















# October 2017 UofM Audit Committee Meeting

<b>Schedule</b>	Wednesday, October 04, 2017, 11:00 AM CDT
<b>Venue</b>	University Center Fountain View Suite (UC 350), 499 University Drive, Memphis, TN 38152
<b>Organizer</b>	Jean Rakow

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## 1. Call to Order



## 2. Roll Call



### **3. Approval of Minutes - June 6, 2017**

For Approval

Presented by Carol Roberts

THE UNIVERSITY OF MEMPHIS  
BOARD OF TRUSTEES

MINUTES OF THE AUDIT COMMITTEE  
June 6, 2017  
Memphis, TN

The Audit Committee of The University of Memphis Board of Trustees met at 10:00 a.m. CDT, on Friday, June 6, 2017, on the campus of the University of Memphis in Memphis, Tennessee.

**I. CALL TO ORDER**

Chairman of the Board of Trustees, Alan Graf, called the meeting to order.

**II. ROLL CALL AND DECLARATION OF QUORUM**

Melanie Murry, Legal Counsel and Acting Secretary of the Board, called the roll, and the following Audit Committee members were present:

Trustee Douglas Edwards\*  
Trustee Marvin Ellison\*  
Trustee Alan Graf\*  
Trustee Cato Johnson\*  
Trustee Carol Roberts\*  
Trustee Susan Springfield\*

\*Voting members

Secretary Murry announced the presence of a quorum. Other Trustees, administrative staff and members of the media were also in attendance.

**III. AGENDA ITEM 3: COMMITTEE CHAIR**

Chairman Graf opened the floor for nominations for Committee Chair. Trustee Johnson nominated and moved that Trustee Roberts be elected as Committee Chair. His motion was properly seconded. There being no other nominees or discussion, a voice vote was taken and Trustee Roberts was duly elected by a unanimous vote.

The running of the meeting was turned over to Chair Roberts. Trustee Roberts called for nominees for Vice-Chair of the committee. Trustee Edwards nominated Trustee Springfield as Vice Chair of the Audit Committee. There being no other nominees or discussion, a voice vote was taken and Trustee Springfield was duly elected by a unanimous assent.

**IV. AGENDA ITEM 4: Leadership Transition**



Chair Roberts recognized President David M. Rudd to discuss leadership changes in the Department of Internal Audit. Dr. Rudd indicated that Ms. Vicki Deaton has been appointed to fill a vacancy left when Chief Audit Executive, Byron Morgan, left to take another position. Chair Roberts presented the following motion to the Committee:

*The Audit Committee met June 6, 2017, and recommended approval of the appointment of Vicki D. Deaton, Senior Internal Auditor in the Internal Audit Department, to serve as Interim Chief Audit Executive until the position is filled on a permanent basis.*

Trustee Edwards made the motion which was properly seconded. There being no discussion, a voice vote was taken and Ms. Deaton was approved as the Chief Audit Executive on an interim basis.

#### **V. AGENDA ITEM 5: Tennessee Financial Integrity Act Overview**

Trustee Roberts asked Ms. Deaton to present the summary of the Tennessee Financial Integrity Act. Tennessee Code requires that the President of the University of Memphis sign an annual acknowledgement that the University of Memphis has adequate internal controls and that it is in compliance with the Committee of Sponsoring Organizations (COSO), of the Treadway Commission, and that a risk assessment is conducted annually. The most recent letter making this acknowledgement was signed by President Rudd in November of 2016 for the fiscal year 2016. The document was submitted to the State of Tennessee Department of Finance and Administration and to the Comptroller of the Treasury.

Vicki Deaton provided a summary of the risk assessment. Dr. Rudd suggested that the Board would want to get actively involved in the process as a part of strategic planning to evaluate where the UofM may have potential weaknesses related to risk. He also suggested that the board may want to participate in a detailed review and discussion. Trustee Graf affirmed Dr. Rudd's comments and pointed to the vast amount of experience in this area on the Board. Trustee Graf requested that the Board review the latest Risk Assessment for the UofM. Ms. Deaton indicated that the assessment is in progress and that it would be provide at a subsequent meeting. Dr. Rudd indicated that the University could use assistance in defining and prioritizing risk and how it relates to the overall strategic plan and investment strategies of the University. Trustee Roberts asked about the risk personnel embedded in each of the nine operational activities. Ms. Deaton explained that Audit does not manage the risk assessment process in that this is management's responsibility. She further commented that Audit advises departments and conducts risk based audits. Ms. Deaton indicated that she wasn't aware of particular "risk employees" but that their office works with individuals who are the keepers of the controls for managing the risk. Jeannie Smith, Interim Vice President of Business and Finance indicated that the division heads are responsible for assessment of risk for their area of responsibility; therefore, risk assessment is embedded in the operations. Dr. Rudd commented that how we evaluate and weigh risk is something that needs to be reviewed because the university is in need of a consistent metric basis for assessing risk, both currently and into the future. Trustee Edwards asked about the status of personnel working with IT security, especially in light of expanding on-line programs and the amount of data that is managed by the University. Dr. Rudd indicated that the University is making investments in upgrading hardware

and our IT network and then asked CIO Dr. Robert Jackson for comment. Dr. Jackson indicated that Internal Audit has IT auditing expertise on staff who works closely with IT on a regular basis, both generally and when specific issues arise. Dr. Jackson then introduced the Director of IT Security and Compliance and provided that the division has decided to change its risk assessment review schedule from once every three years to once a year. When asked how many times a day that the University gets hacked, Dr. Jackson indicated that the University is under constant attack and that a number of mechanisms are used to prevent most of the attempts and mitigate risks. Dr. Rudd commented that, because of the University's efforts to maintain security, some faculty have been prevented from doing what they believe they should be able to do. Dr. Rudd also asserted that, in a fair amount of cases, issues arise because of antiquated technology. Trustee Roberts also suggested a review of the committee charter is in order to ensure the committee has appropriate authority in this area.

**VI. AGENDA ITEM 6: Reports of Illegal Acts and Fraud, Waste and Abuse**

Trustee Roberts asked Ms. Deaton to discuss methods for the reporting of illegal acts and fraud, waste and abuse. Ms. Deaton provided a summary of the requirements required by law and described the various ways people can report it. Ms. Deaton provided that posters produced by the Tennessee Comptroller of the Treasury for direct reporting to their office are placed in various locations across campus and the Internal Audit Department (IA) has also established a process for receiving reports of illegal activity and reports of fraud, waste and abuse. Ms. Deaton provided a summary for the fiscal year 2017, which included 15 documented investigations. Reports generated as a result of an investigation are sent to the Comptroller of the Treasury and will be shared with the Audit Committee moving forward.

Trustee Roberts questioned the openness and effectiveness of the reporting processes given the small number of reports of fraud or abuse during the fiscal year 2017. President Rudd suggested that the UofM review the effectiveness of university communication and processes around this issue. Trustee Roberts suggested that responsibility/reporting for risk is fragmented and that University personnel may want to consider strategies to integrate the reporting of/response to illegal acts and fraud, waste and abuse.

**VII. AGENDA ITEM 7: External Audit Overview**

Trustee Roberts asked Ms. Deaton to provide an overview of the external audit responsibilities. Ms. Deaton provided background information on state law that requires the state Comptroller's office to conduct a post audit of all accounts and financial records of state government and institutions. Ms. Deaton explained that the Comptroller's office serves as the external auditors for the University of Memphis as IA it is not considered independent for the purpose of rendering an opinion on the financial statements of the University. Ms. Deaton gave an overview of the audit of the University's financial statements where the Division of State Audit has rendered an unqualified opinion of the UofM financial statements and have identified several internal control deficiencies and or weaknesses which are, or have been, addressed by management. Ms. Deaton commented that IA is currently following up on the recommendation for the FY 2016 reported deficiency.

A question was posed as to whether there was an action plan to address deficiencies identified through the audit. During the FY 2016 audit, a deficiency was identified related to the timeliness of bank reconciliations. Ms. Jeannie Smith, Interim VP of Business and Finance, indicated that, as of January, the bank reconciliations have been completed and reviewed by the Comptroller and Financial Manager within 30 days.

**VIII. AGENDA ITEM 8: Fiscal Year 2017 Internal Audit Plan**

Trustee Roberts asked Ms. Deaton to discuss the FY 2017 Internal Audit plan. Ms. Deaton reviewed the progress of the plan which was previously approved by TBR through the end of May per meeting materials. Trustee Graf suggested that the Audit Committee be sent the audit reports as they are issued and that the Audit Committee could serve as a forum to address deficiencies that are not addressed by management on a timely basis. Trustee Roberts asked which issues were of specific concern. Ms. Deaton discussed the comprehensive nature of the departmental audits which look at cash, expenditures, receipts, personnel, grants, and building safety and security. Ms. Deaton also explained that IA looked at leave banks and found that manual entries/errors were made to sick leave accruals which led to the determination that preventive controls had failed. Ms. Deaton stated that the corrective process involved Human Resources developing a report of employees who had sick leave balances that appeared large based on their service dates which, they then researched to ensure accuracy. Trustee Graf indicated that IA should require a report, signed by the responsible official that certifies that the deficiency has been remediated. Trustee Roberts suggested that IA maintain a tracking system related to audit deficiencies that identifies issues, responsible parties, due dates and other relevant information to ensure that deficiencies are addressed in a timely manner, have been adequately addressed, and have been appropriately closed out. Trustee Graf commented that the expectation is that IA will report back to the Audit Committee on every issue identified during an audit and that this expectation be communicated to departmental personnel. President Rudd commented that this change in process will be a cultural shift for those working for the UofM. Trustee Roberts suggested that the UofM might consider utilizing the expertise of the Audit Committee when questions arise. Trustee Ellison expressed the need to raise the level of accountability, urgency and intensity related to audit across the entire University and communicate the benefits of having an Audit Committee working on behalf of the UofM. Trustee Graf expressed that it should be communicated that one of the goals of the Audit Committee is to make the operations more efficient.

**IX. AGENDA ITEM 9: Fiscal Year 2018 Internal Audit Plan**

Trustee Roberts asked Ms. Deaton to discuss the FY 2018 Internal Audit plan. Ms. Deaton stated that the approval of the plan is required by the State of Tennessee Audit Committee Act of 2005 and the University of Memphis Audit Committee Charter approved at the Board of Trustees meeting on March 17, 2017. Ms. Deaton explained that the plan was developed primarily based on risk determined by the annual risk assessment from the prior year, best practices and management requests. In the coming year, IA will conduct departmental audits and risk based audits (see meeting materials). External auditors will conduct a Title IX compliance audit and a Clery Act audit. Additional activities will include IT audits, follow ups, advisory and consulting. Trustee Roberts inquired as to the size of the Internal Audit Staff. Ms. Deaton indicated that the

department is currently comprised of the Acting Director, two auditors and a vacant position. Committee agreed that the staffing in the Audit Department was low and that resources will need to be added. Trustee Graf suggested that the Audit Department conduct benchmarking related to staffing.

Chair Roberts, with the caveat that the Department of Internal Audit is under resourced, called for the following motion:

*The Audit Committee met June 6, 2017, and recommended approval of the Fiscal Year 2018 Internal Audit Plan as detailed in the meeting materials.*

Trustee Alan Graf made the motion which was properly seconded. There being no discussion, a voice vote was taken and the motion was passed unanimously.

Discussion following the motion focused on work of the committee between scheduled meetings. It was generally agreed that the Chair and Vice-Chair, on an interim basis, would work on identified issues and inform the committee of activities and action taken.

**X. AGENDA ITEM 10: Additional Committee Business**

There was no additional committee business.

**XI. ADJOURNMENT**

Chair Roberts adjourned the Audit Committee Meeting at 11:02 am CDT.

Respectfully Submitted,

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Jeanine H. Rakow  
Coordinator of the Board Office

## 4. Audit Committee Charter Revision

For Approval

Presented by Melanie Murry

## Recommendation to the Audit Committee of the Board of Trustees

The University of Memphis Board of Trustees  
Agenda Item

Date: October 4, 2017

Item: Modification to Audit Charter

Recommendation: Approval

Presented By: Melanie Murry, University Counsel/Secretary to the Board

The Board of Trustees approved the committee structure which will govern the University of Memphis in its March 2017 meeting. The Audit Charter was submitted to the Comptroller of the state of Tennessee for approval. The Comptroller provided a suggestion for one change in the Audit Charter before final approval would be received. Specifically, the Comptroller requested that the Audit Charter include language that provided for the committee to ensure policies and procedures are easy to access, include a confidential reporting mechanism and address conflicts of interest. Although the University's internal audit office provides for what was requested by the Comptroller, they were not itemized in the Audit Charter. The Audit Charter has been revised with the new language included. The meeting materials also includes the letter from the Comptroller.

**Committee Recommendation: The committee met on October 4, 2017 and recommended approval of the necessary changes to Charter if the Audit Committee as reflected in the meeting materials.**

# Audit Committee Charter

## Purpose

The Audit Committee (AC) is responsible for assuring that the University of Memphis' (University) organizational culture, capabilities, systems and processes are appropriate to protect the financial health and the reputation of the University in all of the areas enumerated below. More particularly, the AC will review the financial reporting processes, the system of internal controls, the audit activities (external and internal), management's risk assessment, and the University's process for monitoring and ensuring compliance with laws and regulations. The AC will regularly update the full Board of Trustees (Board) about AC activities and key issues presided over by the Committee.

## Roles and Responsibilities

### *Financial Reporting*

- Review audited financial statements with state auditors, and determine whether the statements are complete and consistent with the information known to committee members.
- Review with the University's general counsel any legal matters that could have a significant impact on the University's financial statements.
- Review with management and state auditors any significant accounting and reporting issues, including recent professional and regulatory pronouncements, and understand their impact on the University's financial statements

### *External Audit*

- Meet, as needed, with external auditors to discuss any matters that the AC or auditors deem appropriate.
- Ensure that any findings and recommendations made by the external auditors are received, discussed, and acted upon in an appropriate and timely manner.
- Review the results of the external auditors' examinations and any other matters related to the conduct of the audits, and report to the Board the auditors' findings and recommendations.

### *Internal Audit*

- Review and approve the annual audit plan for the University, including management's request for unplanned audits.
- Review the result of the year's work with the Chief Audit Executive, and receive and review any other work prepared by the Chief Audit Executive for the University.
- Receive and review reports, the results of internal audits performed, and any other work prepared by Internal Audit.

- Ensure that the University has the appropriate structure, staffing and capability to carry out its internal audit responsibilities.
- Ensure that the internal audit department has direct and unrestricted access to the chair and other committee members.
- Approve the Internal Audit budget.
- Appoint, replace, or dismiss the Chief Audit Executive.
- Review, approve, and update the Internal Audit charter annually or more frequent if necessary.

### ***Internal Controls, Risk, and Compliance***

- Ensure that a system is in place, and being followed, to review and maintain compliance with the University's internal control structure.
- Ensure that a process exists for assessing, reporting, and investigating illegal, fraudulent, wasteful, or improper activity at the University, including a confidential reporting mechanism.
- Determine whether internal control recommendations made by internal and external auditors have been implemented by management.
- Review University policies and procedures regarding employee conduct to ensure that it:
  - is easy to access,
  - is widely communicated,
  - is easy to understand and implement,
  - includes a confidential mechanism for reporting code violations,
  - is enforced, and
  - includes conflict of interest policy and guidelines.
- Review the University's conflict of interest policy to ensure that the guidelines are comprehensive, that the term "conflict of interest" is clearly defined, that annual signoff is required, and that it contains procedures for adequate resolution and documentation of potential conflicts.
- Review the University's process for monitoring compliance with laws and regulations.
- Review the University's risk assessment plan.
- Regularly obtain updates from management, General Counsel, and Internal Audit regarding significant changes in legal and compliance issues.
- Review and assess the adequacy of the AC's charter annually, requesting Board approval for proposed changes.

### **Membership**

The AC shall be composed of no less than three members who shall be appointed by the Board according to Board Bylaws. The Board shall appoint the AC chair. The Board may select one certified public accountant or other qualified citizen who is not a member of the Board to serve on the AC. The external member must have extensive accounting, auditing, or financial management expertise, and may not serve as the chair. The term of appointment is two years, and the chair may not serve more than two consecutive two-year terms as chair. All members of the AC shall be generally knowledgeable of financial management and auditing matters. At all



times, the AC shall have at least one member with extensive accounting, financial, or management expertise.

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

## **Education**

The University's senior management and internal audit department are responsible for providing the AC with educational resources related to accounting principles, internal controls, applicable policies, and other information that may be requested by the AC to maintain appropriate financial and compliance literacy.

## **Meetings**

The AC shall meet at least once quarterly, in conjunction with regular meetings of the Board, or at any other time upon the call of the AC chair. The AC will invite members of management, auditors, or others to attend and provide pertinent information. Meeting agendas will be provided to members in advance along with proper briefing materials. Minutes will be prepared. The AC shall also meet at the request of the Comptroller of the Treasury.

A majority of the members of the AC shall constitute a quorum for the transaction of business.



STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**

State Capitol  
Nashville, Tennessee 37243-9034  
(615) 741-2501

Justin P. Wilson  
Comptroller

May 16, 2017

Mr. Byron Morgan  
Chief Audit Executive  
Office of Internal Audit and Consulting  
271 Administration Building  
Memphis, Tennessee 38152

Dear Mr. Morgan:

We have reviewed the audit committee charter for the University of Memphis that you submitted. As a result of that review we have noted a matter we believe requires additional consideration prior to approval. The Comptroller's Guidelines for Audit Committee Charters requires the duties of the audit committee as listed in the charter to include a review of a code of conduct to ensure that it "is easy to access, is widely communicated, is easy to understand and implement, includes a confidential mechanism for reporting code violations, is enforced, and includes conflict of interest policy and guidelines." The charter for the university addresses a review of policies and procedures regarding employee conduct, but does not require the audit committee to ensure the policies and procedures are easy to access, include a confidential reporting mechanism, address conflicts of interest, etc.

We respectfully request that you address this issue in the audit committee charter and resubmit it for approval.

Sincerely,

Justin P. Wilson  
Comptroller of the Treasury

JPW/geb

## **Audit Committee Charter**

### **Purpose**

The Audit Committee (AC) is responsible for assuring that the University of Memphis' (University) organizational culture, capabilities, systems and processes are appropriate to protect the financial health and the reputation of the University in all of the areas enumerated below. More particularly, the AC will review the financial reporting processes, the system of internal controls, the audit activities (external and internal), management's risk assessment, and the University's process for monitoring and ensuring compliance with laws and regulations.

The AC will regularly update the full Board of Trustees (Board) about AC activities and key issues presided over by the Committee.

### **Roles and Responsibilities**

#### ***Financial Reporting***

- Review audited financial statements with state auditors, and determine whether the statements are complete and consistent with the information known to committee members.
- Review with the University's general counsel any legal matters that could have a significant impact on the University's financial statements.
- Review with management and state auditors any significant accounting and reporting issues, including recent professional and regulatory pronouncements, and understand their impact on the University's financial statements.

#### ***External Audit***

- Meet, as needed, with external auditors to discuss any matters that the AC or auditors deem appropriate.
- Ensure that any findings and recommendations made by the external auditors are received, discussed, and acted upon in an appropriate and timely manner.
- Review the results of the external auditors' examinations and any other matters related to the conduct of the audits, and report to the Board the auditors' findings and recommendations.

#### ***Internal Audit***

- Review and approve the annual audit plan for the University, including management's request for unplanned audits.
- Review the result of the year's work with the Chief Audit Executive, and receive and review any other work prepared by the Chief Audit Executive for the University.
- Receive and review reports, the results of internal audits performed, and any other work prepared by Internal Audit.
- Ensure that the University has the appropriate structure, staffing and capability to carry out its internal audit responsibilities.
- Ensure that the internal audit department has direct and unrestricted access to the chair and other committee members.



- Approve the Internal Audit budget.
- Appoint, replace, or dismiss the Chief Audit Executive.
- Review, approve, and update the Internal Audit charter annually or more frequent if necessary.

#### ***Internal Controls, Risk, and Compliance***

- Ensure that a system is in place, and being followed, to review and maintain compliance with the University's internal control structure.
- Ensure that a process exists for assessing, reporting, and investigating illegal, fraudulent, wasteful, or improper activity at the University, including a confidential reporting mechanism.
- Determine whether internal control recommendations made by internal and external auditors have been implemented by management.
- **Review University policies and procedures regarding employee conduct.**
- Review the University's conflict of interest policy to ensure that the guidelines are comprehensive, that the term "conflict of interest" is clearly defined, that annual signoff is required, and that it contains procedures for adequate resolution and documentation of potential conflicts.
- Review the University's process for monitoring compliance with laws and regulations.
- Review the University's risk assessment plan.
- Regularly obtain updates from management, General Counsel and Internal Audit regarding significant changes in legal and compliance issues.
- Review and assess the adequacy of the AC's charter annually, requesting Board approval for proposed changes.

#### **Membership**

The AC shall be composed of no less than three members who shall be appointed by the Board according to Board Bylaws. The Board shall appoint the AC chair. The Board may select one certified public accountant or other qualified citizen who is not a member of the Board to serve on the AC. The external member must have extensive accounting, auditing, or financial management expertise, and may not serve as the chair. The term of appointment is two years, and the chair may not serve more than two consecutive two-year terms as chair. All members of the AC shall be generally knowledgeable of financial management and auditing matters. At all times, the AC shall have at least one member with extensive accounting, financial or management expertise.

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

#### **Education**

The University's senior management and Internal Audit Department are responsible for providing the AC with educational resources related to accounting principles, internal controls, applicable policies, and other information that may be requested by the AC to maintain appropriate financial and compliance literacy.

## Meetings

The AC shall meet at least once quarterly, in conjunction with regular meetings of the Board, or at any other time upon the call of the AC chair. The AC will invite members of management, auditors or others to attend and provide pertinent information. Meeting agendas will be provided to members in advance along with proper briefing materials. Minutes will be prepared. The AC shall also meet at the request of the Comptroller of the Treasury.

A majority of the members of the AC shall constitute a quorum for the transaction of business.



## 5. Presentation: Engagement Opinion and Issue Rating System

Presentation

Presented by Vicki Deaton

## **Presentation to the Audit Committee of the Board of Trustees**

The University of Memphis Audit Committee  
Presentation  
For Information

**Date:** October 4, 2017

**Committee:** Audit Committee

**Presentation Title:** Engagement Opinion and Issue Rating System

**Presented by:**

Vicki D. Deaton, Interim Chief Audit Executive

**Synopsis:**

The Office of Internal Audit and consulting is an independent objective assurance and consulting activity designed to add value and improve University of Memphis management systems and processes. Assurance services involve the internal auditor's objective assessment of evidence to provide independent opinions or conclusions as part of each individual audit engagement report as well as on the overall adequacy of governance, risk management, and control within the University. As such, the Office of Internal Audit and Consulting has established a methodology by which issues are rated and overall audit opinions can be consistently applied to all audits and meaningfully interpreted by all stakeholders. The intent of this rating system is to align with the University's enterprise-wide risk management process. Thus, these issue ratings and audit opinions will reflect the internal control environment of the area under audit and also provide an opinion for management that assesses the adequacy, effectiveness and efficiency of internal controls and compliance with applicable laws, regulations, and policies.



**University of Memphis**  
**Office of Internal Audit and Consulting**  
**Engagement Opinion Methodology & Issue Rating System**

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**ISSUE RATING SYSTEM:**

The rating system ranks the seriousness of the issue. Audit ratings are based on the condition of the audit issue at the time of the audit, not at the time of the report. The report opinion cannot be affected by addressing the issue before the audit report is issued. A summary of issues document will be provided to appropriate University management and other appropriate personnel of the area audited. Management will be required to provide written corrective action plans within two weeks of receiving the summary of issues document. The purpose of an action plan is for management to specifically state how the issue will be resolved. Management will also be required to submit a target completion date in which the action plan will be implemented, as well as the name and title of a specific person who will be responsible for ensuring that the corrective action is completed.

Major = Not Adequate

This is a serious internal control or risk management issue that if not mitigated or controlled, may with a high degree of certainty lead to:

- Substantial losses
- Serious violation of University strategies, policies, or values
- Serious reputation damage
- Significant adverse regulatory impact, such as loss of research funding or material fines
- Significant fraud, theft, waste or abuse of University resources

Possible Causes:

- Policy or policies (directive controls) do not exist for significant University processes
- University is not in compliance with federal, state or other outside agencies
- Appropriate preventative, detective and corrective controls are not in place or control environment is not adequate or below standard
- Prior issue(s) not mitigated

**University of Memphis**  
**Office of Internal Audit and Consulting**  
**Engagement Opinion Methodology & Issue Rating System**

Moderate = Insufficient and Requires Improvement

This is a medium internal control or risk management issue that could lead to:

- Financial losses
- Exposure to other control weaknesses or vulnerabilities within the organization
- Reputation damage
- Adverse regulatory impact, such as public sanctions or immaterial fines
- Moderate fraud, theft, waste or abuse of University resources

Possible Causes:

- Policy or policies (directive controls) exist but adherence is inconsistent
- Preventative and/or detective controls are not in place, but corrective controls are in place
- Prior issue(s) not mitigated

Minor = Effective with Opportunity for Improvement

This is a low internal control or risk management issue that could lead to:

- Immaterial financial losses
- Exposure to other control weaknesses or vulnerabilities within the organization
- Isolated reputational damage (some member of the community or within a department)
- External audit issue
- Minimal waste or abuse of University resources

Possible Causes:

- Policy or policies (directive controls) exist but not adhered to on an exception basis
- Preventative controls do not exist, but detective and/or corrective controls exist
- Prior issue(s) not mitigated

Minor = Verbally Addressed

This is an opportunity for improvement that will be addressed during the exit conference and will not require an action plan from management.

**Types of internal controls:**

Preventative – Designed to keep errors from occurring in the first place. They are built into the internal control systems (i.e., segregation of duties, physical controls, and passwords).

Detective – Designed to detect irregularities which have already occurred (i.e., monitoring, reconciliations, exception reports, and reviews).

Directive – Designed to establish desired outcomes (i.e., training, laws, regulations policies and procedures).

Corrective – Designed to correct irregularities that have been detected.

**University of Memphis**  
**Office of Internal Audit and Consulting**  
**Engagement Opinion Methodology & Issue Rating System**

**Factors considered in judging the seriousness:**

1. Level of financial impact
2. Extent of violation of external laws, regulations and restrictions
3. Lack of a University policy or noncompliance with a policy in an important matter
4. Lack of internal controls or ineffective controls and procedures
5. Fraud, theft, inappropriate conflicts of interest or serious waste or abuse of University resources
6. Significant opportunity exists for real gains in processing efficiency
7. Poor cost controls or potential for significant savings and/or revenue generation
8. A condition that places the University's reputation at risk
9. Ineffective reporting and/or communication structure results in financial risks and/or inefficient operations
10. Post audit implementation review reveals little or no effort to implement an action plan in response to a previous audit issue

**AUDIT REPORT OPINION:**

After each audit issue has been ranked based upon the factors above, an overall opinion will be issued and addressed in the audit report. The overall opinions are as follows:

- **Effective = No Issues**
  1. Control environment is generally adequate and sound
  2. No issues noted
  3. Reasonable assurance that high level risks are adequately controlled/managed and objectives should be met
- **Effective with Opportunity for Improvement = Multiple Minor Rated Issues or Combination of Minor and Moderate Rated Issues**
  1. Control environment is generally adequate and sound but exceptions exist
  2. Some control weaknesses and/or opportunities for improvement observed
  3. Reasonable assurance that high level risks are adequately controlled/managed and objectives should be met
- **Insufficient & Requires Improvement = At Least One Major Issue**
  1. Control environment is not generally adequate and sound and/or significant exceptions exist (1
  2. Significant exposure to fraud or security vulnerabilities
  3. High level risks are not adequately controlled
  4. Unlikely to provide reasonable assurance that high level risks are adequately controlled/managed and objectives could be met
- **Not Adequate = Multiple Major Rated Issues**
  1. Control environment is below standard, unsound and is not adequate, appropriate, or effective to provide reasonable assurance that high level risks are being managed and objectives could be met
  2. Requires immediate attention or could lead to significant losses

Paul Gogonelis, CIA, CFE, CRMA, CGAP  
Rev 1.5 September 7, 2017



## 6. Presentation: Audit Communications

Presentation

Presented by Vicki Deaton

## **Presentation to the Audit Committee of the Board of Trustees**

The University of Memphis Audit Committee  
Presentation  
For Information

**Date:** October 7, 2017

**Committee:** Audit Committee

**Presentation Title:** Audit Communications

**Presented by:**

Vicki D. Deaton, Interim Chief Audit Executive

**Synopsis:**

Various events come to the attention of UOM Internal Audit. An Audit Committee Event Matrix is included that details how certain types of events, such as fraud, waste, or abuse, and the annual audit plan, are communicated with the Audit Committee Chair, the Audit Committee, and the President of the University.

Various types of Internal Audit reports are communicated with the Audit Committee Chair, the Audit Committee, and high level University management. The attached Internal Audit Communication Matrix details when and who receives these communications.

<i>Audit Committee Event Communication Matrix</i>		When Events Should be Reported to the Audit Committee			Level of Management Responsible for Resolution of Audit or Investigation Issue	
Event (1)		Immediately (Audit Committee Chair)	Immediately (Full Audit Committee)	Audit Committee Meeting (2)	Audit Committee	President
1	<i>Fraud, Waste or Abuse</i>					
	Involving President	X		X	X	
	Involving Senior Management	X		X		X
	Involving Faculty or Other Staff					
	Major (More than \$10,000)	X		X		X
	Minor (Under \$10,000)			X		X
2	<i>Violation of Conflicts of Interest Policy</i>					
	Involving President	X			X	
	Involving Senior Management	X				X
	Involving Faculty or Other Staff			X		X
3	<i>Reports Communicated to UOM by Federal, State, or Other Outside Entities</i>					
	Material Weaknesses and Findings	X		X		X
	Immaterial			X		X
4	<i>Denial of Internal Audit Access to People or Data</i>	X			X	
5	<i>Audit Plan</i>					
	Approval of Fiscal Year Plan			X	X	
	Major Revision	X			X	
6	<i>Internal Audit Personnel</i>					
	Termination of Campus Internal Audit Director		X		X	
	Hiring and Termination of the Chief Audit Executive				X	
7	<i>Other Communications Requested by the Audit Committee</i>		X	X	X	
	<i>(Risk Assessment, etc...)</i>					

(1) Categorization of events includes, but is not limited to, consideration of \$ value, reputation, and noncompliance with federal or state regulations.

(2) Audit Committee meeting summary includes only completed reports.

Note 1: The Audit Committee Chair or Full Audit Committee may decide to call an executive session when needed. Executive sessions may include discussion of cases still in progress.

Note 2: This chart is intended to show reporting and resolution responsibilities in broad and general terms. Each issue or situation must be evaluated on its merits and may deviate from this chart. The Chief Audit Executive must use professional judgment in the evaluation of issues and should consult the Audit Committee Chair or full committee when needed.

Internal Audit Communication Matrix

					With Quarterly Audit Committee Materials	With Quarterly Audit Committee Executive Session Materials												
			When Issued															Annually
			Audit Committee Chair	Full Audit Committee	Full Audit Committee	Full Audit Committee		President	Legal Counsel	COO	VP Business & Finance		President	Legal Counsel	COO	VP Business & Finance		External Auditor
Internal Audit Reports																		
	Opinion: Effective (no issues)							X	X	X	X							X
	Opinion: Effective with Opportunity for Improvement (multiple minor rated issues or combination of minor and moderate rated issues)							X	X	X	X							X
	Opinion: Insufficient and Requires Improvement (at least one major rated issue)							X	X	X	X							X
	Opinion: Not Adequate (multiple major rated issues)							X	X	X	X							X
Internal Audit Report Summary					X								X	X	X	X		
"Limited Official Use Only" Internal Audit Reports																		
	Opinion: Effective (no issues)							X	X	X	X							X
	Opinion: Effective with Opportunity for Improvement (multiple minor rated issues or combination of minor and moderate rated issues)							X	X	X	X							X
	Opinion: Insufficient and Requires Improvement (at least one major rated issue)							X	X	X	X							X
	Opinion: Not Adequate (multiple major rated issues)							X	X	X	X							X
"Limited Official Use Only" Internal Audit Report Summary					X								X	X	X	X		
Past Internal Audit Issue Follow Up Summary					X								X	X	X	X		
Investigation Reports/Memos																		
	No Evidence of Illegal Activity, Fraud, Waste, or Abuse		X			X		X	X	X	X							
	Evidence of Illegal Activity, Fraud, Waste, or Abuse			X		X		X	X	X	X							
Attorney Client Priviledged Investigation Reports																		
	No Evidence of Illegal Activity, Fraud, Waste, or Abuse		X			X		X	X									
	Evidence of Illegal Activity, Fraud, Waste, or Abuse			X		X		X	X									
TN Comptroller Hotline Investigation Memos																		
	No Evidence of Illegal Activity, Fraud, Waste, or Abuse		X			X		X	X	X	X							
	Evidence of Illegal Activity, Fraud, Waste, or Abuse			X		X		X	X	X	X							
Investigation Summary																		
	(Summary will include all types of investigation reports and memos without any detail information.)					X							X	X	X	X		X



## 7. Report: Internal Audit Reports Issued 1st Quarter FY2018

Report

Presented by Vicki Deaton

## **Report to the Audit Committee of the Board of Trustees**

The University of Memphis Audit Committee  
Report  
For Information

**Date:** October 4, 2017

**Committee:** Audit Committee

**Report Title:** Internal Audit Reports Issued 1<sup>st</sup> Quarter FY2018

**Presented by:**

Vicki D. Deaton, Interim Chief Audit Executive

**Report Synopsis:**

Five Internal Audit reports have been issued this quarter. All of the projects were budgeted as FY2017 audits. We are currently over budget on the audit hours spent on completing prior year audit projects, and under budget on the audit hours spent on current year audit projects.

Attached is a list of the audits with information regarding each audit engagement report opinion and the number of issues identified.

Audit Reports Issued - 1st Quarter FY2018						
Name of Audit	Date of Audit Report	Audit Engagement Report Opinion	Minor Issues	Moderate Issues	Major Issues	Issues Outstanding from Prior Audit
FY2017 Cash Balances Audit Report	8/25/2017	Effective	0	0	0	0
FY2017 Year End Inventory Observation Audit Report	8/25/2017	Effective	0	0	0	0
Center for Information Assurance Financial & Compliance Audit	8/30/2017	Effective with the Opportunity for Improvement	2	0	0	0
School of Public Health Financial & Compliance Audit	9/7/2017	Effective with the Opportunity for Improvement	9	1	0	0

Follow Up on State Audit Issue - 1st Quarter FY2018							
Name of Audit	Date of Audit Report	Issue #	Issue Description	Issue Rating	Action Plan Estimated Completion Date	Party Responsible for Action Plan Completion	Current Status
FY2016 State Financial & Compliance Audit Recommendation Follow Up Audit	7/13/2017 (Original Audit performed by TN Division of State Audit, 1/19/2017)	FY2016 Financial Audit 1	Bank Reconciliations Not Performed Timely and Correctly	NA - Not Rated by State Auditor	8/1/2017	Division of Business and Finance	Complete



# 8. Investigations Completed 1st Quarter FY 2018

Report

Presented by Vicki Deaton

## Report to the Audit Committee of the Board of Trustees

The University of Memphis Audit Committee  
Report  
For Information

**Date:** October 4, 2017

**Committee:** Audit Committee

**Report Title:** Summary of Investigations Completed 1<sup>st</sup> Quarter FY2018

**Presented by:**

Vicki D. Deaton, Interim Chief Audit Executive

**Report Synopsis:**

Ten reports of fraud, waste, or abuse, noncompliance with law, and conflict of interest were received by Internal Audit this quarter. Nine of the reports were fully investigated and resulted in a report issued by Internal Audit. We are currently over budget on the audit hours spent on completing investigations.

Attached is a summarized list of investigations reported to the UOM Office of Internal Audit and Consulting, with additional information regarding the outcome of each investigation.

<b>UOM Investigation Summary - 1st Quarter FY2018</b>
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Case Number	Date Received	Allegation Received by	Description of Allegation	Status	Investigation Outcome	\$ Loss	Date of Final Action	Additional Explanation
17-016	6/27/2017	Allegation forwarded by President Rudd	Employee Conflict of Interest	Memo Issued-Case Closed	No Evidence of Conflict of Interest	NA	8/10/2017	
18-001/TN Comp #17-0372	7/11/2017	Allegation Letter to Audit Committee & TN Comp Hotline (allegations reported on 12/1/2016, but received by UOM Internal Audit on 7/11/2017)	Noncompliance with Procurement Laws	Report Issued-Case Closed	No Evidence of Noncompliance with Law, No Evidence of Fraud, Waste, or Abuse of University Funds	NA	8/21/2017	
18-002	7/11/2017	Allegation Letter to Audit Committee	Noncompliance with Open Records Act	Report Issued-Case Closed	No Evidence of Noncompliance with Law	NA	8/21/2017	
18-003	7/11/2017	Allegation Letter to Audit Committee	Waste of Funds on Consultant Contract	Report Issued-Case Closed	No Evidence of Noncompliance with Law, No Evidence of Fraud, Waste, or Abuse of University Funds	NA	8/21/2017	
18-004	7/11/2017	Allegation Letter to Audit Committee	Employee Conflict of Interest	Report Issued-Case Closed	No Evidence of Conflict of Interest	NA	8/21/2017	
18-005	7/11/2017	Allegation Letter to State Audit (delivered to UOM Internal Audit)	Noncompliance with State Laws regarding Foundations	Memo Issued-Case Closed	No Evidence of Noncompliance with Law or State Policies	NA	8/21/2017	
18-006/TN Comp #17-0372	7/11/2017	TN Comp Hotline (allegations reported on 12/1/2016, but received by UOM Internal Audit on 7/11/2017)	Waste of Funds on Employee Lunch	Memo Issued-Case Closed	No Evidence of Noncompliance with Law, No Evidence of Fraud, Waste, or Abuse of University Funds	NA	8/21/2017	
18-007	7/31/2017	Allegation forwarded by President Rudd	Research Misconduct	Closed-Referred to VP Research	Unknown	NA	8/2/2017	Per Policy UM1451, this is a matter for investigation by VP of Research
18-008	8/9/2017	Allegation Letter to Board of Trustees and Audit Committee Chair	Construction Project Mismanagement & Waste of Funds	Memo Issued-Case Closed	No Evidence of Noncompliance with Law, No Evidence of Fraud, Waste, or Abuse of University Funds	NA	8/23/2017	
<b>Attorney Client Privileged Investigation Summary - 1st Quarter FY2018</b>								
Legal 1	7/11/2017	UOM Legal Counsel	Possible Fraud	Report Issued to Legal-Case Closed	No Evidence of Noncompliance with Law, No Evidence of Fraud, Waste, or Abuse of University Funds	NA	8/14/2017	





## 9. Presentation: University Internal Audit Staff Benchmarking

Presentation

Presented by Vicki Deaton

## **Presentation to the Audit Committee of the Board of Trustees**

The University of Memphis Audit Committee  
Presentation  
For Information

**Date:** October 4, 2017

**Committee:** Audit Committee

**Presentation Title:** University Internal Audit Staff Benchmarking

**Presented by:**

Vicki D. Deaton, Interim Chief Audit Executive

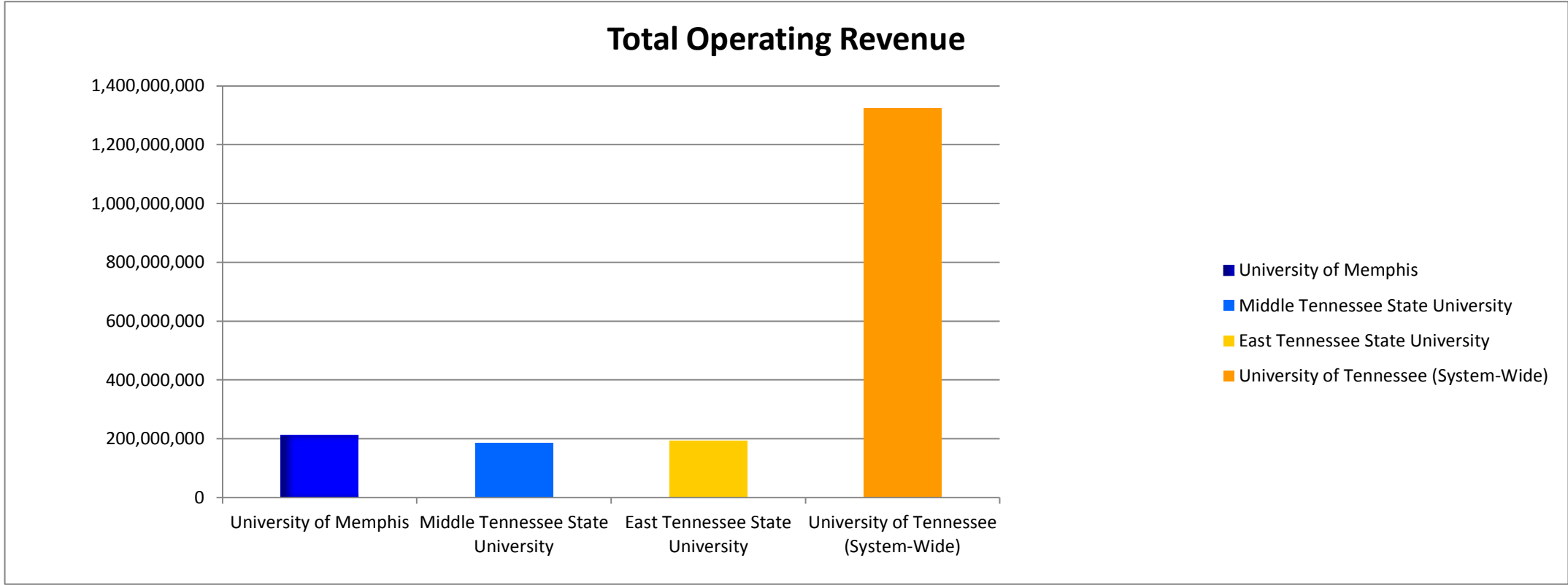
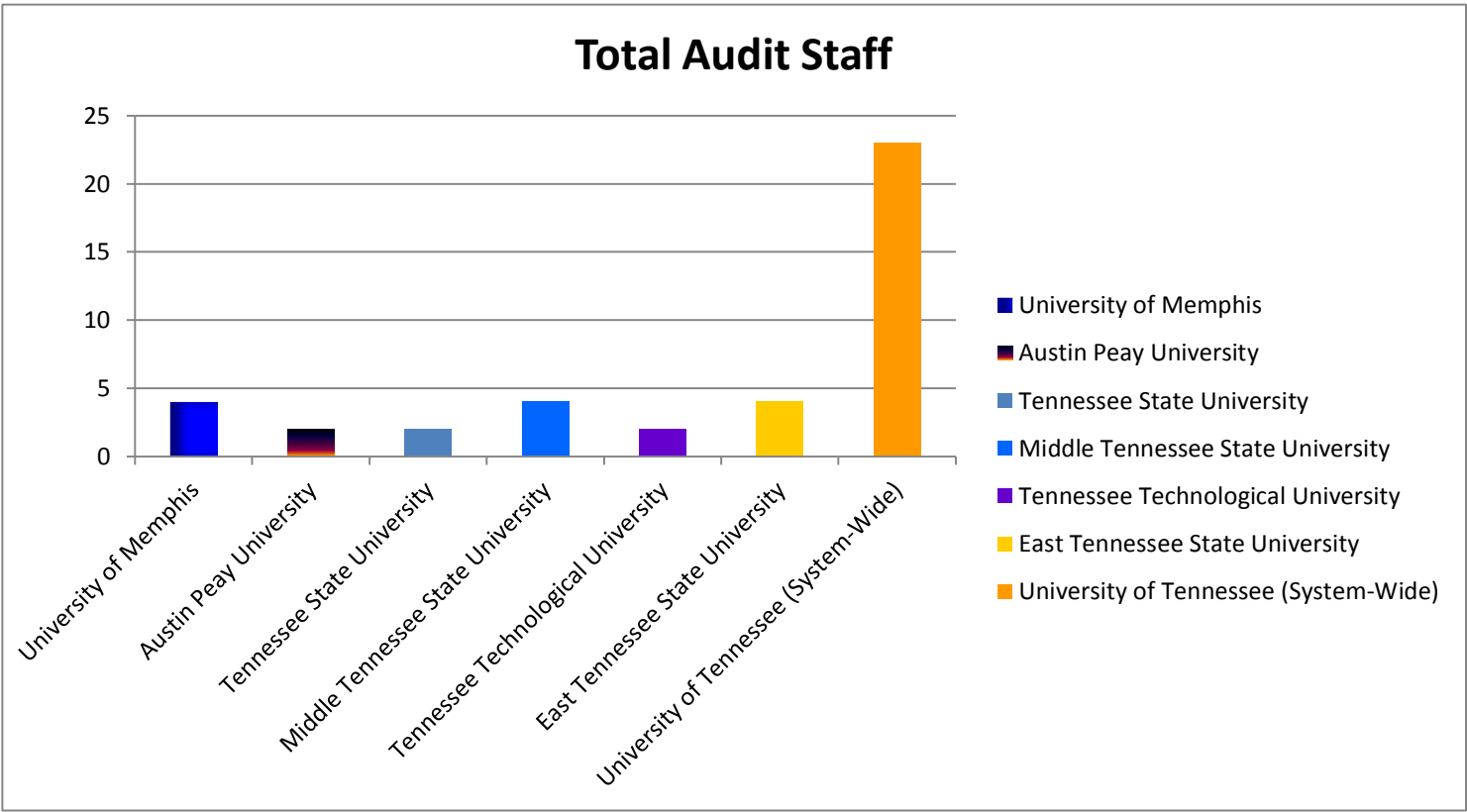
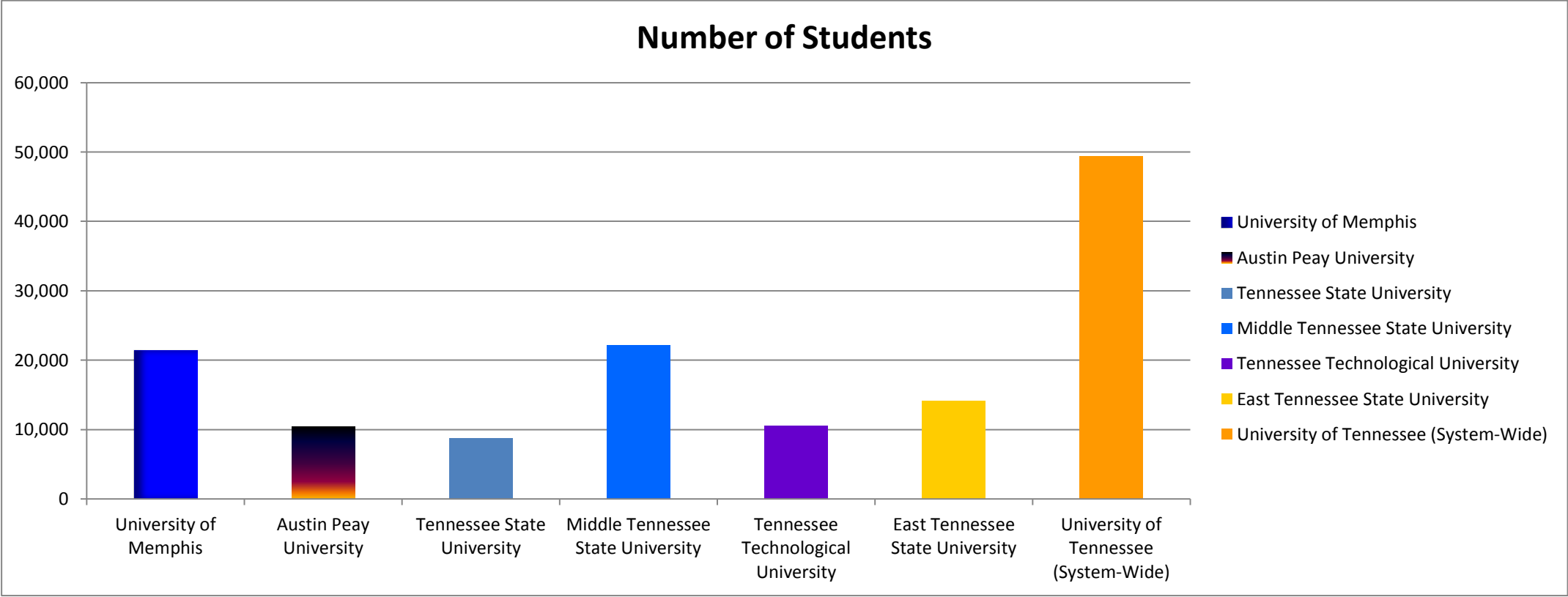
**Synopsis:**

Internal Audit staffing information was obtained for 6 public Universities within the state of Tennessee and compared with the current University of Memphis Internal Audit staffing. Based on the number of students and total operating revenues for each University, the appropriate number of Internal Audit staff at the University of Memphis is 4 to 5 FTEs.

Institution	Number of Students	Total Audit Staff
University of Memphis	21,453	4
Austin Peay University	10,460	2
Tennessee State University	8,768	2
Middle Tennessee State University	22,159	4
Tennessee Technological University	10,535	2
East Tennessee State University	14,128	4
University of Tennessee (System-Wide)	49,380	23

Institution	Total Operating Revenue
University of Memphis	211,457,000
Middle Tennessee State University	187,190,000
East Tennessee State University	194,363,000
University of Tennessee (System-Wide)	1,325,718,000

Year Ended June 30,2016





## 10. Additional Committee Business



## 11. Adjournment





## 12. Executive Session