

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

10:45-11:45am EST
Friday
November 16, 2018

The Millennium Center
2001 Millennium Pl
Johnson City, TN

AGENDA

- I. Call to Order
- II. Roll Call
- III. [Approval of the Minutes of the Audit Committee September 21, 2018](#)
- IV. [Audit Work Performed September through October 2018 \(10 minutes\)](#)
 - A. [Football Expenditures](#)
 - B. [President's Expenses](#)
 - C. [Memorandum on Investigations](#)
 - D. [Completed Audit Heat Map](#)
- V. [Recommendation Log Status as of October 31, 2018 \(5 minutes\)](#)
- VI. [Internal Audit Salaries \(5 minutes\)](#)
- VII. [Internal Audit Operating Expenses \(5 minutes\)](#)
- VIII. Other Business
- IX. Executive Session to Discuss Active Audits and Enterprise Risk Assessment (30 minutes)
- X. Adjournment

EAST TENNESSEE STATE UNIVERSITY
BOARD OF TRUSTEES

ACTION ITEM

DATE: November 16, 2018

ITEM: Approval of the Minutes of September 21, 2018

COMMITTEE: Audit Committee

RECOMMENDED ACTION: Approve

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

The minutes of the September 21, 2018 meeting of the Audit Committee are included in the meeting materials

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

RESOLVED: The reading of the minutes of the September 21, 2018 meeting of the Audit Committee is omitted, and the minutes are approved as presented in the meeting materials, provided that the Secretary is authorized to make any necessary edits to correct spelling errors, grammatical errors, format errors, or other technical errors subsequently identified.

EAST TENNESSEE STATE UNIVERSITY
BOARD OF TRUSTEES
AUDIT COMMITTEE

MINUTES

September 21, 2018
Johnson City, Tennessee

The East Tennessee State University Board of Trustees Audit Committee met at 9 a.m. on Friday, September 21, 2018, in the Reece Museum on the ETSU campus.

I. Call to Order

Mr. David Golden, chair of the Audit Committee and vice chair of the Board of Trustees, called the meeting to order at 9:02 a.m.

II. Roll Call

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

Dorothy Grisham
Ron Ramsey
David Golden

Guests at the meeting were Becky Lewis, chief internal auditor; Martha Stirling, internal auditor; Dr. Brian Noland, ETSU president; Kristen Swing, director of communications; James Batchelder, assistant dean for fiscal affairs, College of Clinical and Rehabilitative Health Sciences; Dr. Lauren Collier, Tennessee Higher Education Commission; and Joe Smith, executive assistant to the president for University Relations (taking minutes).

III. Approval of Minutes of the Audit Committee from April 27, 2018

The minutes of the April 27, 2018 meeting of the Audit Committee were presented and approved.

IV. Quality Assurance and Improvement Program

Trustee Golden requested to move this topic up from agenda item VII to agenda item IV to allow for sufficient discussion time. Ms. Rebecca Lewis presented a summary of the recent Self-Assessment review in June 2018 followed by the Independent Validation in August 2018. It is required by the Institute of Internal Auditors (IIA) to periodically complete self-assessments and have an independent validation every five years. Through the self-assessment, ETSU identified a few areas that presented opportunities for improvement. These areas of improvement were not included in the report from the independent validators. The report from the independent validators showed that ETSU generally complies with all IIA standards, which is the best rating an Internal Audit department can obtain from its peers. The independent validators identified three opportunities for continuous improvement. One involves documenting in the audit report the date and person responsible for implementing recommendations. The second one involves the audit universe, which is used to develop our

audit plan, for the College of Medicine. The independent validators felt that ETSU needs to identify auditable areas within the College of Medicine and include them in the university. The final one had to do with making sure the Information Technology Auditor had relevant training and to include more IT audits on the plan.

ETSU's responses were included in the report within the audit provided at the meeting. Some of these actions can be easily accomplished, while others may be more difficult based on limitations with staff.

A discussion by committee members took place regarding the various types of IT audits that ETSU might conduct. These might include security audits, firewall audits, or high-level IT audits. Dr. Noland suggested we ask Dr. Karen King and Andrea Di Fabio to identify areas within our IT system that might present the highest risk. In follow-up to the report on the College of Medicine, President Noland recommended that the College of Medicine be included on the audit universe and that we begin by identifying the areas that we could audit and then determine which present the highest risk.

V. Audit Plan

The Audit Plan for fiscal year 2019 was presented for approval. This was provided to Trustee Golden prior to the July 1 meeting in order to obtain preliminary approval at the start of the fiscal year. The committee approved the plan and made a motion to ratify any previous work for the plan that was already done. That motion passed as well.

VI. Audits and Investigations Performed

Five completed audits were presented, with three not having any issues or concerns noted. These were the men's soccer expenditures, the National Automated Clearing House Association (NACHA) website transaction data, and the state audit follow-up. Our prior state audit report had two findings, and the follow-up revealed that corrective action had been taken. The other two audits were requested by the College of Nursing. One involved financial procedures, and the other involved patient safety. The audit on financial procedures revealed supporting documentation was not always prepared and maintained. In addition, the fee schedule used did not always match the approved fee schedule. The audit on patient safety revealed improvements were needed in regard to privileging and credentialing, follow-up appointments, and the physician's review of charts. Details for those audits were included in the executive summary, and full reports are available upon request.

In addition to the five audits, ETSU completed three reports related to investigations. The first was from the Office of Student Support Services in the College of Nursing. Two reports were issued. The first involved a non-exempt employee who had claimed to have worked overtime without compensation for years. While the investigation did show she may have worked outside her normal schedule, there were also concerns about unrecorded leave and abuse of FMLA. The second report involved some inappropriate Procard purchases of another employee within the department.

The third report was for a payroll services fraud that involved two employees who had responded to a phishing email that gave fraudsters access to their email and allowed them access to communicate with ETSU's Payroll office. The university was able to recuperate a portion of the diverted funds.

Ms. Lewis also presented an overview of the Audit Heat Map.

VII. Recommendation Log Status as of August 31, 2018

A copy of the Recommendation Log was shared revealing that many follow-up reviews have been completed since the last meeting. Several other projects should be completed by the next meeting.

VIII. Annual Report on Audit Activity FY 2018

Ms. Lewis shared a copy of the annual report for the Department of Internal Audition for the 2018 fiscal year. The report provides information to the Board of Trustees concerning 2018 audit efforts. Highlights of the report included a listing of all audits that were issued or were in progress during the year, the implementation of a new customer satisfaction survey process, the development of a fraud training presentation, and the results of a fraud risk assessment. The report also included mandatory disclosures that must be made as part of IIA Standards.

IX. Other Business

Trustee Golden asked if there were any additional business items. Given there were none, the meeting adjourned and the committee moved into executive session.

EAST TENNESSEE STATE UNIVERSITY
BOARD OF TRUSTEES

INFORMATION ITEM

DATE: November 16, 2018
ITEM: Audits and Investigations Performed
COMMITTEE: Audit Committee
PRESENTED BY: Rebecca A. Lewis, CPA
Director of Internal Audit

Ms. Lewis will provide an overview of the audits and internal investigations completed during the time period September 1 to October 31, 2018. Those audits and investigations follow:

Audits:

- Football Expenditures - An audit of East Tennessee State University's Football Expenditures was conducted by Internal Audit personnel in accordance with the Annual Audit Plan. At the request of administration, the Office of Internal Audit will conduct an audit of head coaches at the end of their employment. In December 2017, Football's Head Coach (Coach) resigned.
- President's Expenses - An audit of the President's expense was conducted in order to comply with Tennessee Code Annotated, Title 49, Chapters 7 and 14, by performing an internal financial audit for the fiscal year July 1, 2017 to June 30, 2018. 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:

- Physical Therapy (FWA 19-03) - An investigative review of the Physical Therapy Department was conducted due to concerns over the revenue collection process at two-student led events. In August 2018, Physical Therapy contacted Foundation Accounting regarding the use of a Square device for their upcoming golf tournament. A Square allows smart phone or tablet owners to accept and receive debit/credit card payments. The use of a Square, or other similar devices, is not allowable method for collecting revenue. After the weekend golf tournament was complete, Foundation Accounting discovered that a Square was used to collect funds the day of the event as well as at a previous student-led party known as the PhysioBall.

**East Tennessee State University
Football Expenditures
For the Fiscal Years 2017 - 2018
Executive Summary**

Key Staff Person: Former Football Coach	Auditor: Assistant Director of Internal Audit
<p>Introduction</p> <p>An audit of East Tennessee State University’s Football Expenditures was conducted by Internal Audit personnel in accordance with the Annual Audit Plan. At the request of administration, the Office of Internal Audit will conduct an audit of head coaches at the end of their employment. In December 2017, Football’s Head Coach (Coach) resigned.</p>	
<p>Objectives</p> <ol style="list-style-type: none"> 1. To evaluate the adequacy of the internal controls. 2. To determine compliance with university policies and procedures. 3. To make recommendations for correcting deficiencies or improving operations. 	
Total Questioned Costs/Losses: None	Total Recoveries: N/A
<p>Findings</p> <p>Finding 1: <u>Procedures related to Procard use needs improvement</u></p> <p>During the course of the audit, it was discovered that adequate procedures for Procard purchases were not always followed. While the expenditures were valid, the policies were not always followed as it relates to the type of expenditures that can be paid using a Procard. Failure to follow proper procedures could result in incurring expenses that violate the University’s purchasing and/or Procard use policies. Athletic Administration is taking appropriate steps to ensure Procard policies are followed. Athletics would, however, like to request a meeting with Financial Services to discuss the possibility of changing the Procard policy, which would allow each team to utilize one procard per sport rather than multiple cards.</p> <p>Finding 2: <u>Procedures related to volunteers needs improvement</u></p> <p>During the course of the audit, it was discovered that proper procedures regarding volunteers were not always followed. A vehicle was rented by a Football volunteer for a recruitment trip in two instances. While it does not appear the volunteer went on the trip, he did rent the vehicle for the Director of Football Operations (DFO). According to a comment in eBucs, ETSU’s purchasing system, the volunteer rented the car and drove it from a local Enterprise Rent-a-Car company to the ETSU campus for the DFO’s use. Based on Personnel Policies, volunteers cannot enter into any agreements with an outside vendor. In addition, volunteers should not be allowed to drive a rental or state-owned vehicle without prior written consent of the President. It was also noted that the volunteer had not completed a volunteer agreement as required by policies. Athletic Administration is taking appropriate steps to ensure the university’s volunteer policies are followed.</p> <p>The objectives of the audit were met.</p>	

East Tennessee State University
Audit of President's Expenses
For the Fiscal Year July 1, 2017 – June 30, 2018

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, 2017 to June 30, 2018; to determine compliance with state statutes and institutional policies regarding expenses; and to identify and report all expenses made by, at the direction of or for the benefit of the President regardless of the funding source.																																		
Scope	The audit included all accounts under the direct budgetary control of the President, whether funded by institutional funds, foundation funds or external sources and other accounts as necessary. The audit was conducted in accordance with the <i>International Standards for the Professional Practice of Internal Auditing</i> , issued by the Institute of Internal Auditors and included tests of the accounting records and such other auditing procedures considered necessary.																																		
Analysis	<p>Financial Services along with the President's Office prepares a detailed annual expense report of the President's Office. These schedules were reviewed and verified for accuracy and completeness during the audit. The following is a summary by funding source of (1) certain expenses made by, at the direction of, or for the benefit of the President, and (2) salary and benefits and any other operating expenses for the President's office during the fiscal year ended June 30, 2018:</p> <table border="1" data-bbox="393 886 1518 1213"> <thead> <tr> <th></th> <th style="text-align: center;">Institutional</th> <th style="text-align: center;">Foundation</th> <th style="text-align: center;">Total</th> </tr> </thead> <tbody> <tr> <td>Salary & Benefits – President & Staff</td> <td style="text-align: right;">\$ 724,394.63</td> <td style="text-align: right;">\$ -</td> <td style="text-align: right;">\$ 724,394.63</td> </tr> <tr> <td>Travel – President</td> <td style="text-align: right;">32,219.37</td> <td style="text-align: right;">-</td> <td style="text-align: right;">32,219.37</td> </tr> <tr> <td>Travel – Other Personnel</td> <td style="text-align: right;">11,697.01</td> <td style="text-align: right;">8,423.34</td> <td style="text-align: right;">20,120.35</td> </tr> <tr> <td>Business Meals & Hospitality</td> <td style="text-align: right;">31,789.47</td> <td style="text-align: right;">44,248.95</td> <td style="text-align: right;">76,038.42</td> </tr> <tr> <td>Other Expenses of the President</td> <td style="text-align: right;">68,957.98</td> <td style="text-align: right;">-</td> <td style="text-align: right;">68,957.98</td> </tr> <tr> <td>Miscellaneous Operating Expenses</td> <td style="text-align: right;">80,129.97</td> <td style="text-align: right;">49,202.04</td> <td style="text-align: right;">129,332.01</td> </tr> <tr> <td>Total Expenses</td> <td style="text-align: right;"><u>\$ 949,188.43</u></td> <td style="text-align: right;"><u>\$ 101,874.33</u></td> <td style="text-align: right;"><u>\$ 1,051,062.76</u></td> </tr> </tbody> </table> <p>Additional Disclosures: Salary and Benefits – Salary and Benefits for the President totaled \$392,169.47 and includes the Discretionary Allowance and Vehicle Allowance. Discretionary Allowance – The President was provided a discretionary spending allowance of \$5,000 for the period. Use of the allowance was not included in tests performed during the audit because the President elected for it to be paid as taxable income. Vehicle – The President was provided a vehicle allowance of \$750 per month and paid as taxable income. Housing – The President was provided the use of a residence. Operating and maintenance costs for the residence, totaling \$31,781.76 for the period, were recorded in Facilities and not included in the above totals; the scope of the review related to these expenses was limited. Home improvement costs, however, are included above in Other Expenses of the President.</p>				Institutional	Foundation	Total	Salary & Benefits – President & Staff	\$ 724,394.63	\$ -	\$ 724,394.63	Travel – President	32,219.37	-	32,219.37	Travel – Other Personnel	11,697.01	8,423.34	20,120.35	Business Meals & Hospitality	31,789.47	44,248.95	76,038.42	Other Expenses of the President	68,957.98	-	68,957.98	Miscellaneous Operating Expenses	80,129.97	49,202.04	129,332.01	Total Expenses	<u>\$ 949,188.43</u>	<u>\$ 101,874.33</u>	<u>\$ 1,051,062.76</u>
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Questioned Costs	None	Recoveries	N/A																																
Conclusion	The objectives of the audit of the expenses of the Office of the President for East Tennessee State University for the fiscal year July 1, 2017 through June 30, 2018 were met. The audit revealed no significant statutory or policy violations, material omissions from the expense reports or deficiencies in internal controls. The supplemental schedules included with this report fairly represent the expenses of the President's Office.																																		



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, Director of Internal Audit *B. Lewis*

SUBJECT: Completed Investigations – September 1 - October 31, 2018

DATE: November 16, 2018

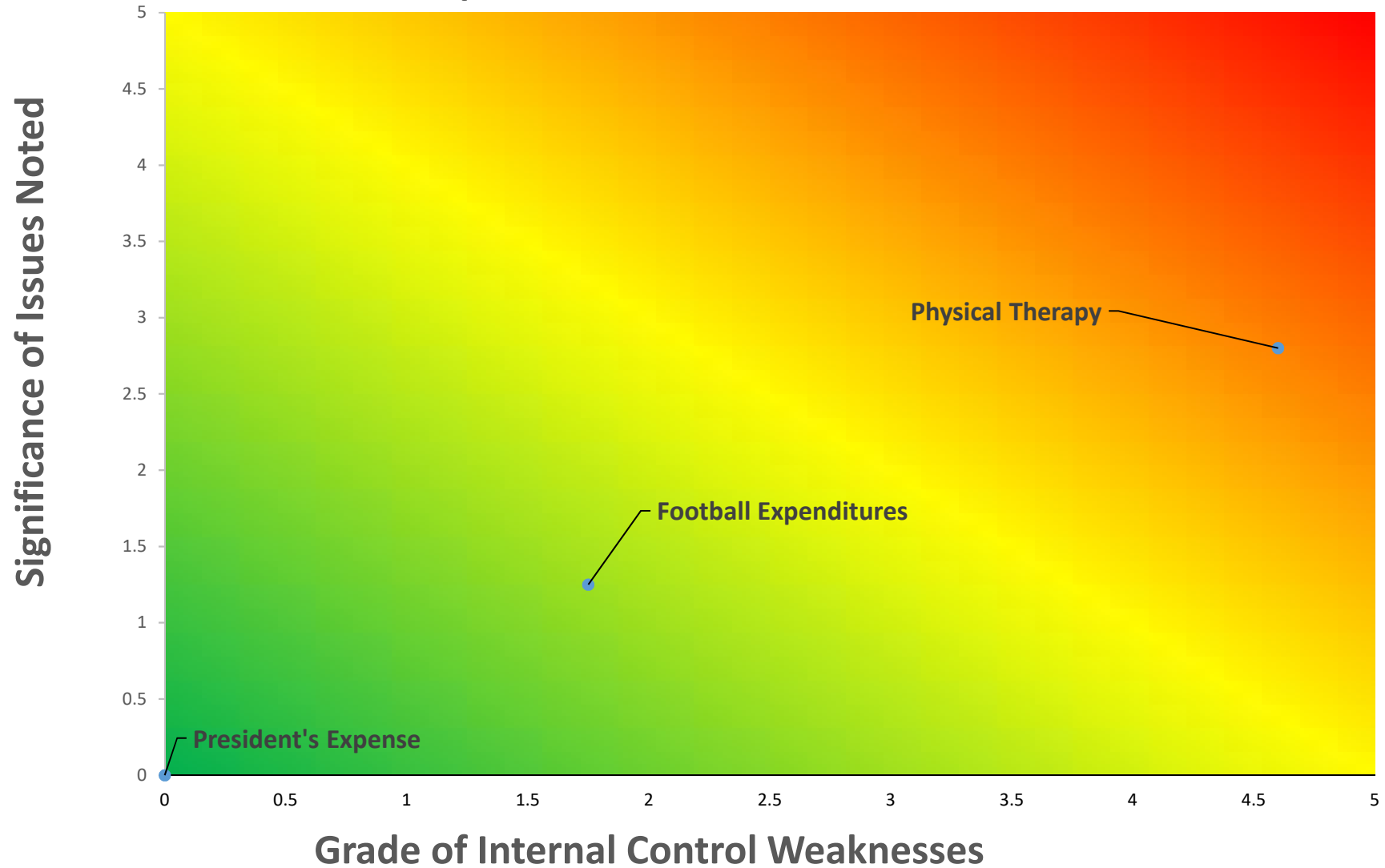
Below is a summary of the investigations completed from September 1, 2018 – October 31, 2018.

Physical Therapy (FWA 19-03):

The investigation revealed that proper controls and procedures were not always followed for two student-led events related to cash receipts, purchasing, and the deposit of funds. Unallowable methods of collecting funds were used including a smart phone device and mobile app. Revenue received from the events could not be verified due to the lack of receipts or other supporting documentation. In addition, expenses were sometimes paid from the revenue received prior to deposit and not always supporting by sufficient documentation. The audit revealed \$953.32 of net income was collected through unallowable methods. Of this amount, \$904.87 has now been deposited into an appropriate account. The department is planning to collect the remaining funds of \$48.45. Management is taking appropriate steps to help ensure proper procedures and controls are in place for future events.

Heat Map of Completed Audits

from September 1 - October 31, 2018



EAST TENNESSEE STATE UNIVERSITY
BOARD OF TRUSTEES

INFORMATION ITEM

DATE: November 16, 2018
ITEM: Recommendation Log
COMMITTEE: Audit Committee
PRESENTED BY: Rebecca A. Lewis, CPA
Director of Internal Audit

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

East Tennessee State University		
Internal Audit Recommendation Log as of October 31, 2018		
Area	Recommendation	Status
PCI Compliance Readiness Audit	PCI Questionnaire (SAQ-D) needs to be completed.	Blue
Off Campus Domestic & International Programs	Controls over Off Campus Domestic & International Programs needs improvement.	Green
Tennis Expenditures See Additional details in report Issued: June 9, 2017 (Coach A) and October 27, 2017 (Coach B)	General/Overall concerns of travel claim reimbursements need improvement	Green
	Internal controls related to the following expenditure items needs improvement: (1) team meals and snacks, (2) stringing services, (3) registration fees, (4) transportation expenses, and (5) other disbursements.	Green
	Internal controls related to donations and refunds received need improvement	Green
	Internal controls related to reporting of leave used by the coaches need improvement	Green
Baseball Expenditures	Procedures related to team travel need improvement.	Green
	Student workers should be compensated for all hours worked.	Green
Women's Tennis Expenditures (Coach C)	Expenditures which could be considered compensation should not be submitted on the travel claim.	Green
Child Study Center	The collection of revenue and payment of expenditures related to the pride picnic should follow university policies and procedures as well as any applicable state laws.	Green
Parking Services	Internal Controls related to collection of parking fines and permit revenue needs improvement.	Blue
Language and Culture Resource Center	Internal Controls related to the collection of revenues and payment of expenditures related to the Corozon Latino Festival needs improvement.	Green
	Internal Controls related to the remittance of sales tax on vendor revenue needs improvement.	Green
Office of Equity & Diversity	Internal Controls related to the use of Access & Diversity funds for promoting the recruitment and retention of faculty, staff, and students needs improvement.	Green
	Internal Controls related to diversity scholarships needs improvement.	Green
Nursing Student Services (2 Reports)	Management should take appropriate steps to ensure the University's Personnel Policies and Procedures, Fair Labor Standards Act, and the Family Medical Leave Act are followed.	Green
	Controls over proper procard spending within the department need improvement.	Green
Johnson City Community Health Centers - Financial Procedures	Cash receipting procedures need improvement.	Green
	Patient account and billing procedures need improvement.	Green
Johnson City Community Health Centers - Patient Safety	Privileging and credentialing procedures need improvement.	Green
	Follow-up appointment procedures need improvement.	Green
	Physicians review of charts procedures need improvement.	Green
Payroll Services Fraud	Internal controls over changes in an employee's direct deposit information need improvement.	Green
Football Expenditures	Procedures related to Procard use needs improvement.	Green
	Procedures related to volunteers needs improvement.	Green
Physical Therapy	Controls and procedures related to cash receipts, purchasing, and deposit of funds over student-led events 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

ACTION ITEM

DATE: November 16, 2018

ITEM: Internal Audit Salaries

COMMITTEE: Audit Committee

RECOMMENDED ACTION: Approve

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

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.

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 FY 2019 Salaries

Name	Position	Professional Certification	Current Annual Salary	Years of Professional Experience	Years of Experience at ETSU
Rebecca Lewis	Director	CPA	\$ 90,009	24	20
Martha Stirling	Assistant Director	CPA	\$ 57,253	13	6
Angela Finney	Internal Auditor	CPA	\$ 46,923	25	16
Logan Greer	Internal Auditor	-	\$ 46,922	6	3
Tyler Troutman (1)	Graduate Assistant	-	\$ 3,600	-	-

(1) Tyler will be graduating in December 2018.

EAST TENNESSEE STATE UNIVERSITY
BOARD OF TRUSTEES

INFORMATION ITEM

DATE: November 16, 2018
ITEM: Internal Audit Operating Expenses
COMMITTEE: Audit Committee
PRESENTED BY: Rebecca A. Lewis, CPA
Director of Internal Audit

The Board of Trustees through its Audit Committee must ensure the Department of Internal Audit has sufficient resources to complete its work. The operating budget and expenses associated with the Division of Internal Audit are as follows:

Internal Audit Travel and Operating Budget for FY 2019

	Total Budget	Average Per Auditor
Current Travel Budget	\$ 4,750.00	\$ 1,187.50
Current Operating Budget	\$ 10,790.00	\$ 2,697.50

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