

EAST TENNESSEE STATE UNIVERSITY  
BOARD OF TRUSTEES  
AUDIT COMMITTEE  
MAY 2017 CALLED MEETING

9:00am EDT  
Monday  
May 8, 2017

President's Conference Room  
Burgin Dossett Hall, Room 206  
1276 Gilbreath Drive  
Johnson City, TN

AGENDA

- I. Call to Order
- II. Roll Call
- III. Introduction of Office of Internal Audit Staff and Functions
- IV. [Action Item: Adoption of Audit Committee Charter](#) .....Tab 1
- V. [Action Item: Adoption of Internal Audit Charter](#) .....Tab 2
- VI. [Action Item: Adoption of Policies](#) .....Tab 3
  - A. [Internal Audit Policy](#)
  - B. [Preventing and Reporting Fraud, Waste, and Abuse Policy](#)
- VII. Other Business
- VIII. Adjournment of Open Meeting
- IX. Executive Session to Discuss Incomplete Investigations
- X. Adjournment

EAST TENNESSEE STATE UNIVERSITY  
BOARD OF TRUSTEES

ACTION ITEM

DATE: May 8, 2017

ITEM: Adoption of Audit Committee Charter

COMMITTEE: Audit Committee

RECOMMENDED ACTION: Approve

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

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

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

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

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

# East Tennessee State University

## *Audit Committee Charter*

### I. **Purpose and Mission**

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

The Audit Committee will provide oversight in the following areas:

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

### II. **Authority**

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

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

### III. Responsibilities

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

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

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

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

#### B. External Audits

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

#### C. Internal Audit Activities

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

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

D. Internal Audit Administration

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

E. Risk, Internal Control and Compliance

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

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

**IV. Independence**

Each member shall be free of any relationship that would give the appearance of a conflict or that would interfere with his or her exercise of independent judgment.

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

**V. Meetings**

- A. The Audit Committee shall meet as necessary, but at least annually, and also whenever requested by the chair of the Audit Committee or the Comptroller of the Treasury,
- B. The Audit Committee may invite Board management, auditors, or others to attend and provide relevant information,

- C. Meeting agendas will be provided to members in advance, along with appropriate briefing materials,
- D. The Board Secretary or their designee shall take minutes at each meeting of the Audit Committee and maintain approved minutes as the official record of such meeting,
- E. A majority of the members of the committee shall constitute a quorum for the transaction of business
- F. All meetings of the Audit Committee shall adhere to the Open Meetings Act, Tennessee Code Annotated Title 8, Chapter 44, except that pursuant to TCA § 4-35-108(b), the Audit Committee may hold confidential, nonpublic executive sessions for the sole purpose of discussing the following:
  - 1. Items deemed not subject to public inspection under Tennessee Code Annotated, Sections 10-7-503 and 10-7-504, and all other matters designated as confidential or privileged under state or federal law,
  - 2. Litigation,
  - 3. Audits or investigations,
  - 4. Information protected by federal law, and
  - 5. Matters involving information under Tennessee Code Annotated, Section 4-35-107(a), where the informant has requested anonymity.

**Approvals**

Approved by: \_\_\_\_\_ Date: \_\_\_\_\_  
David A. Golden  
Chair of the Audit Committee

Approved by: \_\_\_\_\_ Date: \_\_\_\_\_  
Scott Niswonger  
Chairman of the Board

EAST TENNESSEE STATE UNIVERSITY  
BOARD OF TRUSTEES

ACTION ITEM

DATE: May 8, 2017

ITEM: Adoption of Internal Audit Charter

COMMITTEE: Audit Committee

RECOMMENDED ACTION: Approve

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

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

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

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

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

## **East Tennessee State University Internal Audit Charter**

### **Introduction**

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

### **Purpose**

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

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

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

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

## **Authority and Scope**

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

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

## **Role and Responsibility**

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

- Comply with auditing standards established by the Institute of Internal Auditors to ensure the effectiveness and quality of the internal audit effort.
- Develop and implement audit plans after consultation with the President and the Audit Committee that respond to both risk and cost effectiveness criteria.
- Review the reliability and integrity of information, and the information technology processes that produce that information.
- Verify compliance with applicable policies, guidelines, laws, and regulations.
- Suggest policies and procedures or improvements to existing policies and procedures where appropriate.
- Provide audit reports that identify internal control issues and make cost-effective recommendations to strengthen control.

- Facilitate the resolution of audit issues with administrators who have the most direct involvement and accountability.
- Review institutional operations (financial and other) on an advisory basis to inform and assist management in the successful execution of their duties.
- Assist with audits or perform certain agreed upon procedures for external parties. External parties include but are not limited to audit offices of federal and state governments and related agencies.
- Review management's risk assessment process and advise management on the reasonableness and propriety of the assessment.
- Promote and evaluate fraud prevention and identification programs and investigate allegations involving fraud, waste, and abuse.
- Demonstrate and promote appropriate ethics and values within the organization.
- Communicate activities and information among the board, internal auditors, external auditors and the administration.

### **Organizational Status/Reporting Structure**

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

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

### **Audit Standards and Ethics**

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

**Periodic Review of Internal Audit Charter**

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

\_\_\_\_\_  
President, East Tennessee State University

\_\_\_\_\_  
Date

\_\_\_\_\_  
Chief Internal Auditor, East Tennessee State University

\_\_\_\_\_  
Date

EAST TENNESSEE STATE UNIVERSITY  
BOARD OF TRUSTEES

ACTION ITEM

DATE: May 8, 2017

ITEM: Adoption of Policies

COMMITTEE: Audit Committee

RECOMMENDED ACTION: Approve

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

The Board of Trustees is committed to the responsible stewardship of its resources. Management of the university is responsible for maintaining a work environment that promotes ethical and honest behavior. Additionally, it is the responsibility of management to establish and implement internal control systems and procedures to prevent and detect irregularities, including fraud, waste and abuse. Management at all levels should be aware of the risks and exposures inherent in their areas of responsibility, and should establish and maintain proper internal controls to provide for the security and accountability of all resources entrusted to them.

To that end, the two policies are considered by the Audit Committee related to the function of Internal Audit and preventing/reporting fraud, waste and abuse. The first policy, the Internal Audit Policy, addresses staffing, responsibilities of the internal audit function, audit planning and reporting on internal audit activities. The second policy, Preventing and Reporting Fraud, Waste, and Abuse, provides the university community with the guidelines on preventing and reporting such activities.

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

**RESOLVED: The Internal Audit and Preventing and Reporting Fraud, Waste, and Abuse policies are approved as presented in the meeting materials.**

**Policy Title:** Internal Audit

**Policy Type:** Finance/Administration

**New/revised:** Revised

**Old Policy #:** 4:01:05:00

**Approval level:**  Board of Trustees [Select box for appropriate level of anticipated final approval]  
 President  
 Vice President  
 Other (specify here)

**Purpose:** This policy addresses staffing, responsibilities of the internal audit function, audit planning and reporting on internal audit activities.

**Policy:**

I. General Statement

- A. The internal audit function contributes to the improvement of the institution's operations by providing objective and relevant assurance regarding risk management, control and governance processes to management and the Board of Trustees.
- B. Management is responsible for evaluating the institution's risks and establishing and maintaining adequate controls and processes.
- C. To provide relevant information, the internal audit activity will consider the goals of the institution, management's risk assessments and other input from management in determining its risk-based audit activities.

II. Internal Audit Standards

- A. Each internal audit function shall adhere to The Institute of Internal Auditors' (IIA) *International Standards for the Professional Practice of Internal Auditing* and Code of Ethics (TCA § 4-3-304(9)). The Institute of Internal Auditors, International Professional Practices Framework (IPPF), incorporates the definition of internal auditing, the *International Standards for the Professional Practice of Internal Auditing* and Code of Ethics into one document. It includes the following definition of internal auditing:
  1. Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.
- B. Risk is the possibility of an event occurring that will have an impact on the achievement of an institution's goals and objectives.
  1. Risk is measured in terms of the impact an event may have and the likelihood that the event will occur.
  2. To optimize the achievement of the institution's goals and objectives, the Board of Trustees and management act to minimize the related risks by implementing reasonable procedures to control and monitor the risks.
- C. Governance processes are the combination of processes and structures implemented by the Board of Trustees to inform, direct, manage, and monitor the activities of the organization toward the achievement of its objectives.

1. Examples of such processes include:
    - a. The organizational structure within an institution or a department;
    - b. Policies, guidelines and procedures instituted by the Board of Trustees or management to direct and control a particular activity such as maintenance fees or hiring practices; and
    - c. Preparation and review procedures for preparing reports such as annual financial statements or federal grant or financial aid reports.
  - D. The IPPF includes attribute standards, which address the expected characteristics of organizations and individuals performing internal audit activities and performance standards, which describe the nature of internal audit activities and establish criteria to evaluate the performance of internal audit activities.
  - E. To assure compliance with the *International Standards for the Professional Practice of Internal Auditing (Standards)*, the Office of Internal Audit must implement and maintain a quality assurance and improvement program that incorporates both internal and external assessments.
    1. Internal assessments are ongoing, internal evaluations of the internal audit activity, coupled with periodic self-assessments and/or reviews.
    2. External assessments enable the internal audit activity to evaluate conformance with the *Standards*; internal audit and audit committee charters; the organization's risk and control assessment; the effective use of resources; and the use of successful practices.
    3. An external assessment must be performed at least every five years by an independent reviewer or review team.
    4. Results of the external assessment will be communicated to the Audit Committee and management.
- III. Internal Audit Personnel
- A. The university shall employ at least two individuals with full-time responsibility as internal auditors.
  - B. Internal Audit Staff
    1. Internal audit staff must possess the professional credentials, knowledge, skills, and other competencies needed to perform their individual responsibilities.
    2. The internal audit function collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities.
    3. The Chief Internal Auditor must be licensed as a Certified Public Accountant or a Certified Internal Auditor, maintain an active license and annually complete sufficient, relevant continuing professional education to satisfy the requirements for the professional certification held.
    4. Other university auditors should annually complete sufficient, relevant continuing professional education to satisfy the requirements for their related professional certification or, at a minimum, forty hours of relevant continuing professional education annually.
    5. The Chief Internal Auditor should communicate concerns to management and the Audit Committee regarding the lack of sufficient resources to complete the objectives of an engagement or the audit plan.
    6. Such resources may include the need for additional personnel or personnel with specialized knowledge, such as those with knowledge of fraud, information technology or other technical areas.

- C. The appointment of the Chief Internal Auditor as recommended by the President is subject to approval by the Audit Committee (TCA § 49-14-102(a)).
  - D. Compensation of the Chief Internal Auditor is subject to review by the Audit Committee.
  - E. The termination or change of status of the Chief Internal Auditor (TCA § 49-14-102(b)) requires a majority vote of the Audit Committee.
- IV. Internal Audit Role and Scope
- A. Reporting Structure
    - 1. In accordance with TCA § 49-14-102(b) and the Board of Trustees Bylaws, the Chief Internal Auditor reports directly to the Audit Committee.
    - 2. This reporting structure assures the independence of the internal audit function.
  - B. The internal auditors' responsibilities include:
    - 1. Working with management to assess institutional risks and developing an audit plan that considers the results of the risk assessment.
    - 2. Evaluating institutional controls to determine their effectiveness and efficiency.
    - 3. Coordinating work with external auditors, program reviewers, and consultants.
    - 4. Determining the level of compliance with internal policies and procedures, state and federal laws, and government regulations.
    - 5. Testing the timeliness, reliability, and usefulness of institutional records and reports.
    - 6. Recommending improvements to controls, operations, and risk mitigation resolutions.
    - 7. Assisting the institution with its strategic planning process to include a complete cycle of review of goals and values.
    - 8. Evaluating program performance.
    - 9. Performing consulting services and special requests as directed by the Audit Committee or the institution's President.
  - C. The scope of internal auditing extends to all aspects of institutional operations and beyond fiscal boundaries. The internal auditor shall have access to all records, personnel, and physical properties relative to the performance of duties and responsibilities.
  - D. The scope of a particular internal audit activity may be as broad or as restricted as required to meet management needs.
  - E. Objectivity is essential to the internal audit function. Therefore, internal audit personnel should not be involved in the development and installation of systems and procedures, preparation of records, or any other activities that the internal audit staff may review or appraise. However, internal audit personnel may be consulted on the adequacy of controls incorporated into new systems and procedures or on revisions to existing systems.
  - F. Management is responsible for identifying, evaluating, and responding to potential risks that may impact the achievement of the institution's objectives. Auditors continually evaluate the risk management, internal control, and governance processes. To facilitate these responsibilities, Internal Audit will receive notices or copies of external audit reviews, program reviews, fiscally related consulting reports, cash shortages, physical property losses, and employee misconduct.
- V. Audit Plans and Activity Reports
- A. Internal Audit shall develop an annual audit plan using an approved risk assessment methodology.

- B. At the beginning of each fiscal year, after consultation with the President and other institution management, Internal Audit will prepare an annual audit plan. The audit plan must be flexible to respond to immediate issues and will be revised for such changes during the year.
  - C. Audit plans and revisions will be reviewed and approved by the Audit Committee.
  - D. At the end of each fiscal year, Internal Audit will prepare an annual activity report of all significant audit services performed.
  - E. Annual activity reports and approved audit plans will be provided to the Comptroller's Office, Division of State Audit.
- VI. Audit Engagements
- A. Audit engagements will be planned to provide relevant results to management and the Audit Committee regarding the effectiveness and efficiency of processes and controls over operations. To ensure management's expectations are met, auditors will communicate with management regarding the objectives and scope of the engagement.
  - B. In planning and during the engagement, auditors should consider and be alert to risks that affect the institution's goals and objectives, operations and resources. Auditors should consider risks based on the operations under review, which include but are not limited to the risk of financial misstatements, noncompliance and fraud.
  - C. An audit work program will be designed to achieve the objectives of the engagement and will include the steps necessary to identify, analyze, evaluate and document the information gathered and the conclusions reached during the engagement.
  - D. Working papers that are created, obtained or compiled by an internal audit staff are confidential and are not an open record (TCA § 4-4-304(9)).
- VII. Communicating Audit Results
- A. A written report that documents the objectives, scope, conclusions, and recommendations of the audit will be prepared for audit engagements providing assurance to the Board of Trustees and management. Management will include corrective action for each reported finding.
  - B. Internal Audit will perform audits to follow-up on findings or recommendations included in internal audit and investigation reports. For these follow-ups, a written report will be prepared for any findings or recommendations that have not been corrected and management will be asked to include a revised corrective action plan. For follow-ups in which corrections have been implemented, a memo will be placed in the working paper file documenting the reasons for the closure. In addition, Internal Audit will perform audits to follow-up on findings or recommendations included in State Audit reports and a written report will be prepared. The President, along with the Audit Committee, will be notified at the conclusion of a follow-up audit.
  - C. A written report that documents the objectives, scope, conclusions and recommendations will be prepared for investigations resulting from allegations or identification of fraud, waste or abuse. As appropriate in the circumstances, management will include corrective action for each reported finding. In a case where allegations are not substantiated by the review and there are no other operational concerns to report to management regarding the review, the case may be closed by writing a memo to the working paper file documenting the reasons for closing the case.
  - D. Reports on special studies, consulting services, and other non-routine items should be prepared as appropriate, given the nature of the assignment.
  - E. All internal audit reports will be signed by the Chief Internal Auditor and transmitted directly to the President in a timely manner.

- F. The Chief Internal Auditor will present significant results of internal audit reports to the Audit Committee.
  - G. The Chief Internal Auditor will provide a copy of each report to the Comptroller's Office, Division of State Audit.
- VIII. Exceptions
- A. Any exceptions to the policy established herein shall be subject to the approval of the Audit Committee.

**Policy Title:** Preventing and Reporting Fraud, Waste or Abuse

**Policy Type:** Finance/Administration

**New/revised:** Revised

**Old Policy #:** 4:01:05:50

**Approval level:**  Board of Trustees [Select box for appropriate level of anticipated final approval]  
 President  
 Vice President  
 Other (specify here)

**Purpose:** The Board of Trustees is committed to the responsible stewardship of its resources. Management of the university is responsible for maintaining a work environment that promotes ethical and honest behavior. Additionally, it is the responsibility of management to establish and implement internal control systems and procedures to prevent and detect irregularities, including fraud, waste and abuse. Management at all levels should be aware of the risks and exposures inherent in their areas of responsibility, and should establish and maintain proper internal controls to provide for the security and accountability of all resources entrusted to them.

**Definitions:**

- Fraud - An intentional act to deceive or cheat, ordinarily for the purpose or result of causing a detriment to another and/or bringing about some benefit to oneself or others. Fraudulent activities may include, but are not limited to the following:
  - Theft, misappropriation, misapplication, destruction, removal, or concealment of any institutional assets or resources, including but not limited to funds, securities, supplies, equipment, real property, intellectual property or data.
  - Improper use or assignment of any institutional assets or resources, including but not limited to personnel, services or property.
  - Improper handling or reporting of financial transactions, including use, acquisitions and divestiture of state property, both real and personal.
  - Authorization or receipt of compensation for hours not worked.
  - Inappropriate or unauthorized use, alteration or manipulation of data, computer files, equipment, software, networks, or systems, including personal or private business use, hacking and software piracy.
  - Forgery or unauthorized alteration of documents.
  - Falsification of reports to management or external agencies.
  - Pursuit of a personal benefit or advantage in violation of the TBR Conflict of Interest Policy.
  - Concealment or misrepresentation of events or data.
  - Acceptance of bribes, kickbacks or any gift, rebate, money or anything of value whatsoever, or any promise, obligation or contract for future reward, compensation, property or item of value, including intellectual property.
- Waste - Waste involves behavior that is deficient or improper when compared with behavior that a prudent person would consider a reasonable and necessary business practice given the facts and circumstances. Waste is a thoughtless or careless act, resulting in the expenditure, consumption, mismanagement, use, or squandering of institutional assets or resources to the

detriment or potential detriment of the institution. Waste may also result from incurring unnecessary expenses due to inefficient or ineffective practices, systems, or controls. Waste does not necessarily involve fraud, violation of laws, regulations, or provisions of a contract or grant agreement.

- Abuse - Abuse involves behavior that is deficient or improper when compared with behavior that a prudent person would consider a reasonable and necessary business practice given the facts and circumstances. Abuse also includes misuse of authority or position for personal financial interest or those of an immediate or close family member or business associate. Abuse does not necessarily involve fraud, violation of laws, regulations, or provisions of a contract or grant agreement. (U.S. Government Accountability Office, Government Auditing Standards, July 2007.)

**Policy:**

I. Preventing Fraud, Waste or Abuse

A. Maintaining an Ethical Work Environment

1. Management is responsible for maintaining a work environment that promotes ethical and honest behavior on the part of all employees, students, contractors, vendors and others.
2. To do so, management at all levels must behave ethically and communicate to employees and others that they are expected to behave ethically.
3. Management must demonstrate through words and actions that unethical behavior will not be tolerated.

B. Implementing Effective Internal Control Systems

1. Management of the university has the responsibility to establish and implement internal control systems and procedures to prevent and detect irregularities, including fraud, waste and abuse.
2. Internal controls are processes performed by management and employees to provide reasonable assurance of:
  - a. Safeguards over institutional assets and resources, including but not limited to cash, securities, supplies, equipment, property, records, data or electronic systems;
  - b. Effective and efficient operations;
  - c. Reliable financial and other types of reports; and
  - d. Compliance with laws, regulations, contracts, grants and policies.
3. To determine whether internal controls are effective, management should perform periodic risk and control assessments, which should include the following activities:
  - a. Review the operational processes of the unit under consideration.
  - b. Determine the potential risk of fraud, waste, or abuse inherent in each process.
  - c. Identify the controls included in the process (or controls that could be included) that result in a reduction in the inherent risk.
  - d. Assess whether there are internal controls that need to be improved or added to the process under consideration.
  - e. Implement controls or improve existing controls that are determined to be the most efficient and effective for decreasing the risk of fraud, waste or abuse.
4. Most managers will find that processes already include a number of internal controls, but these controls should be monitored or reviewed for adequacy and

effectiveness on a regular basis and improved as needed. Typical examples of internal controls may include, but are not limited to:

- a. Adequate separation of duties among employees.
- b. Sufficient physical safeguards over cash, supplies, equipment and other resources.
- c. Appropriate documentation of transactions.
- d. Independent validation of transactions for accuracy and completeness.
- e. Documented supervisory review and approval of transactions or other activities.
- f. Proper supervision of employees, processes, projects or other operational functions.

C. Reviews of Internal Control Systems

1. Audits or other independent reviews may be performed on various components of the internal control systems.

D. Internal Audit

1. Internal Audit is responsible for assessing the adequacy and effectiveness of internal controls that are implemented by management and will often recommend control improvements as a result of this assessment.
2. During an audit of a department or process, Internal Audit will also perform tests designed to detect fraud, waste or abuse that may have occurred.

E. External Audits

1. The Tennessee Department of Audit, Division of State Audit, performs periodic financial audits of the university.
2. One purpose of this type audit is to evaluate an institution's internal controls, which will often result in recommendations for control improvements.
3. State Audit will also perform tests designed to detect fraud, waste or abuse that may have occurred.

F. Other Reviews

1. Various programs may be subject to audits or reviews by federal, state or other outside agencies based on the type of program, function or funding.
2. Although audits and reviews may include assessments of internal controls, the primary responsibility for prevention and detection of fraud, waste or abuse belongs to management.
3. Therefore, management should take steps to review internal controls whether or not audits are to be performed.

II. Reporting Fraud, Waste or Abuse

A. Responsibility for Reporting Fraud, Waste or Abuse

1. Any official of any agency of the state having knowledge that a theft, forgery, credit card fraud, or any other act of unlawful or unauthorized taking, or abuse of, public money, property, or services, or other shortages of public funds has occurred shall report the information immediately to the office of the Comptroller of the Treasury (TCA § 8-19-501(a)), To ensure compliance with this statute, the university provides a means for employees and others to report such matters, which are subsequently reported to the Comptroller's Office.
  - a. Institutional administration with knowledge of fraud, waste or abuse will report such incidents immediately.
  - b. Others, including institutional management, faculty and staff with a reasonable basis for believing that fraud, waste or abuse has occurred are

strongly encouraged to immediately report such incidents (TCA § 8-50-116).

- c. Students, citizens and others are also encouraged to report known or suspected acts of fraud, waste or abuse.
- d. Although proof of an improper activity is not required at the time the incident is reported, anyone reporting such actions must have reasonable grounds for doing so.
- e. Employees with knowledge of matters constituting fraud, waste or abuse, that fail to report it or employees who knowingly make false accusations may be subject to disciplinary action.

B. Protection from Retaliation

1. State law (TCA § 8-50-116) prohibits discrimination or retaliation against employees for reporting allegations of dishonest acts or cooperating with auditors conducting an investigation.
2. The Higher Education Accountability Act of 2004 directs that a person who knowingly and willingly retaliates or takes adverse action of any kind against any person for reporting alleged wrongdoing pursuant to the provisions of this part commits a Class A misdemeanor.

C. Confidentiality of Reported Information

1. According to TCA § 49-14-103, detailed information received pursuant to a report of fraud, waste or abuse or any on-going investigation thereof shall be considered working papers of the internal auditor and shall be confidential.
2. Although every attempt will be made to keep information confidential, circumstances such as an order of a court or subpoena may result in disclosure.
3. Also, if the university has a separate legal obligation to investigate the complaint (e.g. complaints of illegal harassment or discrimination), the university cannot ensure anonymity or complete confidentiality.

D. Methods for Reporting Fraud, Waste or Abuse

1. Any employee who becomes aware of known or suspected fraud, waste or abuse should immediately report the incident to an appropriate departmental official. Incidents should be reported to one of the following officials or offices:
  - a. A supervisor or department head;
  - b. an institutional official;
  - c. University Counsel;
  - d. Human Resources;
  - e. the institutional internal auditor;
  - f. the Tennessee Comptroller of the Treasury's Hotline for fraud, waste and abuse at 1-800-232-5454.
2. If the incident involves their immediate supervisor, the employee should report the incident to the next highest-level supervisor or one of the officials or offices listed above. Employees should not confront the suspected individual or initiate an investigation on their own since such actions could compromise the investigation.
3. A department official or other supervisor who receives notice of known or suspected fraud, waste or abuse must immediately report the incident to the following:
  - a. President/Chief Financial Officer (or designee)
  - b. Internal Audit Office

- c. Department of Public Safety (when appropriate)
4. The President/Vice President or designee receiving such notice will immediately notify the Chief Internal Auditor regarding the acknowledged or suspected fraud or misconduct.
5. The Chief Internal Auditor will notify the Comptroller of the Treasury of instances of fraud, waste, or abuse.
6. After initial notification, the university should refer to applicable policies/guidelines related to institutional losses for additional reporting procedures.

### III. Investigations/Actions

#### A. Cooperation of Employees

1. Individuals involved with suspected fraud, waste or abuse should assist with and cooperate in any authorized investigation, including providing complete, factual responses to questions and either providing access to or turning over relevant documentation immediately upon request by any authorized person.
2. The refusal by an employee to provide such assistance may result in disciplinary action.

#### B. Remedies Available

1. The university will evaluate the information provided and make a determination concerning external reporting obligations, if any, and the feasibility of pursuing available legal remedies against persons or entities involved in fraud, waste or abuse against the institution.
2. Remedies include, but are not limited to;
  - a. terminating employment,
  - b. requiring restitution, and
  - c. forwarding information regarding the suspected fraud to appropriate external authorities for criminal prosecution.
3. In those cases where disciplinary action is warranted, the Office of Human Resources, Office of University Counsel, and other appropriate offices shall be consulted prior to taking such action, and applicable institutional and Board of Trustees policies related to imposition of employee discipline shall be observed.

#### C. Resignation of Suspected Employee

1. If the employee suspected of gross misconduct resigns, the investigation will continue despite the resignation.
2. The employment records must reflect the situation as of the date of the resignation and the outcome of the investigation.

#### D. Effect on Annual Leave

1. An employee who is dismissed for gross misconduct or who resigns or retires to avoid dismissal for gross misconduct shall not be entitled to any payment for accrued but unused annual leave at the time of dismissal (TCA § 8-50-807).

#### E. Student Involvement

1. Students found to have participated in fraud, waste or abuse as defined by this policy will be subject to disciplinary action pursuant to the student disciplinary policy.

2. The Vice President of Student Affairs (or designee) will be responsible for adhering to applicable due process procedures and administering appropriate disciplinary action.
- F. Confidentiality during Investigation
1. All investigations will be conducted in as strict confidence as possible, with information sharing limited to persons on a “need to know” basis.
  2. The identities of persons communicating information or otherwise involved in an investigation or allegation of fraud, waste or abuse will not be revealed beyond the university unless necessary to comply with federal or state law, or if legal action is taken.
- G. Management’s Follow-up Responsibility
1. Administrators at all levels of management must implement, maintain, and evaluate an effective compliance program to prevent and detect fraud, waste and abuse.
  2. Once such activities have been identified and reported, the overall resolution should include an assessment of how it occurred, an evaluation of what could prevent recurrences of the same or similar conduct, and implementation of appropriate controls, if needed.