - Patient Safety	Physicians review of charts procedures need improvement.	Green
Third Party Servers	Weaknesses in five specific areas need corrected in order to improve internal controls.	Blue
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
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
Human Patient Simulation Laboratory	Procedures related to conflict of interest need improvement.	Green
	Processes related to licensing agreements need improvement.	Green
Ronald E McNair Program	Process related to documentaiton on tasks completed needs improvement.	Green

<b>Legend:</b>	
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: September 17, 2021

ITEM: Annual Report on Audit Function

COMMITTEE: Audit Committee

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

The Annual Report for the Department of Internal Audit for the 2021 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 2021 audit efforts of Internal Audit.



Department of Internal Audit  
East Tennessee State University

# 2020-21 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 2020-21 was a productive year for us, even with a global pandemic occurring. Our accomplishments include the following:

- ◆ Completed 5 Audits and 7 Investigations
- ◆ Followed up on 8 Prior Internal Audit Reports
- ◆ Issued a Follow Up Report related to 1 State Audit Review

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 Winegar, CPA**  
Associate Director

**Logan Greer**  
Internal Auditor

**Bryan Brockwell**  
Internal Auditor

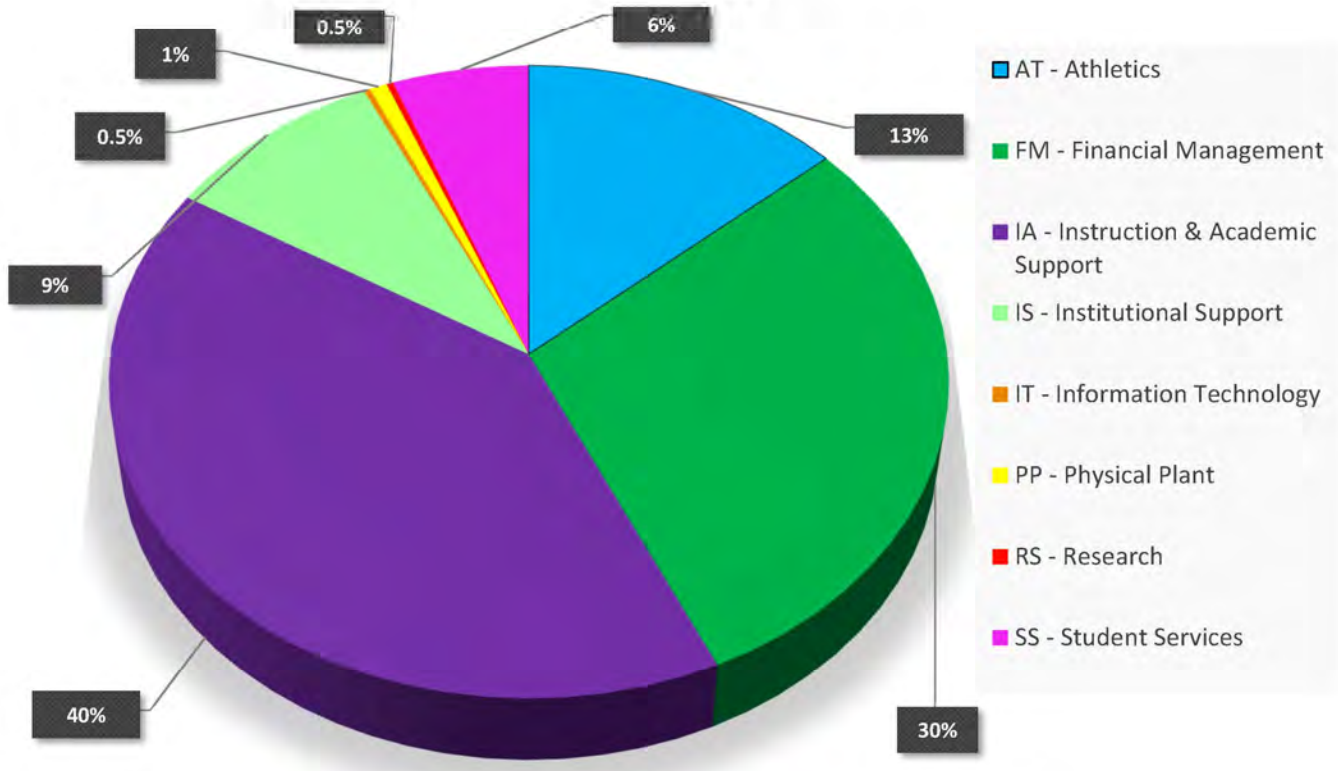
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**East Tennessee State University**  
**Audit Activity Completed**  
**Fiscal Year Ended June 30, 2021**

<b>Audits - Required</b>	FM	President's Expense FY 2020
	FM	Cash Counts/Inventories
	FM	WETS-FM
<b>Audits - Special Requests</b>	AT	Men's Basketball Expenditures FY 2020
<b>Audits - Risk Based</b>	IS	Dependent Tuition Discount
<b>Follow-Ups Reviews</b>	SS	Follow-Up Jeanne Clery Act Compliance
	IA	Follow-Up Slocumb Galleries
	IA	Follow-Up Art & Design
	AT	Follow-Up Golf Expenditures
	AT	Follow-Up Women's Soccer Expenditures
	IA	Follow-Up Honors College Timekeeping
	FM	Follow-Up Procurement
	IA	Follow-Up Pride Picnic
	SS	Follow-Up State Audit Sunset Audit
	<b>Investigations</b>	IA
IA		Investigation 20-07
IA		Investigation 20-08
RS		Investigation 20-10
IA		Investigation 20-11
IS		Investigation 21-01
FM		Investigation 21-04

**Actual Audit Hours by Functional Area  
FY 2021**



**East Tennessee State University**  
**Audit Activity in Progress**  
**As of June 30, 2021**

<b>Audits - Required</b>	FM	President's Expense FY 2021
	FM	Risk Assessments
<b>Audits - Special Requests</b>	IA	Center of Excellence in Math and Science Education
	RS	RDC Grants
	IA	College of Nursing—Dean's Office
	AT	Women's Basketball Expenditures
	AT	Men's Basketball Expenditures - FY 2021
<b>Audits - Risk Based</b>	FM	Agency Accounts
	IA	Non-Student Minors on Campus
<b>Follow-Ups Reviews</b>	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
<b>Investigations</b>	IA	Investigation 18-03
	RS	Investigation 20-04
	SS	Investigation 21-02
	IA	Investigation 21-03
	PP	Investigation 21-05
	FM	Investigation 21-06
	IA	Investigation 21-07

**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 2021 surveys are below:

Number of Surveys Sent Out	31
Number of Positive Surveys Returned	5
Number of Negative/Mixed Surveys Returned	2
Number of Surveys not Returned	24

**Feedback:**

One area in which Internal Audit needs to improve upon based on a few questionnaires is the length of time it takes to complete an audit. Our office plans to look at areas in which we could expedite the process while maintaining or improving the value of our services.

Key Performance Indicators	FY 20/21	FY 19/20	FY 18/19	FY 17/18
Number of Full Time Staff	3	3.75	4	4
Number of Audits Completed	5	9	9	14
Number of Follow-Ups on Prior Internal Audit Findings	8	6	10	6
Number of State Audit Follow-Up Issued	1	0	1	0
Number of Investigations Completed	7	7	9	6
Number of Procard Reviews	0	19	16	3
Number of Other Audit Activities Completed (i.e. consulting, projects, etc.)	3	3	3	3
Percentage of Effort Spent on Audit Activities	55%	58%	74%	69%
Average Number of Years of Professional Experience	12	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 2020-2021 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 2020-2021 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 2020-2021 fiscal year.

EAST TENNESSEE STATE  
UNIVERSITY BOARD OF TRUSTEES

ACTION ITEM

DATE: September 17, 2021

ITEM: Internal Audit Employee Profiles

COMMITTEE: Audit Committee

RECOMMENDED ACTION: Approve

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

The Board of trustees must annually approve the salaries of those individuals working in the Department of Internal Audit. A table of salaries is provided in the meeting materials. 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 by the Board of Trustees:**

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

## ETSU Internal Audit Employee Profile - FY 2022

<b>Name</b>	<b>Position</b>	<b>Professional Certification</b>	<b>Current Annual Salary</b>	<b>Years of Professional Experience</b>	<b>Years of Experience at ETSU</b>
Rebecca Lewis	Chief Audit Executive	CPA	\$ 104,000	27	23
Martha Winegar	Associate Director	CPA	\$ 68,000	16	9
Logan Greer	Internal Auditor	-	\$ 47,860	9	6
Bryan Brockwell	Internal Auditor	-	\$ 38,940	2	2



EAST TENNESSEE STATE  
UNIVERSITY BOARD OF TRUSTEES

INFORMATION ITEM

DATE: September 17, 2021

ITEM: Internal Audit Operating Expenses

COMMITTEE: Audit Committee

PRESENTED BY: Rebecca A. Lewis, CPA  
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 in a copy of the operating budget for the Division of Internal Audit.

## Internal Audit Travel and Operating Budget for FY 2022

	<b>Total Budget</b>	<b>Average Per Auditor</b>
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 4 Staff Members

### **Operating Budget covers:**

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

EAST TENNESSEE STATE UNIVERSITY  
BOARD OF TRUSTEES

ACTION ITEM

DATE: September 17, 2021

ITEM: Approval of Board of Trustees' Conflict of Interest Policy

COMMITTEE: Audit Committee

RECOMMENDED ACTION: Approve

PRESENTED BY: Mark Fulks  
University Counsel

Individual conflicts of interests may naturally arise during the course of service to the Board of Trustees. Subsequently, the ETSU Board of Trustees should adopt a Conflict of Interest Policy for the Board of Trustees. The attached Conflict of Interest Policy for the Board of Trustees provides a framework for defining potential conflicts of interests, obligates disclosure of any actual or perceived conflicts of interests, outlines prohibited conduct, and requires periodic review of the policy by the Audit Committee. This policy will replace the current policy, which was carried forward from the Tennessee Board of Regents.

The attached proposed policy is submitted for review and approval by the Audit Committee prior to submission to Full Board of Trustees.

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

**RESOLVED: The Board of Trustees' Conflict of Interest Policy is approved by the Board as outlined in the meeting materials.**

## **Conflict of Interest Policy for Board of Trustees**

For Appointed Board Members

### **Article I: Conflict of Interest.**

ETSU Board of Trustees have a duty to avoid activities and situations that, either actually or potentially, place personal interests ahead of the professional obligations they owe to the University. Trustees are expected to arrange their outside obligations, financial interests and activities so as not to conflict with their commitment to the University. Trustees shall not use their official positions to secure unwarranted privileges or advantages for themselves or others and must always act in compliance with any applicable state and federal laws and regulations.

Conflicts that are both permitted by law and permitted under this Policy or other University policies do not violate this Policy. This Policy does not amend other University policies or procedures for reviewing, approving, managing, and monitoring conflicts.

### **Article II: Prohibited Conduct.**

Trustees and their immediate family members are prohibited from holding financial interests in any contract or transaction affecting the interests of the University, or procuring, or being a party in any way to procuring the appointment of any relative to any position of financial trust or profit connected with the University. Trustees shall avoid external commitments which significantly interfere with their duties to the University. Trustees shall avoid situations where their self-interest diverges from the interest of the University.

The potential for a conflict of interest, or the appearance thereof, extends across a wide range of activities. Conflicts of interest include, but are not limited to:

- Employment by the University
- Outside Activities
- Purchasing and Contracts
- Fundraising
- Resolution of Possible Conflicts of Interest

#### **Section I. Employment by the University**

Employment by the University, either directly or as an independent consultant of the Trustee or a Trustee's immediate family member is prohibited. This includes applying for a position prior to resigning the Trustee's position on the Board.

#### **Section II: Outside Activities**

Prohibited outside activities include, but are not limited to:

1. Outside activities which conflict with commitments to the University or imply that the University endorses an organization or activity or constitute an unauthorized use of the University's resources or name;
2. Partisan political activity prohibited by federal and state law or regulations, when on university property, or using University resources or the University name; and
3. Outside business in which the trustee has an ownership interest or serves as a paid employee or officer which compete with the University, sell goods or services to the University (applicable only if more than 5% of the business' sales are with the University), or receive funding from the University.

### **Section III. Purchasing and Contracts**

Negotiation, authorization, or execution of purchasing agreements or other types of contracts with the University in situations where the Trustee or the Trustee's immediate family member has a direct or indirect financial or other interest or the acceptance of gifts, favors or other things of value from vendors and contractors connected with the University.

### **Section IV. Gifts**

Trustees and their immediate family members shall not shall solicit or accept, directly or indirectly, any gift, including but not limited to any gratuity, service, favor, food, entertainment, lodging, transportation, loan, loan guarantee or any other thing of monetary value, from any person or entity that: (1) has, or is seeking to obtain, contractual or other business or financial relations with ETSU; or (ii) has interests that may be substantially affected by the performance or nonperformance of the Trustee's official duties.

### **Article III: Conflict of Interest Disclosure.**

Trustees shall disclose any actual or perceived conflicts of interest for review. The Board or a duly appointed committee shall evaluate a conflict of interest and determine, what if any action is necessary. Trustees who have declared or who have been found to have a conflict of interest shall refrain from participation in consideration of matters in committees and the full board, unless for special reasons they are requested to provide specific information or an interpretation regarding the matter. Trustees with conflicts shall not vote nor be present at the time of a vote on the matter for which they have a conflict of interest.

Upon appointment and annually thereafter, Trustees shall file a financial disclosure form with the Board Secretary.

### **Article IV: Period Review.**

The Audit Committee shall review this Policy every five years and present any recommended updates to the full Board for its action.

EAST TENNESSEE STATE UNIVERSITY  
BOARD OF TRUSTEES  
AUDIT COMMITTEE

MINUTES

September 17, 2021  
Johnson City, Tennessee

The East Tennessee State University Board of Trustees' Audit Committee met on Friday, September 17, 2021, at 8 a.m. in the East Tennessee Room of the D.P. Culp Student Center.

**I. Call to Order**

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

**II. Roll Call**

Board Secretary Dr. Adam Green led the roll call. Because Trustee Dorothy Grisham participated remotely, in accordance with Tennessee Code § 8-44-108 section (c) (3), Dr. Green asked Trustee Grisham for the record if she could clearly hear so that she could participate in the meeting, and if she would identify any persons present in the room with her from which she was participating in the meeting. She reported that she could hear and was alone. Those Trustees present in the East Tennessee Room affirmed they were able to hear Trustee Grisham.

Additionally, Dr. Green reported that since a Trustee is participating remotely, should any votes be taken, they must be taken by roll call.

Committee members present were:

Trustee Ron Ramsey  
Trustee Dorothy Grisham (participating remotely)  
Trustee Melissa Steagall Jones

Dr. Green reported to Trustee Steagall-Jones that a quorum was present. In addition to the Committee members, Trustees Virginia Foley and Linda Latimer were also present.

**III. Minutes of the Audit Committee Meeting from October**

The minutes from October 21, 2020 and April 23, 2021 were reviewed. Trustee Ramsey made a motion for the minutes to be approved. Trustee Grisham seconded the motion. The motion passed unanimously upon a roll call vote.

**IV. Annual Audit Plan for FY 2022**

Ms. Rebecca Lewis presented the Annual Audit Plan which is developed by Internal Audit through a risk assessment process. In addition to risk-based audits, the proposed plan also includes required audits, special requests, follow-up reviews, and audits/investigations in progress from the prior fiscal year. Once the plan is approved, it is submitted to the Comptroller of the Treasury, Division of State Audit. All revisions to the audit plan must be approved throughout the year by the Audit Committee.

- V. Trustee Ramsey made a motion for the plan to be approved. Trustee Grisham seconded the motion. The motion passed unanimously upon a roll call vote.

**VI. Audit Work Performed April through August 2021**

Ms. Lewis reported that Internal Audit has completed one audit and two investigations since the last committee meeting.

An audit related to the Performance Audit of the Board of Trustees issued by the Comptroller of the Treasury was completed. This follow up focused on the additional controls that were put in place since the audit related to the Clery Daily Crime Log. Based on the review, Ms. Lewis felt that significant improvements have been made to help ensure the accuracy of the daily crime log entries.

Investigation into allegations involving the Ronald E. McNair Post-Baccalaureate Achievement Program was conducted. The main portion of the audit was related to a claim that payments were not accurately paid to participants. According to Ms. Lewis, this was primarily unsubstantiated. These payments do, however, go through financial aid and could affect the amount of aid.

An investigation into Slocumb Galleries was also conducted. This involved the sale of donated artwork. Various policies involving the acceptance of the gifts and the subsequent sale did not follow university policies. Corrective action has been identified by the college to help prevent future policy violations from occurring.

A copy of the Audit Heat Map was included in agenda materials and presented to committee members.

## **VII. Recommendation Log Status as of August 31, 2021**

Committee members reviewed the recommendation log and offered no changes.

## **VIII. Report of Audit Functions for FY 2021**

Ms. Lewis discussed the annual report on the internal audit function. During FY 2020, her office completed 12 audits or investigations as well as nine follow-up reviews. Approximately 70 percent of audit time was spent in the areas of “Instruction and Academic Support” and “Financial Management.”

## **IX. Internal Audit Employee Profiles**

Ms. Lewis presented the departmental profiles, which include salaries, professional certification, and years of experiences for each member of the ETSU Internal Audit team. A new employee, Bryan Brockwell, joined the team a month ago. In accordance with the Audit Committee Charter, these profiles must be approved by the Audit Committee annually. Trustee Ramsey made a motion for approval. Trustee Grisham seconded the motion. The motion passed unanimously upon a roll call vote.

## **X. Internal Audit Operating Expenses**

A copy of the departmental budget was shared with the Audit Committee.

## **XI. Board of Trustees’ Conflict of Interest Policy**

Dr. Mark Fulks, University Counsel, presented a draft copy of the Conflict of Interest Policy for the Board of Trustees. Dr. Fulks stated the policy, which replaces the current policy which was carried forward from the Tennessee Board of Regents, provides a framework for defining potential conflicts of interests, obligates disclosure of any actual or perceived conflicts of interests, outlines prohibited conduct, and requires periodic review of the policy by the Audit Committee.

Trustee Foley raised a question regarding the need for clarification in the policy that employment at ETSU by the faculty and student trustees is permitted and does not reflect a conflict of interest. The committee agreed that this adjustment to the language within the policy should be made.

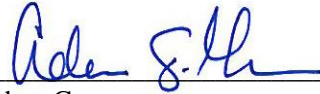
Trustee Ramsey made a motion for the policy to be approved as amended. Trustee Grisham seconded the motion. The motion passed unanimously upon a roll call vote.

## **XII. Other Business**



There were no other business items to discuss. A motion was made and seconded to adjourn to Executive Session. Chair Steagall-Jones stated that no actions will be taken while the committee is in Executive Session, and that the committee will not reconvene.

Respectfully submitted,



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Adam Green  
Secretary of the Board of Trustees

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