

**Tennessee State University
Board of Trustees**



**TENNESSEE STATE UNIVERSITY BOARD OF TRUSTEES
AUDIT COMMITTEE MEETING AGENDA**

10:00 a.m. CST
Thursday, February 21, 2019

Tennessee State University – Main Campus
McWherter Administration Building,
President’s Conference Room
3500 John A. Merritt Blvd. Nashville, TN 37209

ORDER OF BUSINESS

- I. Call to Order
- II. Roll Call/Declaration of a Quorum
- III. Approval of the November 15, 2018, Audit Committee Meeting Minutes
- IV. Approval of the Office of Internal Audit’s Revised Charter
- V. Review of Completed Internal Audit Reports
- VI. Report on University’s Risk Assessment Process
- VII. Executive Session – Discussion of Items Deemed Confidential under State Law
- VIII. Adjournment

**Tennessee State University
Board of Trustees**



**Approval of the
November 15, 2018,
Audit Committee
Meeting Minutes**

TENNESSEE STATE UNIVERSITY

BOARD OF TRUSTEES

ACTION ITEM

DATE: February 21, 2019

ITEM: Approval of the November 15, 2018, Audit Committee Meeting Minutes

RECOMMENDED ACTION: Approval

PRESENTED BY: Trustee Deborah Cole, Chair of the Audit Committee

The document reflecting the minutes from the November 15, 2018, Audit Committee meeting is included in the February 21, 2019, Board materials.

MOTION: To approve the minutes from the Board of Trustees' November 15, 2018, Audit Committee meeting, as contained in the Board materials for the Board's February 21, 2019, meeting.

**Tennessee State University Board of Trustees
Audit Committee Meeting. November 15, 2018
Tennessee State University. 3500 John A. Merritt Blvd. Nashville, Tennessee
McWherter Administration Building
President's Conference Room**

MINUTES

Committee Members Present: Dr. Deborah Cole and Dr. Edith Peterson Mitchell.

Other Board Members Present: Dr. Joseph Walker, III, Bill Freeman, Pam Martin, Dr. Ali Sekmen, Braxton Simpson, and Mr. Stephen Corbeil.

University Staff Present: President Glenda Glover; Mr. Laurence Pendleton, General Counsel and Board Secretary; Ms. Adrian Davis, Director of Internal Audit; Dr. Curtis Johnson, Chief of Staff and Associate Vice President of Administration; and Ms. Tamika Parker, Executive Assistant to the General Counsel.

Guests: Ms. Lauren Collier, Tennessee Higher Education Commission, Director of Institution and Board Affairs.

I. CALL TO ORDER

Trustee Cole called the meeting to order at 11:45 a.m. and welcomed all attendees.

II. ROLL CALL/DECLARATION OF A QUORUM

Board Secretary Pendleton called the roll at the committee chair's request. Trustees Cole and Mitchell were present. Secretary Pendleton announced the presence of a quorum.

III. APPROVAL OF SEPTEMBER 20, 2018, COMMITTEE MEETING MINUTES

Trustee Cole proceeded to the approval of the September 20, 2018, Audit Committee Meeting Minutes, as included in the November 15, 2018, board materials. Trustee Cole moved to approve the minutes. Trustee Mitchell seconded the motion, which carried unanimously.

IV. REVIEW OF COMPLETED INTERNAL AUDIT REPORTS

Dr. Glover asked Adrian Davis, Director of Internal Audit to provide the report for this item as the President's designee. Director Davis reported that the state audit found that the university did not perform its return of Title IV funds calculations in compliance with federal regulations for 51% of the aid recipients tested. Director Davis commented that errors in calculating days in the semester resulted in the university returning more aid than required and that Title IV funds were not returned to the Department of Education in a timely manner. Director Davis informed the committee that the repeat calculations for fall 2017 were also incorrect and will be redone for FY 17-18, FY18-19, and FY 19-20.

Trustee Mitchell asked if the recommended process adjustments would correct the systemic errors to which Director Davis responded affirmatively.

Trustee Cole asked Director Davis to perform a test of the plan for FY 19-20 and report the results for the next board meeting.

Director Davis then confirmed that the President's expenses, travel, hospitality, and holiday celebration expenses were all found to comply with state law.

Trustee Cole asked President Glover why her travel expenses only reflected \$400 total. Director Davis responded that President Glover pays some of her travel expenses herself and President Glover responded that she had nothing to add. Trustee Cole noted that the University should pay the authorized travel expenses to maintain an accurate expectation for the President's typical travel expenses. President Glover commented that she requests that organizations that invite her to come and speak cover the travel expenses to offset the costs to the university. Trustee Corbeil reiterated the need for the President to use the authorized travel expenses to avoid any conflict of interest or related appearance issues.

This was a discussion item, thus no vote was taken.

V. REVIEW OF THE EXTERNAL QUALITY ASSESSMENT REPORT

President Glover asked Director Davis to present information on the external audit. Director Davis commented that consecutive external annual audits have begun.

Director Davis reported that the Department of Internal Audit performed a self-assessment. Kraft CPAs validated the assessment and found that the university was generally conforming. The Department was advised to develop a manual by June 2019 to document risk mitigation, include a planning memo, and develop a follow-up process.

Trustee Lewis asked how many people work in the office for Internal Audit to which Director Davis answered two.

President Glover thanked Director Davis and her staff for their hard work. Trustee Lewis asked how the office came to work with Kraft CPSs and Director Davis responded that an open bid was conducted and Kraft was the lowest priced qualified bidder.

Trustee Cole asked if there was any other business, including fraud, that Director Davis was aware of that could potentially result in TSU being front-page negative news. Director Davis answered in the negative.

This was a discussion item, thus no vote was taken.

VI. EXECUTIVE SESSION - DISCUSSION OF LITIGATION AND OTHER ITEMS DEEMED CONFIDENTIAL UNDER STATE LAW

Trustee Cole moved to start the discussion of items deemed confidential under state law. Trustee Mitchell seconded the motion and the Executive Session of the audit committee began at 12:04 p.m.

VII. ADJOURNMENT

There was no further discussion. Trustee Cole moved to adjourn the meeting. Trustee Mitchell seconded the motion, which carried unanimously. The meeting was adjourned.

**Tennessee State University
Board of Trustees**



**Approval of the
Office of Internal Audit's
Revised Charter**

TENNESSEE STATE UNIVERSITY

BOARD OF TRUSTEES

ACTION ITEM

DATE: February 21, 2019

ITEM: Approval of the Office of Internal Audit's Revised Charter

RECOMMENDED ACTION: Approval

PRESENTED BY: Adrian Davis, Director of the Office of Internal Audit

The document reflecting the Office of Internal Audit's Revised Charter is included in the February 21, 2019, Board materials.

Background Information:

The internal audit charter is a formal document that defines the internal audit activity's purpose, authority, and responsibility. The *International Standards for the Professional Practice of Internal Auditing*, issued by the Institute of Internal Auditors, states "The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval."

As part of its external quality assessment, an internal assessment was performed on the Office and independently validated by KraftCPAs. At the conclusion of the validation process, KraftCPAs recommended additional language be added to the Office's Audit Charter to better reflect the mandatory nature of and specific elements of the *Institute of Internal Auditors' International Professional Practices Framework*. The 'Audit Standards and Ethics' section of the charter has been updated to include this information.

The charter has been signed by the President and the Director of Internal Audit.

The purpose of this agenda item is to consider for approval the Office of Internal Audit's Revised Charter.

Item Details: See attachment.

MOTION: To approve the Office of Internal Audit's Revised Charter, as contained in the Board materials for the Board's February 21, 2019, meeting.

Department of Internal Audit Charter

Introduction

Tennessee State University is governed by the Tennessee State University Board of Trustees, which consists of 10 members (the Board) as determined by state law. The TSU Audit Committee is a standing committee of the Board. In accordance with the "State of Tennessee Audit Committee Act of 2005," the Director of Internal Audit reports directly to the Audit Committee of the Board and oversees the internal audit operations. Tennessee State University employs an audit staff in accordance with TSU policy.

Purpose

Internal Audit is an independent objective assurance and consulting activity designed to add value and improve Tennessee State University's management systems. Internal Audit helps Tennessee State University accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. Internal Audit assists 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 conclusion regarding an entity, operation, function, process, system, or other subject matters. 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 service – 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.

Tennessee State University's management has the primary responsibility for establishing and maintaining a sufficient system of internal controls.

Authority and Scope

Internal Audit's review of operations may include the examination and evaluation of the effectiveness of all aspects of institutional operations at Tennessee State University. In the course of its work, Internal Audit has full and complete direct access to all 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 Tennessee State University expects of the employees normally accountable for them.

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 auditor(s) 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.

Responsibility and Role

TSU Policy 04:01:05:00, *Internal Audit*, states 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, the University's administration, and the department under audit. 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 and programs after consultation with the President, Audit Committee, and other university management 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.
- 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

In accordance with T.C.A. 49-14-102 and TSU Policy 4-01-05-00, *Internal Audit*, the Director of Internal Audit reports directly to the Audit Committee. Tennessee State University's internal auditors report to the President with audit reporting responsibility to the Audit Committee and the Board through the TSU Audit Committee.

The internal auditing services provided by Internal Audit are reported directly to the President and the TSU Audit Committee. 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 a copy of each report is distributed 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

All internal audit work conforms to the *Standards for the Professional Practice of Internal Auditing and Code of Ethics* promulgated by the Institute of Internal Auditors. Internal auditors are expected to consistently demonstrate high standards of conduct and ethics as well as appropriate judgment, independence and discretion.

The internal audit department will govern itself by adherence to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing, and the Definition of Internal Auditing. The Director of Internal Audit will report periodically to senior management and the audit committee regarding the internal audit department's conformance to the Code of Ethics and the Standards.

Periodic Review of Internal Audit Charter

This charter will be periodically assessed by the chief audit executive 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 senior management and the Audit Committee.

Pursuant to the Tennessee State University Audit Committee Charter, the university's Department of Internal Audit's Charter will be reviewed and approved by the Audit Committee.



Dr. Glenda Baskin Glover, President
Tennessee State University



Adrian R. Davis, CPA, Director
Department of Internal Audit

TENNESSEE STATE UNIVERSITY
BOARD OF TRUSTEES
DISCUSSION ITEM

DATE: February 21, 2019

ITEM: Review of Completed Internal Audit Reports

RECOMMENDED ACTION: Discussion

PRESENTED BY: Adrian Davis, Director of the Office of Internal Audit

The completed internal audit reports are included in the February 21, 2019, Board materials.

January 21, 2019

Dr. Deborah A. Cole, Audit Committee Chair
Tennessee State University
3500 John A. Merritt Boulevard
Nashville, Tennessee 37209

Dear Chairwoman Cole:

During the most recent Audit Committee meeting held on November 15, 2018, the Audit Committee requested of the Department of Internal Audit to report on the status of management's implementation of corrective actions implemented in response to the Division of State Audit's finding related to Return of Title IV funds.

The Division of State Audit found that Return of Title IV funds were not in compliance with federal regulations for the fiscal year ended June 30, 2017. It was determined that returns were not accurate and funds were not returned to the Department of Education within the required timeframe.

In response to the Audit Committee's request, we tested the compliance of return calculations performed during the fall 2019 semester. We identified 32 student withdrawals for fall 2019 that required the performance of the Return of Title IV funds calculation. Testwork was performed in accordance with the *International Standards for the Professional Practice of Internal Auditing*, issued by the Institute of Internal Auditors.

Our testing found that:

- ❖ All 32 return of Title IV funds calculations performed during the fall 2018 semester were accurate

- ❖ For 31 of the 32 (97%) return calculations performed, the funds were returned within 30 days of the determination of student withdrawal. The Department of Education has a 45-day requirement. Office of Financial Aid personnel set their own goal of 30 days. For one of 32 (3%) return calculations performed, funds were returned to the Department of Education 57 days late.

It appears that management has taken steps to address the fiscal year 2017 finding noted by the Division of State Audit.

We appreciate the assistance and cooperation of university personnel contacted during our review.

Sincerely,

Adrian R. Davis

Adrian R. Davis, CPA, CGFM

Director of Internal Audit

Tennessee State University

CC: Dr. Glenda Baskin Glover, President

Dr. John Cade, Vice President, Enrollment Management and Student Success

DEPARTMENT OF INTERNAL AUDIT

**Follow-up to the Division of State Audit,
Financial and Compliance Audit of
Tennessee State University
For the Fiscal Year Ended June 30, 2017**



January 28, 2019
Dr. Glenda Glover, President
Tennessee State University
3500 John A. Merritt Boulevard
Nashville, TN 37209-1561

Dear Dr. Glover:

Transmitted herewith is the Department of Internal Audit's report on our follow-up of the status of management's implementation of the audit recommendations for the findings included in the Division of State Audit's finance and compliance report for the fiscal year ended June 30, 2017. The review was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by The Institute of Internal Auditors.

Based upon our review, management has implemented corrective actions to address the issues identified in the findings.

We wish to express our appreciation for the cooperation of university staff contacted during our review.

Sincerely,

Adrian R. Davis

Adrian Davis, CPA, CGFM, Director
Department of Internal Audit

CC: Dr. Deborah A. Cole, Audit Committee Chair
Mr. Horace Chase, Vice President for Business and Finance
Dr. Lesia Crumpton-Young, Vice President for Research and Institutional Advancement
Dr. Curtis Johnson, Chief of Staff
Mr. Tim Warren, CIO

Tennessee State University
Follow-up to the State Audit Report
For the Fiscal Year Ended June 30, 2017

<p>Key Staff: VP for Business and Finance; VP for Research and Institutional Advancement; and Chief Information Officer</p>	<p>Auditor: Adrian Davis, CPA, CGFM, Director of Internal Audit Tennessee State University</p>
<p>Introduction: The Comptroller of the Treasury, Division of State Audit, performed a financial and compliance audit of the financial statements and related notes to the financial statements of Tennessee State University for the fiscal year ended June 30, 2017. The report included five audit findings.</p>	
<p>Objective: The objective of this review was to determine whether adequate corrective actions have been taken to address the audit findings, implement the audit recommendations, and mitigate the risks that either errors or fraud could occur and not be detected in a timely manner.</p>	
<p>Findings:</p> <ol style="list-style-type: none"> 1. Finding: As noted in the prior two audits, management needs to improve procedures for preparing and reviewing financial statements 2. Finding: TSU and TSU Foundation’s accounting records show \$246,000 more cash on hand than shown on the bank statements; this variance is unexplained 3. Finding: The university did not have adequate policies and procedures for the collection of accounts receivable 4. Finding: Return of Title IV funds were not in compliance with federal regulations 5. Finding: As noted in the prior three audits, Tennessee State University did not provide adequate internal controls in one area <p>Current Status: Management has implemented corrective actions to address the issues included in the audit findings.</p>	
<p>Restriction on use of report: This report is intended solely for the internal use of the <i>Tennessee State University Board of Trustees’ Audit Committee</i> and <i>Tennessee State University</i>. It is not intended to be and should not be used for any other purpose. The distribution of the report to external parties must be approved by the Audit Committee and the university’s Office of Internal Audit, and handled in accordance with institutional policies. However, this report is a matter of public record.</p>	

FINDINGS, RECOMMENDATIONS, AND CURRENT STATUS

1. As noted in the prior two audits, management needs to improve procedures for preparing and reviewing financial statements

Recommendation

As noted in the prior two audits, the Vice President of Business and Finance should ensure improved communication and cooperation between all staff with accounting responsibilities improves and should ensure timely completion of information necessary to compile and review the financial statements and notes. The Vice President of Business and Finance should institute procedures that ensure the accuracy, proper classification, and disclosure of information presented in the financial statements and accompanying notes. The procedures should address the preparation of the financial statements and the notes, as well as the subsequent review process. Management should perform adequate reviews on the statements and the notes to mitigate the risk of errors.

Management's Comment

We concur. To ensure the accuracy, proper classification, and disclosure of information presented in the university's financial statements and accompanying notes, the Associate Vice President for Accounting and Payroll will ensure year-end checklists are updated to reflect all required entries noted in TBR's annual Financial Reporting Update. In addition, the Vice President for Business and Finance will review the checklist and the final statements and notes to ensure completion and accuracy.

For the foundation statements and notes referenced, the Vice President for Research and Institutional Advancement and the Vice President for Business and Finance will meet by January 31, 2019, to clearly define the accounting duties and responsibilities assigned to foundation personnel; establish timeframes for the preparation and review of financial data; and develop procedures to ensure the accurate and timely completion of the foundation's statements and notes. The Vice President for Research and Institutional Advancement will ensure that accurate and timely financial statement information is disseminated to the university as outlined in the foundation's accounting duties and responsibilities document drafted in the prior year. The Vice President for Business and Finance and the Vice President for Research and Institutional Advancement will meet with university and foundation staff quarterly to discuss progress and to ensure all targeted deadlines are being met. The Vice President for Business and Finance will provide a final review of the university and foundation's financial statements and notes at year-end. In addition, the Vice President for Business and Finance will search for relevant financial recording and reporting training to be provided for university and foundation accounting staff who are involved in financial statement preparation.

Current Status

Management will implement the year-end procedures after the June 30, 2019, fiscal year-end. At the time of our follow-up, we were able to verify that management has updated its year-end spreadsheet to address the items included in the current year's financial reporting finding. The VP for Business and Finance also stated that he and the Assistant VP for Accounting and Payroll would meet by January 31, 2019, to discuss university accounting staff expectations of the timeframes for the communication of financial information between foundation and university personnel to ensure that information is received timely throughout the year. This meeting is a prerequisite to the meeting between the VP for Business and Finance and the VP for Research and Institutional Advancement, which is anticipated to occur during the first half of February 2019. At that time, an agreed-upon plan of action will be documented.

2. TSU and TSU Foundation’s accounting records show \$246,000 more cash on hand than shown on the bank statements; this variance is unexplained

Recommendation

Business office personnel should prepare and review separate bank account reconciliations for each bank account monthly, soon after the receipt of monthly bank statements, but no later than 30 days after month-end. Bank reconciliation policies should be readily available to Business Office staff and should require reconciliation to be performed within 30 days. Management should develop written procedures to require individual reconciliations to be prepared for each bank account and the prompt resolution of reconciling items for both the university and foundation. Management should investigate the unresolved differences between cash per the bank and cash per the accounting records and determine whether they were caused by fraud or by error. Necessary adjustments to the accounting records should then be made. Management should forward the results of this investigation to the Comptroller of the Treasury upon completion.

Management’s Comment

We concur. Management will revise the current policies and procedures to require separate bank account reconciliations for each bank account monthly, but no later than 30 days after month-end. The Vice President for Business and Finance and the Vice President for Research and Institutional Advancement will meet by January 31, 2019, to clearly define the responsibilities for each reconciliation and timeframe for resolution of reconciling items for both the university and foundation. The unresolved differences will be researched and the necessary adjustments will be made to the accounting records by March 31, 2019. A report of our findings will be forwarded to the Comptroller of the Treasury upon completion.

Current Status

At the time of our inquiry, management was delegating responsibilities among the various Business Office staff in order to facilitate a plan of action for its investigation into the cause of the difference between the book and bank balances at the 2018 fiscal year-end. At January 28, 2019, the cause had not yet been identified.

3. The university did not have adequate policies and procedures for the collection of accounts receivable

Recommendation

Management should develop an up-to-date written collection policy. The institutional policy should include, but not be limited to

- a schedule defining delinquent periods;
- the timing of collection letters;
- when an account should be considered in default; and
- a statement concerning when the account should be sent to the collections agency after the final collection letter is sent and the debtor has not responded.

Management should ensure that staff perform collection efforts timely and that the tracking system maintains documentation of when collection letters are mailed.

Management’s Comment

We concur. The Associate Vice President for Financial Services will work with the Bursar’s Office to write up-to-date policies and procedures for the collection of accounts receivable. This written policy will include at a minimum: 1) a schedule defining delinquent periods; 2) the timing

of collection letters; 3) when an account should be considered in default; and 4) a statement concerning when the account should be sent to a collections agency. This updated policy will be submitted for approval by the Board of Trustees at its February Board Meeting. Additionally, the Associate Vice President for Financial Services will ensure that Bursar's Office staff perform collection efforts in accordance with approved policies and procedures.

Current Status

Management has drafted a policy for the collection of accounts receivable to be presented to the Board for approval at the February 2019 Board of Trustees meeting.

4. Return of Title IV funds were not in compliance with federal regulations

Recommendation

The Registrar's Office and the Student Financial Aid Office should ensure federal regulations are followed. While the Registrar's Office is responsible for entering the number of days in the period of enrollment, including breaks, into the Banner information system, the Student Financial Aid Office should verify that the Registrar's Office entered the information correctly. Management should ensure that the Student Financial Aid Office reperforms all return of Title IV funds calculations and make necessary corrections to student and federal fund accounts. Management should ensure that the Registrar's Office to communicate any status change to the Financial Aid Office.

Management's Comment

We concur. Daily reports are currently provided to the university's Records Office and the Financial Aid Office of students who are no longer attending due to official withdrawal or due to reporting of nonattendance by faculty. The Financial Aid Office reviews these reports, calculates the amount of aid that needs to be returned, adjusts students' accounts, and notifies students of all adjustments made.

To ensure compliance with federal regulations, the following corrective actions will be taken:

- Within two weeks of the first day of class, the Assistant Vice President for Financial Aid and Scholarships will verify that the published academic calendar aligns with the information in the Banner system. This verification will be performed to ensure the number of break days includes all applicable weekend days and the start and end dates of the semesters are accurate. The Assistant Vice President for Financial Aid and Scholarships will document this review in an email to the Registrar and the Vice President for Enrollment Management and Student Success.
- The Assistant Vice President for Financial Aid and Scholarships will review the parameters of the current daily report with the Office of Technology Services by March 31, 2018, to ensure all students are being captured so that the return of funds is accurate and timely. The results of the review will be reported to the Vice President for Enrollment Management and Student Success by April 30, 2018.
- The Registrar will ensure all status changes are communicated via email to the Assistant Vice President for Financial Aid and Scholarships at the time of determination.
- The Assistant Vice President for Financial Aid and Scholarships will recalculate all returns of Title IV funds and make necessary corrections to student and federal fund accounts by April 30, 2018. The Vice President for Enrollment Management and Student Success will document his review of the recalculations.

Current Status

Return calculations were reperformed for fiscal years ended June 30, 2017, and June 30, 2018 by financial aid personnel. Some errors were identified with these recalculations. Our review of Return of Title IV funds calculations performed for the fall 2018 semester found that the university was in compliance with federal regulations for 31 of 32 (97%) return calculations tested. For one of 32 students tested (3%), funds were returned 57 days late.

5. As noted in the prior three audits, Tennessee State University did not provide adequate internal control in one area**Recommendation**

Management should ensure that this condition is remedied by promptly developing and consistently implementing internal controls in this area. Management should implement effective controls to ensure compliance with applicable requirements; assign staff to be responsible for ongoing monitoring of the risks and mitigating controls; and take action if deficiencies occur.

Management's Comment

We concur. The Chief of Staff and the Vice President for Business and Finance will ensure internal controls are developed and implemented to prevent recurrence.

Current Status

We verified that additional internal controls were developed and implemented to prevent recurrence in the area.

DEPARTMENT OF INTERNAL AUDIT

Audit of
Research and Sponsored Programs



January 30, 2019

Dr. Glenda Baskin Glover, President
Tennessee State University
3500 John A. Merritt Boulevard
Nashville, Tennessee 37209

Dear Dr. Glover:

Enclosed is the internal audit report related to our audit of two university grants - Preparing Our Tomorrow Uniquely in STEM (POTUS) and Career Commitment and Retention in STEM: The Intersection of Professional Identity and Career Management Skills in Minority and Women STEM Students. The audit was performed in accordance with the *International Standards for the Professional Practice of Internal Auditing*, issued by the Institute of Internal Auditors.

The primary objective of the audit was to ensure the proper management of sponsored programs, special projects, and activities involving external funding sources. Our findings are documented in the attached report.

We appreciate the courtesy and cooperation of institution personnel during the audit.

Sincerely,

Adrian R. Davis

Adrian R. Davis, CPA, CGFM
Director of Internal Audit
Tennessee State University

CC: Dr. Deborah A. Cole, Tennessee State University Audit Committee Chair
Mr. Horace Chase, Vice President for Business and Finance

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**Tennessee State University
Department of Internal Audit
Audit of Research and Sponsored Programs
Executive Summary**

Key Area	Research and Sponsored Programs	Internal Auditor	Ray Trobaugh, MBA, CGFM , Assistant Director of Internal Audit
Introduction	<p>Tennessee State University (TSU) receives awards for research, training, and technical assistance from extramural funding sources, including the federal government and private organizations.</p> <p>A sponsored project is defined as an activity that is sponsored, or funded, by an external organization, such as a federal, state, or private organization or agency.</p> <p>The characteristics of a sponsored project include:</p> <ul style="list-style-type: none"> ▪ Specific scope of work or set of specific aims ▪ Financial accountability and/or reporting; the funds must be separately budgeted and accounted for ▪ Specific period of performance ▪ Deliverables, including a final technical report ▪ Disposition of property <p>We selected for review the following grants:</p> <ul style="list-style-type: none"> ▪ Preparing Our Tomorrow Uniquely in STEM (POTUS) ▪ Career Commitment and Retention in STEM: The Intersection of Professional Identity and Career Management Skills in Minority and Women STEM Students 		
Objectives	<ol style="list-style-type: none"> 1. Determine that costs charged to the grant are allowable, allocable, and reasonable under federal agency cost principles 2. Determine if appropriate controls are in place to ensure timely and accurate drawdowns of grant funds 3. Determine if applicable financial and/or performance reports are accurately prepared and timely submitted to sponsoring agencies 4. To compare amounts included in the approved grant budget to the actual expenses and explain significant variances 5. Determine that effort reporting systems ensure accurate and properly documented evidence of work performed 		
Scope	<p>Preparing Our Tomorrow Uniquely in STEM (POTUS)</p> <ul style="list-style-type: none"> • All expenses for budget period October 1, 2016 through September 30, 2017 <p>Career Commitment and Retention in STEM: The Intersection of Professional Identity and Career Management Skills in Minority and Women STEM Students</p> <ul style="list-style-type: none"> • All expenses for budget period May 1, 2017 through April 30, 2018 		
Questioned Costs	\$2,526.45	Recoveries	N/A
Audit Finding Ranking	<p>Audit findings are rated as high, medium or low depending on auditor judgment. Some of the factors considered in judging the seriousness of a finding include: (1)</p>		

	level of financial impact, (2) extent of violation of laws, regulations and restrictions, (3) lack of a university policy or noncompliance with a matter in an important matter, (4) lack of internal controls or ineffective controls and procedures, and (5) fraud, theft, conflicts of interest or serious waste of university resources.
Findings	<p>Preparing Our Tomorrow Uniquely in STEM (POTUS)</p> <ul style="list-style-type: none"> ▪ Objective 1 - Unallowable benefit expenses of \$1,285.20 were charged to the grant [high] ▪ Objective 2 - None ▪ Objective 3 – None ▪ Objective 4 – None ▪ Objective 5 - None <p>Career Commitment and Retention in STEM: The Intersection of Professional Identity and Career Management Skills in Minority and Women STEM Students</p> <ul style="list-style-type: none"> ▪ Objective 1 – Unallowable indirect costs totaling \$1,241.25 were charged to the grant [high] ▪ Objective 2 - None ▪ Objective 3 – The required annual project report was not submitted timely during the budget period [medium] ▪ Objective 4 - None ▪ Objective 5 – Time and effort certifications were not prepared for time charged to the grant during the budget period [high]
Conclusion	The objectives of the audit were met. During the time periods under review, it was determined that the university was in compliance with institution and federal policies, rules, and regulations for the two grants, except for the issues included as findings in the report.
Restriction on Use of Report	<i>This report is intended solely for the internal use of Tennessee State University and the Tennessee State University Audit Committee, a standing committee of the Tennessee State University Board of Trustees. It is not intended to be and should not be used for any other purpose. The distribution of the report to external parties must be approved by the TSU Audit Committee and Tennessee State University Office of Internal Audit, and handled in accordance with institutional policies; however, this report is a matter of public record.</i>

Analysis

We obtained a population of all university grants at April 12, 2018. We isolated those grants having project end dates occurring on or after January 1, 2017. We isolated the grants by agency and ranked the agencies in descending order according to the current award amounts provided by the agency. Four agencies accounted for over 72% of the current award amounts for the periods ending after January 1, 2017 (at April 12, 2018).

The four agencies were:

1. National Institute of Food and Agriculture
2. United States Department of Education
3. Tennessee Department of Human Services
4. National Science Foundation

For two of the four agencies (National Institute of Food and Agriculture and Tennessee Department of Human Services), we were notified that the grantor was performing audits or reviews at the time of our inquiry. We reviewed the audit results included in the reports issued by the related grantors. From the two remaining agencies, (United States Department of Education and National Science Foundation), we selected the grant with the highest current amount for testing from each agency.

The results of our review are summarized in this report.

Preparing Our Tomorrow Uniquely in STEM (POTUS)

Agency: United States Department of Education

Objective: This project attempts to address the global need to increase African American representation in the Science, Technology, Engineering and Math (STEM) disciplines at the doctoral level. The program will provide graduate leadership, education, and a wide range of research and education activities to support STEM doctoral students pursuing degrees in engineering, biology, and physical therapy.

Budget Period under review: October 1, 2016 through September 30, 2017

Amount awarded for budget period under review: \$1,105,119.00

Actual Expenses: \$793,768.55

Payroll (\$474,839.43); Travel (\$25,265.90); Operating (\$132,741.22); Scholarships (\$160,922)

Audit Results

- 1. Audit Objective:** Determine that costs charged to the grant are allowable, allocable, and reasonable under federal agency cost principles

Conclusion: We tested a sample of travel expenses (62%), operating expenses (66%) and all scholarship expenses charged to the grant during the budget period. It was determined that the costs were allowable, allocable, and reasonable under federal agency cost principles. We also selected a sample of salary and benefit expenses charged to the grant. We found that unallowable benefit expenses of \$1,285.20 were charged to the grant for the period October 2016 through May 2017. These expenses were erroneously paid on behalf of a graduate student associated with the project. The grant budget documents did not allow for the payment of student benefits. In addition, the university's *Operating Manual* states that the fringe benefit rate for undergraduate and graduate students is zero percent.

Audit Recommendation: The Principal Investigator, with the assistance of Grants Accounting personnel, should ensure that the grant is reimbursed \$1,285.20 for the expenses improperly charged to the grant. Procedures should be implemented immediately to prevent improper benefit expense charges in the future.

Principal Investigator's Response:

The Grants Accounting Office, HR and Payroll have been notified of the finding and the charges will be removed from the POTUS grant and placed on unrestricted funds. A review of the paperwork submitted to initiate hiring the student indicated that it was correct and appropriate for the hiring of the student; thus, no change in hiring procedure is necessary.

The charging of benefits was an error that originated in the Office of Business and Finance. The Director of Planning and Analysis will work with Payroll, HR, and GAO to correct the error and make any necessary reimbursement to the POTUS grant for FY16-17. A meeting is set for Tuesday, January 29, 2019, with the Director of Grants Accounting and

the Title III Fiscal Team. Additionally, Title III is working with Business and Finance to identify what triggered the charge and offer a recommendation to mitigate this happening again.

There has also been an update to the monitoring procedure as indicated below.

Updated Monitoring Procedure: The Associate Director will review labor distribution quarterly, for allowability of charges for all personnel on grant-funded accounts. If unallowable charges are found, the Associate Director will notify the Title III Director of Financial Planning and Analysis along with the P.I. The Director will be responsible for working with payroll, HR, and GAO to correct the error and make any necessary labor redistributions to move or remove the charges as deemed appropriate.

Grants Accounting Response:

Payroll is refunding the unallowable FICA benefit amounts, which will credit the grant.

- 2. Audit Objective:** Determine if appropriate controls are in place to ensure timely and accurate drawdowns of grant funds

Conclusion: It was determined that the university has effective controls in place to ensure timely and accurate drawdowns of grant funds, except for the \$1,285.20 in funds drawn down related to the benefits issue noted in item number 1 above.

- 3. Audit Objective:** Determine if applicable financial and/or performance reports are accurately prepared and timely submitted to sponsoring agencies

Conclusion: We obtained an understanding of the performance report required to be submitted during the budget period. It was determined that management submitted the required Annual Performance Report timely.

- 4. Audit Objective:** To compare amounts included in the approved grant budget to the actual expenses and explain significant variances

Conclusion: We compared amounts included in the approved grant budget to the actual expenses. Actual expenses for the period under review were 28% lower than the budgeted total. These funds were carried forward to the following budget period. Approximately half of the difference between budgeted and actual expenses is attributed to distance education expenses, and research and operational supply expenses being lower than originally estimated. The majority of the remaining variance is due to lower scholarship and payroll-related expenses.

- 5. Audit Objective:** Determine that time and effort reporting systems ensure accurate and properly documented evidence of work performed

Conclusion: We obtained an understanding of how management's effort reporting system works. The system was determined to comply with federal guidelines. No issues were noted.

Career Commitment and Retention in STEM: The Intersection of Professional Identity and Career Management Skills in Minority and Women STEM Students

Agency: National Science Foundation

Objective: The primary goal of this project is to examine the basic career skills of minority and women STEM students and their role in the formation of career choice and persistence. A secondary goal of this project is to examine the role of various identities (professional, social, cultural) and mental complexity in the development of STEM career commitment.

Budget Period under review: May 1, 2017 through April 30, 2018

Amount awarded for 3-year period: \$1,417,169 (approximately \$472,390/year)

Actual Expenses: \$406,674.31

Payroll (\$194,931.43); Travel (\$13,651.98); Operating (\$43,773.13); Scholarships (\$48,328);

Indirect Costs (\$105,989.77)

Audit Results

1. **Audit Objective:** Determine that costs charged to the grant are allowable, allocable, and reasonable under federal agency cost principles

Conclusion: We tested a sample of travel expenses (85%), operating expenses (95%) and all scholarship expenses charged to the grant during the budget period. It was determined that costs were allowable, allocable, and reasonable under federal agency cost principles. In addition, we reviewed 98% of indirect costs charged to the grant. We determined that \$1,241.25 in indirect costs were erroneously charged to the grant. These funds represent indirect costs related to participant travel, which is not allowed per grant documents. University policy 5.11.15, *Participant Support Costs*, states, “the University will account for participant support costs separately in the University’s accounting system.” While participant costs were separated in the accounting system using a different fund number, the Principal Investigator did not ensure that travel expenses for participants were charged to the designated participant fund. This caused unallowable indirect costs to be charged to the grant.

Audit Recommendation: The Principal Investigator, with the assistance of Grants Accounting personnel, should ensure that the \$1,241.25 is immediately reimbursed to the grant. In addition, the Principal Investigator should ensure that participant costs are charged to the appropriate fund in the accounting system to ensure unallowable indirect costs are not incurred in the future.

Grants Accounting Response:

We will move the charges to the participant account, which will charge the correct fund and credit the incorrect fund.

- 2. Audit Objective:** Determine if appropriate controls are in place to ensure timely and accurate drawdowns of grant funds

Conclusion: It was determined that the university has effective controls in place to ensure timely and accurate drawdowns of grant funds, except for the \$1,241.25 received for unallowable costs mentioned in item number 1 above.

- 3. Audit Objective:** Determine if applicable financial and/or performance reports are accurately prepared and timely submitted to sponsoring agencies

Conclusion: We obtained an understanding of the performance report required to be submitted during the budget period. It was determined that the Principal Investigator did not submit the performance report timely during the budget period.

The National Science Foundation Proposal & Award Policies and Procedures Guide states,

“...annual project reports should be submitted electronically no later than 90 days prior to the end of the current budget period to allow adequate time for the cognizant Program Officer to review and approve the report. As reflected in the Project Report System, the report is considered due during the 90 day period. The report becomes overdue the day after the 90 day period ends. Failure to submit timely reports will delay processing of additional funding and administrative actions, including, but not limited to, no cost extensions.”

It appears that management interpreted this requirement as indicating the report due date was within the 90 days prior to the end of the current budget period. As a result, the report was submitted late.

Audit Recommendation: The Principal Investigator should ensure that all required reports are submitted timely in accordance with the federal reporting requirements.

- 4. Audit Objective:** To compare amounts included in the approved grant budget to the actual expenses and explain significant variances

Conclusion: We compared amounts included in the approved grant budget to the actual expenses. There were no significant variances. Actual expenses for the period under review were only 8% lower than the budgeted total.

- 5. Audit Objective:** Determine that time and effort reporting systems ensure accurate and properly documented evidence of work performed

Conclusion: We obtained an understanding of management’s effort reporting system. We selected a sample of salary and benefit expenses charged to the grant during the period under review. It was determined that management did not always comply with the university’s established policies and procedures for time and effort reporting, which were designed to comply with federal guidelines. University policy 5.11.12, *Time and Effort Reporting*, states that “time and effort will be certified three times per year...” Discussions with management revealed that university procedure is to perform quarterly certifications for this grant. During our testing of payroll expenses, we found that time and effort certifications were not performed for the grant during the period under review. Management provided supporting documentation from Office of Technology (OTS) staff who noted that the university’s Time and Effort system was not supported by the accounting system at the time, preventing creation of all required time and effort reports. OTS staff do expect the systems to work well together in the new updated version of the accounting system.

Audit Recommendation: The Principal Investigator, with the assistance of Grants Accounting personnel, should ensure that all individuals charging time to the grant are adhering to university policy and timely certifying their time spent working on the grant. If the reporting system is not working properly, management should consider using the Word or Excel program to ensure compliance with university policies and federal guidelines.

TENNESSEE STATE UNIVERSITY

BOARD OF TRUSTEES

DISCUSSION ITEM

DATE: February 21, 2019

ITEM: Report on University's Risk Assessment Process

RECOMMENDED ACTION: Discussion

PRESENTED BY: Adrian Davis, Director of the Office of Internal Audit

The report on the university's risk assessment process is included in the February 21, 2019, Board materials.

Background Information:

The Financial Integrity Act of 2010 requires each agency of state government and institution of higher education to establish and maintain internal controls that provide reasonable assurance that:

- (1) Obligations and costs are in compliance with applicable law;
- (2) Funds, property and other assets are safeguarded against waste, loss, unauthorized use or misappropriation; and
- (3) Revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accurate and reliable financial and statistical reports and to maintain accountability over the assets.

To document compliance, Tennessee State University must annually perform a management assessment of risk, incorporating the above-referenced internal controls into that assessment. The objectives of the annual risk assessment are to provide reasonable assurance of the following:

- (1) Accountability for meeting program objectives;
- (2) Promoting operational efficiency and effectiveness;
- (3) Improving reliability of financial statements;
- (4) Strengthening compliance with laws, regulations, rules, and contracts and grant agreements; and
- (5) Reducing the risk of financial or other asset losses due to fraud, waste and abuse.

**Tennessee State University
Board of Trustees**



**Executive Session
Discussion of Items Deemed
Confidential
under State Law**

TENNESSEE STATE UNIVERSITY

BOARD OF TRUSTEES

ACTION ITEM

DATE: February 21, 2019

ITEM: Executive Session - Discussion of Items Deemed
Confidential under State Law

RECOMMENDED ACTION: None

PRESENTED BY: Trustee Deborah Cole, Chair of Audit Committee

Motion: To go into Executive Session to discuss items deemed confidential under State law.