December 2017 UofM Audit Committee Meeting

Schedule	Thursday, December 07, 2017, 11:30 AM — 12:15 PM CST
Venue	Wilder Student Union Room 218, Lambuth Campus, Jackson, TN
Organizer	Jean Rakow

Agenda

1. Call to Order

2. Roll Call

3. Approval of Minutes - October 4, 2017

For Approval

Presented by Susan Springfield

THE UNIVERSITY OF MEMPHIS
BOARD OF TRUSTEES

MINUTES OF THE AUDIT COMMITTEE
October 4, 2017
Memphis, TN

The Audit Committee of The University of Memphis Board of Trustees met at 11:00 a.m. CDT, on Friday, October 4, 2017, on the campus of the University of Memphis in Memphis, Tennessee.

I.   CALL TO ORDER

Chair Carol Roberts 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 confirmed the following Audit Committee members were present:

> Trustee Douglas Edwards*
> 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.   APPROVAL OF MINUTES - JUNE 6, 2017

Trustee Johnson made the motion to approve the minutes. The motion was properly seconded. There being no discussion, a voice vote was taken and the minutes of Audit Committee for June 6, 2017 were approved.

IV.   AUDIT COMMITTEE CHARTER REVISION

Secretary Murry explained that the Charter for the Audit Committee was submitted to the Comptroller's office for the State of Tennessee for approval. They requested changes that included language related to policies and procedure related to employee conduct; therefore, the charter has been revised to include the following language in the Internal Controls, Risk, and Compliance section of the Charter:

- Review University policies and procedures regarding employee conduct to ensure that it:

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Audit Committee
Board of Trustees
Tuesday, October 4, 2017
</div>

- o   is easy to access,
- o   is widely communicated,
- o   is easy to understand and implement,
- o   includes a confidential mechanism for reporting code violations,
- o   is enforced, and
- o   includes conflict of interest policy and guidelines.

Trustee Springfield made the motion to approve the revised charter. The motion was properly seconded. There being no discussion, a voice vote was taken and the revised charter was approved.

V.   PRESENTATION: ENGAGEMENT OPINION AND ISSUE RATING SYSTEM

Chair Roberts made summary comments related to discussion during the June meeting that addressed concerns related to communication, information sharing, expectations, and managing risk. Chair Roberts acknowledged that the Department of Internal Audit has worked to address these concerns and would share the results of the work since the last meeting. Chair Roberts turned the meeting over to Interim Chief Audit Executive, Vicki Deaton. Ms. Deaton shared a framework that can be used to interpret the audit results based on industry best practices. The methodology used for engagement opinions and an issue rating system.

The UofM has established a classification system for minor issues that can be verbally addressed, minor issues where internal controls are effective but there is opportunity for improvement, moderate issues where controls are insufficient and improvement is required, and major issues where there are serious issues that need to be addressed. Depending on how the issues fall in the rating system, a report opinion (effective – no issues, effective – with opportunity for improvement, insufficient and requires improvement, or not adequate) would be assigned. The framework has been implemented and is currently being used.

A question arose regarding the use of the category, not adequate. Concern was expressed that there could be a potentially major issue (rather than requiring multiple major issues) that could constitute "not adequate."   The framework is designed to assist the audit team when they are thinking about issues that arise.

Prior to this framework, the University did not have a clear method for designating levels of concern and seriousness of issues.

Committee members indicated that they were appreciative of the work associated with the classification system. Comments also reflected the need for estimates of time to resolve issues. Ms. Deaton indicated that the Department of Internal Audit has implemented a more structured action plan as well as identifying a higher level management official with responsibility for completion of the action plan within estimated completion date.

VI.   PRESENTATION: AUDIT COMMUNICATIONS

Ms. Deaton indicated that, under the direction of Chair Roberts, the audit team developed a matrix that details communication processes when specific events occur. A second matrix provides planned communication processes related to audit work product. Committee agreed that they would want to see audit reports for those reports categorized as "not adequate" when issued. Audit opinions categorized as "insufficient and requires improvement" would be shared with the Chair when report and supporting materials are available and will be shared with the entire committee at the request of the Chair.

VII.   REPORT: INTERNAL AUDIT REPORTS ISSUED 1ST QUARTER FY2018

Ms. Deaton provided a summary of five audit reports issued during the first quarter. The audits of FY2017 cash balances and FY2017 inventory observation report were requested by administration and are performed to assist with the audits completed by the State of Tennessee Division of State Audit. Two comprehensive departmental audits (Center for Information Assurance and School of Public Health) were completed. Several issues were found that were minor or moderate in nature. A follow up to a compliance audit where deficiencies were found was conducted in accordance with state requirements. The action plan to correct the deficiency has been completed. A suggestion was made that the report of audits be augmented to include an estimated completion date, as well as an aging related to action plan completion.

VIII.   INVESTIGATIONS COMPLETED 1ST QUARTER FY2018

Ten complaints were received related to conflict of interest, noncompliance with various laws, waste of funds, misconduct and/or mismanagement of funds. The report also provided an indication of the outcomes of the investigations.

A question was asked about the process related to referring complaints to others who would have responsibility for investigating should Internal Audit not be the appropriate department. Audit Executive is currently evaluating and making a determination with guidance from the Office of Legal Counsel and others, as appropriate.

IX.   PRESENTATION: UNIVERSITY INTERNAL AUDIT STAFF BENCHMARKING

Information is being provided based on questions that arose during the previous meeting (June, 2017). UofM internal audit staff was benchmarked against six other public universities. Information was used related to student enrollment and total operating revenue as benchmark criteria. Based on the analysis, it is recommended that Internal Audit employ 4 to 5 FTE's on the internal audit staff. Currently, there are four full-time staff. It was suggested that a general staff auditor be added due to the number of follow up activities that will be required.

A question was asked related to changes likely as a result of the independent board. Committee engaged in discussion about relating personnel needs to issues of risk – and approaching staffing from a strategic perspective. An increase in personnel might be warranted as the number of

complaints that will be handled locally will increase as they will not be forwarded to the Tennessee Board of Regents for disposition.

Chair Roberts reiterated that the committee would continue to build upon the opinion and rating system framework and the December meeting would have an update on Cybersecurity risks as well as a strategic view of the risks, looking at the risk to which the UofM needs to pay attention, how the Audit Committee is assessing the risks, and how the risk assessment relates back to the Audit Committee. President Rudd informed the committee that ITS is conducting an IT risk assessment parallel to the university risk assessment to ensure that the committee has detailed information to include in their evaluation of IT risk.

A question arose about the process related to the handling of Title IX complaints. Title IX complaints are handled by the Office of Institutional Equity. It was offered that the Audit Committee be updated related to these complaints during the regular business of the committee.

It was suggested that the Audit Committee provided benchmarking information related to the various communication channels used to file complaints, as well as the number of complaints handled by other institutions across the state.

X.   **ADDITIONAL COMMITTEE BUSINESS**

No additional business.

XI.   **ADJOURNMENT**

Chair Roberts adjourned the Audit Committee Meeting at 11:35 am CDT.

XII.   **EXECUTIVE SESSION**

Board of Trustees convened in Executive Session.

Respectfully Submitted,

Jeanine H. Rakow
Coordinator of the Board Office

4. Chief Audit Executive

For Approval

Presented by M. David Rudd

The University of Memphis Board of Trustees
Agenda Item

Date: December 7, 2017

Committee: Audit Committee

Item: Internal Audit Leadership

Recommendation: Approval

Presented by: M. David Rudd, President

Background:
According to the Bylaws of the Board of Trustees, the Board shall "appoint the Chief Internal Auditor for the University... who shall report directly to the Board's Audit Committee." The Chief Internal Auditor position has been filled on an interim basis for the past seven months by Vicki D. Deaton.

Committee Recommendation:
The Audit Committee met December 7, 2017, and recommended approval of the appointment of Vicki D. Deaton, Senior Internal Auditor, to serve as the permanent Chief Internal Auditor effective immediately.

5. Summary of Investigations Completed

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:　　　　　　　December 7, 2017

Committee:　　　　　Audit Committee

Report Title:　　　　Summary of Investigations 2nd Quarter FY2018

Presented by:　　　　Vicki D. Deaton, Interim Chief Audit Executive

Report Synopsis:
Seven reports of fraud, waste, or abuse, noncompliance with law, and conflict of interest were received by the Office of Internal Audit and Consulting this quarter, and two requests for investigations were received from the Office of Legal Counsel this quarter. Two of the allegation reports received were fully investigated and resulted in reports issued by Internal Audit. Three investigations are ongoing, and four reports were referred to other University departments for resolution.

Attached is a summarized list of reports received by the UofM Office of Internal Audit and Consulting, with additional information regarding investigations completed by Internal Audit.

Case Number	Date Received	Allegation Received by	Description of Allegation	Status	Investigation Outcome	$ Loss	Date of Final Action by Internal Audit	Additional Explanation
18-009	9/11/2017	Internal Audit FWA Report	Misuse of Scholarship Funds	Memo Issued-Case Closed	No Evidence of Misue of Scholarship Funds	NA	10/16/2017	
18-010	9/20/2017	Allegation forwarded by UoM Office of Legal Counsel	Damage to University Property	Referred to VP Business & Finance, Case Closed by Internal Audit	Per Business and Finance-Damage Repaired & Employee Charged according to UM1770 Facilities and Grounds Alterations and Improvements	Unknown	10/3/2017	
18-011	9/22/2017	Internal Audit FWA Report	Noncompliance with Faculty Hiring Policies and Practices	Referred to Provost Office, Case Closed by Internal Audit	Unknown	NA	9/22/2017	Faculty Qualification Question
18-012	10/12/2017	Internal Audit FWA Report	Personal Use of Departmental Parking Pass	Memo Issued-Case Closed	Noncompliance with University Policy and Abuse of University Resources-Referred to Departmental Authorities	$1,320	10/31/2017	Internal Audit Memo Distributed to Departmental, Parking, and HR Management
18-013	10/20/2017	Allegation Letter to Audit Committee	Complaint Related to Supposed Protections of Tenure	Referred to Provost Office, Case Closed by Internal Audit	Unknown	NA	10/23/2017	Faculty Tenure Matter
18-014	10/20/2017	Allegation Letter to Audit Committee	General Claim of Sexual Harrassment	Referred to Office of Institutional Equity, Case Closed by Internal Audit	Per Office of Institutional Equity-Complaints Resolved	NA	10/23/2017	
18-015	10/31/2017	Allegation Letter to Dr. Rudd and Audit Committee	Inadequate Desegration of Duties in Financial Transaction Approvals	ongoing				

Attorney Client Privileged Investigation Summary - 2nd Quarter FY2018

Legal 2	11/2/2017	UoM Office of Legal Counsel	Concerns with Employee Travel	ongoing				
Legal 3	11/9/2017	UoM Office of Legal Counsel	Concerns with Employee Travel	ongoing				

6. Fraud, Waste and Abuse Investigation 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: December 7, 2017

Committee: Audit Committee

Presentation Title: University Fraud, Waste or Abuse Report Benchmarking

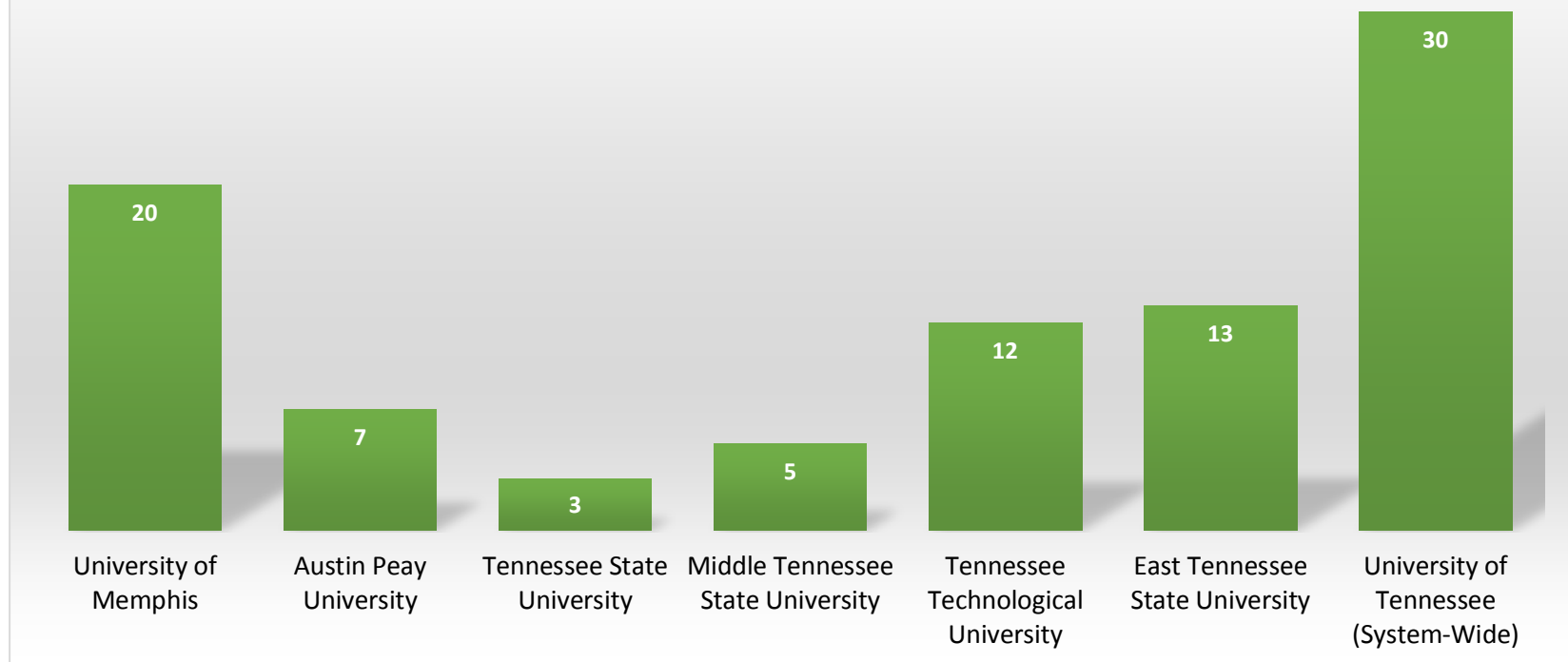**Presented by:**   Vicki D. Deaton, Interim Chief Audit Executive

Synopsis:

Fiscal Year 2017 Fraud, Waste or Abuse reporting information was obtained from 6 public Universities within the state of Tennessee and compared with the University of Memphis. The information shows that the University of Memphis receives a comparable number of Fraud, Waste or Abuse reports based on its size in relation to the other public Universities.

Fraud awareness is promoted across the University Campus community in various ways. Each semester, the President sends an email to all faculty and staff stressing the responsibility of all employees of the UofM to ensure that our resources are properly managed and safeguarded against inappropriate use by reporting activities that could be fraud, waste or abuse. The last email was sent on September 11, 2017, and the letter is posted on the Office of the President's website. Tennessee Comptroller of the Treasury hotline posters are displayed in multiple locations across Campus.

Internal Audit promotes reporting of fraud, waste or abuse by meeting with employee and student groups across Campus. An Internal Audit brochure titled Reporting Fraud, Waste and Abuse is provided to groups during presentations and to audit clients during the audit process. The brochure is posted on the Office of Internal Audit and Consulting's website, which contains a page devoted to reporting fraud, waste and abuse of University resources. A link to submit a report online is provided, as well as other reporting options. Recently, Internal Audit worked with Human Resources to include a brief fraud awareness section in UofM new employee orientation.

Number of Fraud, Waste or Abuse Reports Received by Internal Audit FY2017

University of Memphis	Austin Peay University	Tennessee State University	Middle Tennessee State University	Tennessee Technological University	East Tennessee State University	University of Tennessee (System-Wide)
20	7	3	5	12	13	30

Number of Fraud, Waste or Abuse Investigation Reports Issued by Internal Audit FY2017

University of Memphis	Austin Peay University	Tennessee State University	Middle Tennessee State University	Tennessee Technological University	East Tennessee State University	University of Tennessee (System-Wide)
7	3	3	1	5	11	10

Student Headcount Fall 2016

University of Memphis	Austin Peay University	Tennessee State University	Middle Tennessee State University	Tennessee Technological University	East Tennessee State University	University of Tennessee (System-Wide)
21453	10460	8768	22159	10535	14128	49380

7. Audit Issue Follow Up

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: December 7, 2017

Committee: Audit Committee

Report Title: Center for Earthquake Research and Information (CERI) Financial and Compliance
Audit Issue Follow Up

Presented by: Vicki D. Deaton, Interim Chief Audit Executive

Report Synopsis:
Attached is a summarized list of audit issues that were evaluated for completion this quarter. While no
audit engagement report opinion was assigned or issues rated under previous Internal Audit reporting
procedures, these are minor issues that have been substantially resolved.

Follow Up on Audit Issues - 2nd Quarter FY2018										
Action Plan Estimated Completion Date	**Name of Audit**	**Date of Audit Report**	**Issue #**	**Issue Description**	**Issue Rating**	**Party Responsible for Action Plan Completion**	**Current Status**	**Action Plan to Completely Resolve Issue (if current status not complete)**	**Estimated Completion Date**	**Responsible Party**
NA - Prior Internal Audit Procedures Expected Completion by Planned Follow Up Date of 10/31/2017	Center for Earthquake Research and Information Financial and Compliance Audit	11/22/2016	CERI 1	Insufficient Travel Controls - No Prior Approval for Travel PO	NA - No Rating with Prior Internal Audit Procedures	CERI Management	Partially Complete	Ongoing education efforts, new blanket purchase order procedure	8/1/2018	Michelle Smith, Assistant Director of Administration and Finance - CERI
NA - Prior Internal Audit Procedures Expected Completion by Planned Follow Up Date of 10/31/2017	Center for Earthquake Research and Information Financial and Compliance Audit	11/22/2016	CERI 2	Insufficient Travel Controls - Reconciliation of Travel Expenses Not Timely	NA - No Rating with Prior Internal Audit Procedures	CERI Management	Partially Complete	Ongoing education and monitoring efforts, utilization of Shared Services Center	6/30/2018	Michelle Smith, Assistant Director of Administration and Finance - CERI
NA - Prior Internal Audit Procedures Expected Completion by Planned Follow Up Date of 10/31/2017	Center for Earthquake Research and Information Financial and Compliance Audit	11/22/2016	CERI 3	Insufficient Controls over Sponsored Agreement Effort Reporting	NA - No Rating with Prior Internal Audit Procedures	CERI Management	Complete			
NA - Prior Internal Audit Procedures Expected Completion by Planned Follow Up Date of 10/31/2017	Center for Earthquake Research and Information Financial and Compliance Audit	11/22/2016	CERI 4	Insufficient Controls over Alternative Work Arrangements	NA - No Rating with Prior Internal Audit Procedures	CERI Management	Complete			
NA - Prior Internal Audit Procedures Expected Completion by Planned Follow Up Date of 10/31/2017	Center for Earthquake Research and Information Financial and Compliance Audit	11/22/2016	CERI 5	Potential Conflict of Interest	NA - No Rating with Prior Internal Audit Procedures	CERI Management	Complete			

8. IT Security Risks

Presentation

Presented by Robert Jackson

Information Security Program Update

Dr. Robert Jackson
Chief Information Officer

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Reality in higher education

- 6% of all security breaches take place in higher education
- 9M+ records at 350+ higher education institutions since 2010

--data obtained from privacyrights.org

Examples of higher education beaches:
- June 2017:   1,000,000 research records
- March 2017:   7,500,000 voter records
- January 2016:   140,000 course records
- April 2015:   360,000 applicant records with SSN's

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Why IT security is important

- Personal information (students, parents, employees, alumni; tax records, health records)

- Research data (intellectual property, non-disclosure agreements, data use agreements)

- Statutory requirements (FERPA, GLBA, HIPAA, TN Data Breach Notification Law)

Average Remediation Cost per record

$111 → 2013
$245 → 2017
---Ponemon Institute

Reputational Risk
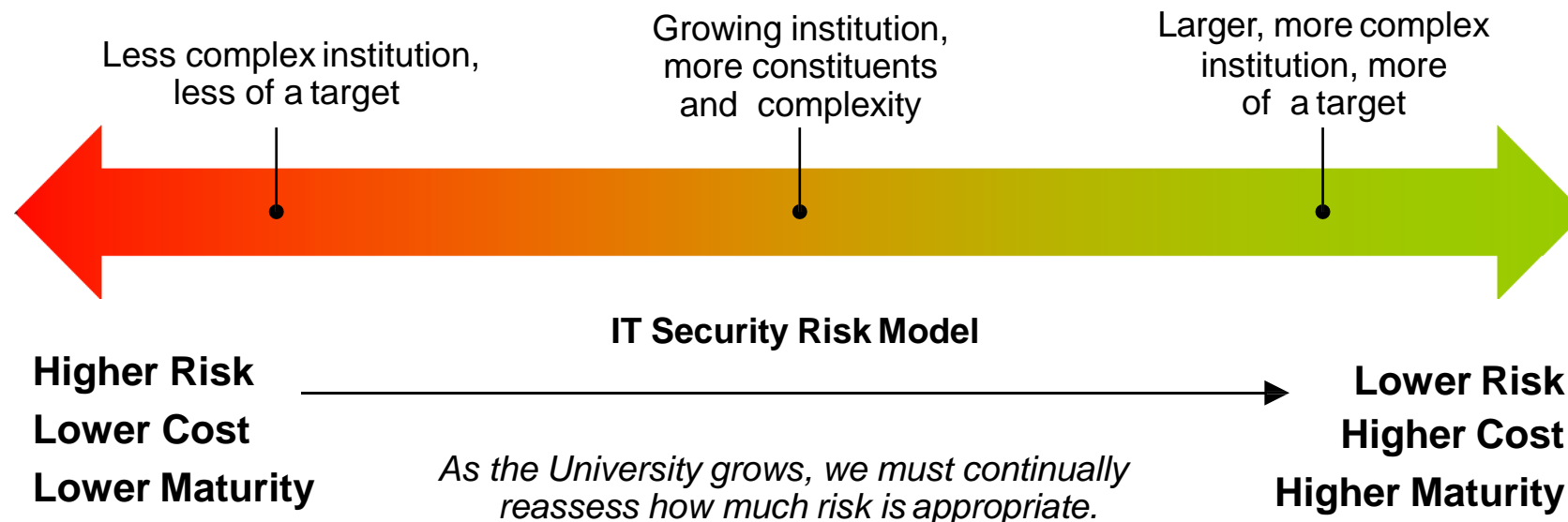
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Higher Education IT Security Risks

- Openness
- Decentralization
- Consumerization of technology (IoT)
- Phishing, malware, social engineering
- Cloud services
- Aging technologies

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Defining Appropriate IT Security Risk

There is no such thing as "perfect protection"

Less complex institution, less of a target

Growing institution, more constituents and complexity

Larger, more complex institution, more of a target

IT Security Risk Model

Higher Risk

Lower Cost

Lower Maturity

As the University grows, we must continually reassess how much risk is appropriate.

Lower Risk

Higher Cost

Higher Maturity

Our goal is to build a sustainable information security program that balances the need to protect against the need to conduct University business.

Accomplishments to date

- Created and updated policies, procedures, and guidelines
- Formalized the ISP in UM policy 1804
- Created IT Security, ID Management, and Compliance Unit (ITSEC) – 2013
- Initiated annual IT Security Awareness Training program and departmental visits
- Formalized security incident response plan
- Created and filled Director of ITSEC position – 2017
- Requested and received additional funding via SRI model for email threat protection
- Budget allocation for ITSEC is increasing
- External assessment

- Collaborate closely with
    - Internal Audit
    - Office of Legal Counsel
    - Office of the Controller
    - Police Services

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A Layered System of Security Controls

Foundation Controls

- Perimeter (network security):
  – Firewalls
  – Intrusion prevention
- Access controls:
  – User provisioning (role-based)
  – Access management (two-factor)
- Vulnerability management:
  – Scanning
  – Patching
- IT Policies
- Organization:
  – Staff (delineation of duties)
  – Skills (certifications)
- Compliance:
  – Audit
  – Requirements management
  – E-Discovery

Good Controls

- Detection:
  - Log analysis (SIEM)
  - Email threat detection
  - End-point alerts
  - Data loss prevention
  - User reported
- Incident response plan
- Risk assessment:
  - Technology risks
  - Facility risks
  - Personnel risks
- Governance:
  - Governance committees
  - Change management
  - Strategic Planning
- End-point protection:
  - Data disposal guidelines
  - Encryption guidelines
  - Privileged access controls

Advanced/Nice to Have

- Business alignment:
  - Student, HR, & Finance processes
  - Research standards
- Ethical hacking
- IT Security awareness:
  – Annual Required Training
  – Program Expansion
- Risk management:
  - Enterprise risk
  - Accountability
  - Scenario / table-top exercises
  - External assessment

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Next Steps

- Continue to invest in the Information Security Program.

- Recommend institutional-wide implementation of multi-factor authentication (Duo) and IT Security Awareness Training.

- Conduct third-party audit of our IT risk and information security program to identify gaps and opportunities for improvement. (in process)

- Provide annual update on Information Security Program to the Audit Committee.

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Thank you!

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9. Additional Committee Business

Presented by Susan Springfield

10. Adjournment

Presented by Susan Springfield

11. Executive Session

11.1. Investigative Reports

11.2. Follow Up Issues

11.3. External Environmental Audit

11.4. Internal Audit Report