










# June 2017 UofM Audit Committee Meeting

<b>Schedule</b>	Tuesday, June 06, 2017, 10:00 AM CDT
<b>Venue</b>	University Center, Fountain View Suite, Room 350
<b>Organizer</b>	Melanie Murry

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## 1. Call to Order



## 2. Roll Call



### 3. Committee Chair and Vice Chair



## 4. Leadership Transition

For Approval

Presented by M. David Rudd

The University of Memphis Board of Trustees  
Agenda Item

Date: June 6, 2017

Committee: **Audit Committee**

Item: **Internal Audit Leadership Transition**

Recommendation: Approval

Presented by: M. David Rudd, President

**Background:**

The Chief Audit Executive position is vacant due to the person in the position resigning to accept another position. It is normal University procedure to appoint a person as interim until the position is permanently filled.

**Committee Recommendation:**

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.

**Vicki D. Deaton, CFE, CISA**

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Memphis, TN 38117

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Highly accomplished audit and accounting professional with 20 years experience - versatile, energized by challenges, and able to work independently

**Certifications**

Certified Fraud Examiner and Certified Information Systems Auditor

**Employment History**

Senior Internal Auditor, University of Memphis, Memphis, TN - August 2013 to present

**Experience**

- Plan and perform internal audits – financial and compliance audits of University departments and organizations, and University vendor audits
- Prepare audit reports, including communicating audit issues and recommendations to University personnel
- Plan and perform internal consulting projects and assist in investigations
- Assist with administration of the Internal Audit office and direction of the Internal Audit staff
- Assist the Chief Audit Executive with the annual audit plan and University risk assessment

Internal Audit Director, City of Fayetteville, Fayetteville AR - January 2005 to August 2013

**Experience**

- Performed annual risk assessments and developed the annual audit plan
- Effectively communicated with the audit committee, elected officials, management, and citizens in a variety of formats
- Facilitated the annual external financial audit and assisted with the preparation of the City's annual financial statements
- Planned and performed internal audits - operational, compliance, financial, vendor, and systems
- Planned and performed internal consulting projects – lean government, business process reengineering for system conversion and development of operating procedures
- Served as City liaison with FEMA during multiple disaster declarations

Staff Accountant and Auditor, Scarbrough & Murtishaw, CPAs, Fayetteville, AR - February 2001 to January 2005

**Experience**

- Participated in governmental audits
- Prepared income tax returns

Information Systems Auditor, Federal Express Corporation, Memphis, TN - June 1997 to July 2000

**Experience**

- Participated in domestic, international, vendor, and systems audits
- Performed internal consulting projects, such as process analysis

**Education**

Master of Science in Accountancy, The University of Memphis, 1997

Major GPA: 4.00      Overall GPA: 4.00

Bachelors of Education, The University of North Carolina, 1981

Major GPA: 3.50      Overall GPA: 3.10



## 5. Tennessee Financial Integrity Act Overview

Presented by Vicki Deaton

## AUDIT COMMITTEE

June 6, 2017

University of Memphis

### **Tennessee Financial Integrity Act Overview**

To comply with the mandatory provisions of the Tennessee Financial Integrity Act (TCA 9-18, sections 101 thru 104) the University President signs a letter every year. The letter acknowledges that the University has adequate internal controls in place and that a risk assessment has been conducted by University management to comply with the applicable state statutes. The letter also acknowledges compliance with the COSO (Committee of Sponsoring Organizations of the Treadway Commission) internal controls framework. The annual acknowledgement provides reasonable assurance of the following regarding the University's annual risk assessment process.

- (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.

The annual risk assessment process is managed and controlled by the financial area of the University. Internal Audit serves in an advisory role regarding the risk assessment process.

The most recent letter was signed in November 2016 (for Fiscal Year 2016) and acknowledges that the University is in full compliance with the Tennessee Financial Integrity Act for FY 2016. The letter is signed on an annual basis and submitted to the State Department of Finance and Administration and the State Comptroller's Office.

## 6. Reports of Illegal Acts and Fraud, Waste and Abuse

Presented by Vicki Deaton

AUDIT COMMITTEE  
June 6, 2017  
University of Memphis

**Reporting of Illegal Activities and Fraud Waste and Abuse Overview**

State Statutes (TCA 4-35-107) requires establishing a method for individuals to report illegal activity and reporting it to the Tennessee Comptroller's Office.

The University of Memphis Internal Audit Department has an established process for receiving reports of illegal activity and also for receiving reports of fraud, waste and abuse. Any reports from this process that involves potential or actual criminal acts will be referred to University Legal Counsel and the appropriate law enforcement agency for investigation. Personnel issues will be referred to Human Resources. Reports of discrimination or sexual assault issues will be referred to University Legal Counsel and the Office of Institutional Equity (OIE) for investigation. Internal Audit does not conduct criminal investigations, get involved in personnel complaints or personnel actions and does not investigate reports of discrimination or sexual assault. Internal Audit may assist and provide information to University Legal Counsel, law enforcement, Human Resources and OIE if requested.

All activities from the established reporting process will be provided at Audit Committee meetings and any Internal Audit reports that result from this process will be provided to the State Comptroller's Office. In some cases, immediate notification (Defined as issues that represent significant risk to the University and/or there is a high probability that a significant criminal act has occurred) will be made by Internal Audit to the Chair of the Audit Committee and the State Comptroller's Office before a report is issued.

## 7. External Audit Overview

Presented by Vicki Deaton

AUDIT COMMITTEE  
June 6, 2017  
University of Memphis

**External Audit Overview**

Internal Audit is not independent regarding the Tennessee Board of Accountancy regulations relative to issuing an opinion on the University's annual financial statements. Typically, CPA firms issue opinions on financial statements. The Division of State Audit, Tennessee Comptroller's Office serve as the external auditors for state government agencies based upon state statutes. The Division of State Audit are external auditors for purposes of issuing an opinion on the University's annual financial statements.

The following is a summary of the annual financial and compliance report from the external auditors for the past five fiscal years. All control deficiencies noted have been addressed by management. The deficiency noted in FY2016 has been addressed but will require follow-up to ensure compliance.

<b>Fiscal Year</b>	<b>Type of Audit Opinion</b>	<b>Internal Control Deficiency Noted</b>	<b>Material Internal Control Weakness Noted</b>
2016	Unqualified	<b>Yes</b> Bank and LGIP reconciliations should be performed timely and correctly.	No
2015	Unqualified	<b>No</b>	No
2014	Unqualified	<b>Yes</b> <ul style="list-style-type: none"><li>- Procurement. Segregation of duties not adequate for electronic purchases under \$5k (small purchases).</li><li>- Technology controls not adequate in one area.</li></ul>	No
2013	Unqualified	<b>Yes</b> <ul style="list-style-type: none"><li>- Data security policies should be strengthened.</li><li>- Student status dates not reported correctly for Perkins Loans (Federal Financial Aid)</li></ul>	No
2012	Unqualified	<b>No</b>	No

Definitions from the annual audit report. (Division of State Audit)

A ***deficiency in internal control*** exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

A ***material weakness*** is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

The University of Memphis Foundation is considered a “component unit” of the University and is included in the annual audit report of the University. However, the Foundation is a separate legal entity, has a separate board, and is audited annually by a CPA firm and the Division of State Audit relies upon the work of the CPA firm. The Foundation received an unqualified opinion for each year noted above with no internal control deficiencies noted by the CPA firm in the FY 2016 audit report.



## 8. Fiscal Year 2017 Internal Audit Plan

For Review

Presented by Vicki Deaton

	Percent of Internal Audit Resources Allocated FY 2017 Plan	Percent of Internal Audit Resources Allocated YTD (4/30/2017)	<b>University of Memphis</b> <b>Audit Plan &amp; Allocation of Audit Resources- FY 2017 - Status as of April 30, 2017</b>
<b>Variance</b>			

2%	42%	44%	<b>Department Audits - (Internal Controls and Policy Compliance with Financial/Grants Compliance/IT Security Areas)</b>
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School of Law	In-Process 95% Completed
Center for Earthquake Research and Information	Completed
Psychology Department [1]	Completed
Biology	In-Process 25% Completed
Center for Information Assurance	In-Process 25% Completed
School of Public Health	In-Process 90% Completed
Theatre and Dance Department [1]	Completed

[1] Significant control weakness noted in these department audits with sick leave balances. (Management is addressing)

1%	30%	31%	<b>Information Technology Projects</b>
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Required	NACHA - Per First TN Bank Contract (ACH electronic transactions)	In-Process 85% Completed
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IT Security Review Associated with Department Audits (those that have their own server environment)		<b>INDEPENDENT SERVERS</b>
Center for Earthquake Research and Information	Completed	<b>Significant Issues Noted</b> (Management is addressing)
Psychology Department	Completed	<b>Significant Issues Noted</b> (Management is addressing)

Sponsored Accounts (Temporary Access Granted to Non-University Employees)	Scheduled FY 2017 (will carryover into FY2018)
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-1%	5%	4%	<b>Follow-up From FY 2016 Audits</b>
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Bookstore Controls (Bookstore is Outsourced-Vendor Contract)	Completed - All Recommendations addressed
Athletics-Travel Expenses	Completed - All Recommendations addressed
MD2K Big Data Grant (Federal Grant Funding)	Completed - All Recommendations addressed

0%	3%	3%	<b>Carry-Over Audits From FY2016 to FY 2017</b>
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Key Controls UM Policy 1567		Completed - <b>Significant Issues Noted</b> -Follow up will occur in FY 2018 Audit Plan	
Required	Cash and Inventory Work for State Auditors/Controller (per UOM Management request)-FY 2016 Audit	Completed	

-1%	5%	4%	<b>Management of Hotline System</b>
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	Ongoing
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0%	5%	5%	<b>Assistance to Legal Counsel-Attorney Client Projects (Upon Request)</b>
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2 Projects in FY 2017	Completed
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-1%	5%	4%	<b>Special Requests (as requested by Management)</b>
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Athletics (7/21/16) Audit of local mileage reimbursement (fall 2016)	Completed
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0%	5%	5%	<b>Advisory Role</b>
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	Ongoing
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0.0000%	100%	100%	<b>TOTAL</b>
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**No Significant Variance in FY2017 Audit Plan Regarding Allocation of Internal Audit Resources**

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## **9. Fiscal Year 2018 Internal Audit Plan**

For Approval

Presented by Vicki Deaton

The University of Memphis Board of Trustees  
Agenda Item

Date: June 6, 2017

Committee: **Audit Committee**

Item: **Fiscal Year 2018 Internal Audit Plan**

Recommendation: Approval

Presented by: Vicki D. Deaton, Senior Internal Auditor

**Background:**

The Fiscal Year 2018 Internal Audit Plan is presented for approval by the Audit Committee. Approval by the Audit Committee is required by the "State of Tennessee Audit Committee Act of 2005" (TCA 4-35-101 thru 108) and the University of Memphis Audit Committee Charter.

**Committee Recommendation:**

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

## AUDIT COMMITTEE AGENDA

June 6, 2017

University of Memphis

### **Proposed Audit Plan FY 2018**

To comply with the requirements of state statutes relative to internal audit activities the following is the FY 2018 audit plan for the University for review and approval by the Audit Committee. The plan is in part, derived from the University's risk assessment process that Management prepares to comply with the Tennessee Financial Integrity Act. The plan includes required projects and activities and may also be impacted and revised due to other risks within higher education, new risks that may emerge, and requests from Management during the fiscal year. University management was provided the details for the FY2018 audit plan and had no revisions.

<b>FY 2018 Audit Plan Summary</b>	
<b>Allocation of Internal Audit Resources</b>	
74.0%	Risk Based Audits
7.0%	Special Audit Requests and Consulting Projects (as requested by Management)
5.0%	Management of Hotline System
5.0%	Assistance to Legal Counsel-Attorney Client Projects (Upon Request)
3.5%	Advisory Role
3.0%	Follow-up FY2017 Audits
2.5%	Audits In-Progress FY2017 to FY2018
<b>100.0%</b>	

The audit plan may be revised during the year due to changing risk factors and special requests from University Management. Any changes to the audit plan will be communicated to the Audit Committee at future meetings.

## Audit Plan & Allocation of Audit Resources- FY 2018

15%	<b>Department Audits - (Internal Controls and Policy Compliance with Financial/Grants Compliance)</b>
Risk Based	<div> <div>Two to Four will be selected during the fiscal year. Scope includes compliance and financial controls.</div> <div style="background-color: #D9EAD3; padding: 5px;"> <b>Criteria for Selection:</b>                      Total Expenditures                      Federal Grants-Total Dollars                      Business Officer Turnover                      Recommendations From Management                      Past Audit Issues/Investigations                 </div> </div>
31%	<b><u>Other Risk Based Audits</u></b>
Risk Based	Animal Care Facilities (Research Compliance and Financial Controls) Compliance with Research COI Policy (UM1798) Compliance Audit Title IX Compliance Audit Clery Act Procurement-Contractors Compliance Audit PO Terms and Conditions Athletics - Team Travel Expenses (Including Bowl Games)
26%	<b><u>Information Technology Projects</u></b>
Risk Based	Management Request    NACHA - Per First TN Bank Contract (ACH electronic transactions) (not risk based) IT Security Audits based upon past review of general controls Management requests reagarding IT Security
3%	<b><u>Follow-up From FY 2017 Audits</u></b>
Risk Based	As required by State Audit and Other Audits Requiring Follow-up
2.5%	<b><u>Audits In-Progress From FY2017 to FY 2018</u></b>
Risk Based	
3.0%	<b><u>Audits Required by Statutes</u></b>
	Annual audit of President's expenses
5%	<b><u>Manage Hotline System</u></b>
5%	<b><u>Assistance to Legal Counsel-Attorney Client Projects (Upon Request)</u></b>
6%	<b><u>Special Audit Requests and Consulting Projects (as requested by Management)</u></b>
3.5%	<b><u>Advisory Role</u></b>
	Advisory role on various committees and miscellaneous management inquires for assistance during the year.
100%	

## 10. Additional Committee Business



## 11. Adjournment