



**Audit Committee Agenda**

Austin Peay State University

416 College Street

Clarksville, TN 37040

May 18, 2017

Call to Order

Roll Call/Declaration of Quorum

Action Items

- A. Internal Audit Charter
- B. Internal Audit Policy
- C. Reporting Fraud, Waste and Abuse Policy
- D. FY2017 Internal Audit Plan

Informational Items

- A. Comptroller's Office Financial and Compliance Audit Report for Fiscal Year 2016 (Mitch Robinson)
- B. Quality Assurance Review – Periodic Internal Review Results May 2016
- C. Internal Audit Customer Satisfaction Survey
- D. Internal Audit Reports FY2017 with list of outstanding audit recommendations
- E. Educational Session

Executive Session- Investigation



**Agenda Item: A.**

**Date:** May 18, 2017

**Subject:** Internal Audit Charter

**Action Recommended:** Voice Vote

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**Background Information:**

The Internal Audit Charter defines the internal audit activity's purpose, authority and responsibility in accordance with the *International Standards for the Professional Practice of Internal Auditing*, issued by the Institute of Internal Auditors (IIA) which states:

1000 - Purpose, Authority and Responsibility

The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework (the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the *Standards*, and the Definition of Internal Auditing). The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.

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

**Proposed Implementation Date:** Immediately

**Item Details:** N/A

# **Austin Peay State University**

## **Internal Audit Charter**

### **Introduction**

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

### **Purpose and Mission**

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

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

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

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



## **Authority and Scope**

Internal Audit's review of operations may include the examination and evaluation of the effectiveness of all aspects of operations at Austin Peay State University. In the course of its work, Internal Audit has full and complete direct access to all Austin Peay 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 Austin Peay 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 auditors must maintain a high degree of independence and not be assigned duties or engage in any operations or decision making in any activities that they would normally be expected to review or evaluate as part of the normal audit function.

## **Responsibility and Role**

University policy, *Internal Audit*, states the role of Internal Audit is to contribute to the improvement of the university's operations by providing objective and relevant assurance regarding risk management, controls and governance processes top management and the Board. Meaningful internal auditing requires cooperation among Internal Audit, Austin Peay State 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 that respond to both risk and cost effectiveness criteria.
- Review the reliability and integrity of information, and the information technology processes that produce that information.
- Verify compliance with applicable policies, guidelines, laws, and regulations.
- Suggest policies and procedures or improvements to existing policies and procedures where appropriate.
- Provide audit reports that identify internal control issues and make cost-effective recommendations to strengthen control.
- Facilitate the resolution of audit issues with administrators who have the most direct involvement and accountability.

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

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

In accordance with university, *Internal Audit*, the Director of Internal Audit reports functionally to the Audit Committee of the Board and reports to the President for administrative purposes.

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

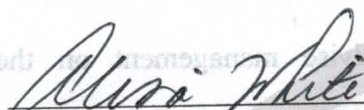
### **Audit Standards and Ethics**

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

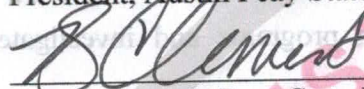


## Periodic Review of Internal Audit Charter

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

  
President, Austin Peay State University

4-28-17  
Date

  
Auditor, Austin Peay State University

4-28-17  
Date





**Agenda Item: B.**

**Date:** May 18, 2017

**Subject:** Internal Audit Policy

**Action Recommended:** Voice Vote

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**Background Information:**

The Internal Audit Policy addresses staffing, responsibilities of the internal audit function, audit planning and reporting on internal audit activities. The policy documents many issues to demonstrate compliance with the *International Standards for the Professional Practice of Internal Auditing*, issued by the Institute of Internal Auditors (IIA).

The policy was approved by the university's Policy Review Committee and signed by the President on March 28, 2017. Once approved by the Audit Committee and Board of Trustees, any subsequent changes to the policy will also need to be approved by the university's Policy Review Committee, the President, the Audit Committee and Board of Trustees.

**Proposed Implementation Date:** Immediately

**Item Details:** N/A

**Austin Peay State  
University**

**Internal Auditing**

**POLICIES**

**Issued:** March 28, 2017

**Responsible Official:** Director of Internal Audit

**Responsible Office:** Office of Internal Audit

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**Policy Statement**

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It is the policy of Austin Peay State University that the internal audit function contributes to the improvement of the university's operations by providing objectives and relevant assurance regarding risk management, control, and governance processes to management and the Board. Management is responsible for evaluating the university's risks and establishing and maintaining adequate controls and processes. To provide relevant information, the internal audit function will consider the goals of the university, management's risk assessments and other input from management in determining its risk-based audit activities.

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**Purpose**

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The purpose of the policy is to address staffing, responsibilities of the internal audit function, audit planning and reporting on internal audit activities.

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**Contents**

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**Procedures**

- Internal Audit Standards
- Internal Audit Personnel
- Internal Audit Role and Scope
- Audit Plans and Activity Reports
- Audit Engagements
- Communicating Audit Results

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**Procedures**

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**Internal Audit Standards**

- A. The internal audit function shall adhere to The Institute of Internal Auditors' (IIA) International Standards for the Professional Practice of Internal Auditing and Code of Ethics



(T.C.A. § 4-3-304(9)). The Institute of Internal Auditors, International Professional Practices Framework (IPPF), incorporates the mandatory guidance of the definition of internal auditing, the International Standards for the Professional Practice of Internal Auditing and Code of Ethics into one document. It includes the following definition of internal auditing:

1. Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes (IPPF 2013).
- B. To assure compliance with the IIA Standards, the internal audit function must implement and maintain a quality assurance and improvement program that incorporates both internal and external review activities.
1. Internal reviews include both ongoing and periodic review activities.
  2. External reviews must be performed at least every five years by a qualified, independent reviewer.
  3. Results of quality assurance reviews will be communicated to the Audit Committee and management.

**Internal Audit Personnel**

- A. APSU shall employ at least two individuals with full-time responsibility as internal auditors. Additional internal audit staff shall depend upon the size and structure of the university.
- B. Titles of internal audit staff shall be consistent within the overall university structure.
- C. Internal Audit Staff
1. Internal audit staff must possess the professional credentials, knowledge, skills, and other competencies to perform their individual responsibilities and collectively must possess or obtain knowledge, skills, and other competencies needed to perform its responsibilities.
  2. The Director of Internal Audit must be licensed as a Certified Public Accountant or a Certified Internal Auditor, maintain an active license and annually complete sufficient, relevant continuing professional education to

satisfy the requirements for the professional certification held.

3. Audit staff should annually complete sufficient, relevant continuing professional education to satisfy the requirements for their related professional certifications or, at a minimum, eighty hours of relevant continuing professional education every two years.
4. The Director of Internal Audit should communicate concerns to management and the Board regarding the lack of sufficient resources to complete the objectives of an engagement or the audit plan.
5. Such resources may include the need for additional personnel or personnel with specialized knowledge, such as those with knowledge of fraud, information technology or other technical areas.

#### D. Appointments

1. The appointment of Director of Internal Audit as recommended by the President is subject to approval by the Audit Committee of the Board of Trustees.

#### E. Compensation

1. Compensation of the internal auditors is subject to approval by the Audit Committee of the Board.

#### F. Termination or Change of Status

1. The termination or change of status of campus Director of Internal Audit requires the prior approval of the President and the Audit Committee of the Board of Trustees.

### **Internal Audit Role and Scope**

#### A. Reporting Structure

1. The Director of Internal Audit reports functionally to the Audit Committee of the Board and reports to the President for administrative purposes. This reporting structure assures the independence of the internal audit function.

#### B. The internal audit function will maintain a manual to guide the internal audit activity in a consistent and professional manner.

#### C. The internal auditors' responsibilities include:

1. Working with management to assess university's risks and developing an audit plan that considers the results of the risk assessment.
2. Evaluating university controls to determine their effectiveness and efficiency.

3. Coordinating work with external auditors, program reviewers, and consultants.
  4. Determining the level of compliance with internal policies and procedures, state and federal laws, and government regulations.
  5. Testing the timeliness, reliability, and usefulness of institutional records and reports.
  6. Recommending improvements to controls, operations, and risk mitigation resolutions.
  7. Assisting the university with its strategic planning process to include a complete cycle of review of goals and values.
  8. Evaluating program performance.
  9. Performing consulting services and special requests as directed by the Audit Committee or the President.
- D. The scope of internal auditing extends to all aspects of university operations and beyond fiscal boundaries. The internal audit staff shall have access to all records, personnel, and physical properties relative to the performance of duties and responsibilities.
- E. The scope of a particular internal audit activity may be as broad or as restricted as required to meet management needs.
- F. Objectivity is essential to the internal audit function. Therefore, internal audit personnel should not be involved in the development and installation of systems and procedures, preparation of records, or any other activities that the internal audit staff may review or appraise. However, internal audit personnel may be consulted on the adequacy of controls incorporated into new systems and procedures or on revisions to existing systems.
- G. Management is responsible for identifying, evaluating, and responding to potential risks that may impact the achievement of the university's objectives. Auditors continually evaluate the risk management, internal control, and governance processes. To facilitate these responsibilities, Internal Audit will receive notices or copies of external audit reviews, program reviews, fiscally related consulting reports, cash shortages, physical property losses, and employee misconduct.

#### **Audit Plans and Activity Reports**

- A. Internal Audit shall develop an annual audit plan using an approved risk assessment methodology.



- B. At the beginning of each fiscal year, after consultation with the President and other university management, Internal Audit will prepare an annual audit plan. The audit plan must be flexible to respond to immediate issues and will be revised for such changes during the year.
- C. Audit plans and any significant revisions will be approved by the Audit Committee.
- D. At the end of each fiscal year, Internal Audit will prepare an annual activity report of all significant audit services performed.
- E. Annual activity reports and approved audit plans will be provided to the Comptroller's Office, Division of State Audit.

### **Audit Engagements**

- A. Audit engagements will be planned to provide relevant results to management and the Audit Committee regarding the effectiveness and efficiency of processes and controls over operations. To ensure management's expectations are met, auditors will communicate with management regarding the objectives and scope of the engagement.
- B. In planning and during the engagement, auditors should consider and be alert to risks that affect the university's goals and objectives, operations and resources. Auditors should consider risks based on the operations under review, which include but are not limited to the risk of financial misstatements, noncompliance, and fraud.
- C. An audit work program will be designed to achieve the objectives of the engagement and will include the steps necessary to identify, analyze, evaluate, and document the information gathered and the conclusions reached during the engagement.
- D. Working papers that are created, obtained, or compiled by an internal audit staff are confidential and are not an open record (T.C.A. § 4-3-304(9)).

### **Communicating Audit Results**

- A. A written report that documents the objectives, scope, conclusions, and recommendations of the audit will be prepared for audit engagements providing assurance to the Board and management. Management will include corrective action for each reported finding.

- B. Internal Audit will perform audits to follow-up on findings or recommendations included in internal audit reports, investigation reports, and State Audit reports. A written report will be prepared and for any findings that have not been corrected, management will be asked to include a revised corrective action plan. The President, along with the Audit Committee, will be notified at the conclusion of a follow-up audit if management has not corrected the reported finding or implemented the recommendation.
- C. A written report that documents the objectives, scope, conclusions, and recommendations will be prepared for investigations resulting from allegations or identification of fraud, waste or abuse. As appropriate in the circumstances, management will include corrective action for each reported finding. In a case where allegations are not substantiated by the review and there are no other operational concerns to report to management regarding the review, the case may be closed by writing a memo to the working paper file documenting the reasons for closing the case.
- D. Reports on special studies, consulting services, and other non-routine items should be prepared as appropriate, given the nature of the assignment.
- E. All internal audit reports will be signed by the Director of Internal Audit and transmitted directly to the President in a timely manner.
- F. The Director of Internal Audit will present significant results of internal audit reports to the Audit Committee quarterly.
- G. The Director of Internal Audit will provide a copy of each report to the Comptroller's Office, Division of State Audit.

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**Revision Dates**

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APSU Policy 4:001 – Rev.: March 28, 2017  
APSU Policy 4:001 – Rev.: September 14, 2015  
APSU Policy 4:001 – Rev.: October 21, 2011  
APSU Policy 4:001 – Issued: October 7, 2002

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**Subject Areas:**

Academic	Finance	General	Human Resources	Information Technology	Student Affairs
	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>			

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**Approved**

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President: signature on file

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**Agenda Item: C.**

**Date:** May 18, 2017

**Subject:** Reporting Fraud, Waste and Abuse Policy

**Action Recommended:** Voice Vote

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**Background Information:**

The Reporting Fraud, Waste and Abuse Policy describes the roles of all employees in helping prevent fraud, waste or abuse of university resources. The policy describes the importance of maintaining an ethical work environment and effective internal controls. The policy discusses the different methods for reporting issues, the confidentiality of the information reported and how the issues reported will be handled.

The policy also describes how and to whom a loss should be reported, even if the loss is unrelated to fraud, waste and abuse.

The policy was approved by the University's Policy Review Committee and signed by the President on March 28, 2017. Once approved by the Audit Committee and Board of Trustees, any subsequent changes to the policy will also need to be approved by the university's Policy Review Committee, the President, the Audit Committee and Board of Trustees.

**Proposed Implementation Date:** Immediately

**Item Details:** N/A

**Austin Peay State  
University**

**Preventing and Reporting Fraud, Waste, or Abuse**

**POLICIES**

**Issued:** March 28, 2017

**Responsible Official:** Director of Internal Audit

**Responsible Office:** Office of Internal Audit

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**Policy Statement**

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It is the policy of Austin Peay State University that university officers, members of management, and all other employees have a responsibility to help prevent fraud, waste, or abuse of university resources. In particular, management at all levels is responsible for designing and implementing internal controls for the purpose of preventing irregularities of all kinds, including fraud, waste, or abuse. University officers, managers, employees, contractors, vendors, students, and others are responsible for behaving in an ethical and honest manner. University officers and members of management are also responsible for maintaining a work environment that generally promotes ethical and honest behavior. Management at all levels should be aware of the risks and exposures inherent in their areas of responsibility, and should establish and maintain proper internal controls to provide for the security and accountability of all resources entrusted to them.

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**Purpose**

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To describe the role of officers, managers, and all other employees in helping to prevent fraud, waste, or abuse of university resources.

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**Contents**

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**Definitions**

- Fraud
- Waste
- Abuse
- Resources

**Procedures**

- Preventing Fraud, Waste, or Abuse
- Reporting Fraud, Waste, or Abuse

- Investigations/Actions
- Reporting and Resolution of Institutional Losses
- Reporting and Resolution Process
- Requirements Regarding Losses and Shortages
- Property Claim Process
- Actions

### **Links**

- APSU Policy 1:013
- APSU Policy 5:011
- APSU Policy 5:020
- Exhibit 1 – Notification of Loss Report
- Exhibit 2 – Quarterly Property Loss Report
- Exhibit 3 – Case Resolution Report
- Exhibit 4 – Reporting Matrix

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### **Definitions**

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#### **Fraud**

An intentional act to deceive or cheat, ordinarily for the purpose or result of causing a detriment to another and/or bringing about some benefit to oneself or others. Fraudulent activities may include, but are not limited to the following:

- Theft, misappropriation, misapplication, destruction, removal, or concealment of any university assets or resources, including but not limited to funds, securities, supplies, equipment, real property, intellectual property or data.
- Improper use or assignment of any university assets or resources, including but not limited to personnel, services or property.
- Improper handling or reporting of financial transactions, including use, acquisitions and divestiture of state property, both real and personal.
- Authorization or receipt of compensation for hours not worked.
- Inappropriate or unauthorized use, alteration or manipulation of data, computer files, equipment, software, networks, or systems, including personal or private business use, hacking and software piracy.
- Forgery or unauthorized alteration of documents.
- Falsification of reports to management or external agencies.
- Pursuit of a personal benefit or advantage in violation of the university's Conflict of Interest Policy.
- Concealment or misrepresentation of events or data.
- Acceptance of bribes, kickbacks or any gift, rebate, money or anything of value whatsoever, or any promise, obligation or



contract for future reward, compensation, property or item of value, including intellectual property.

**Waste**

Waste involves behavior that is deficient or improper when compared with behavior that a prudent person would consider a reasonable and necessary business practice given the facts and circumstances. Waste is a thoughtless or careless act, resulting in the expenditure, consumption, mismanagement, use, or squandering of university assets or resources to the detriment or potential detriment of the university. Waste may also result from incurring unnecessary expenses due to inefficient or ineffective practices, systems, or controls. Waste does not necessarily involve fraud, violation of laws, regulations, or provisions of a contract or grant agreement.

**Abuse**

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

**Resources**

As used herein, shall refer to assets such as cash or other financial resources, supplies, inventories, equipment and other fixed assets, real property, intellectual property, or data.

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**Procedures**

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**Preventing Fraud, Waste or Abuse**

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

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

- f. Proper supervision of employees, processes, projects or other operational functions.

C. Reviews of Internal Control Systems

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

D. Internal Audit

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

E. External Audits

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

F. Other Reviews

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

**Reporting Fraud, Waste or Abuse**

A. Responsibility for Reporting Fraud, Waste or Abuse

- 1. Any official of the university having knowledge that a theft, forgery, credit card fraud, or any other act of unlawful or unauthorized taking, or abuse of, public money, property, or services, or other shortages of public funds has occurred shall report the information immediately to the office of the Comptroller of the Treasury (T.C.A. § 8-19-501(a)). To ensure compliance

with this statute, the university provides a means for employees and others to report such matters, which are subsequently reported to the Comptroller's Office.

- a. University administration with knowledge of fraud, waste or abuse will report such incidents immediately.
- b. Others, including university management, faculty and staff with a reasonable basis for believing that fraud, waste or abuse has occurred are strongly encouraged to immediately report such incidents (T.C.A. § 8-50-116).
- c. Students, citizens and others are also encouraged to report known or suspected acts of fraud, waste or abuse.
- d. Although proof of an improper activity is not required at the time the incident is reported, anyone reporting such actions must have reasonable grounds for doing so.
- e. Employees with knowledge of matters constituting fraud, waste or abuse, that fail to report it or employees who knowingly make false accusations may be subject to disciplinary action.

#### B. Protection from Retaliation

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

#### C. Confidentiality of Reported Information

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

ensure anonymity or complete confidentiality.

**D. Methods for Reporting Fraud, Waste or Abuse**

1. Any employee who becomes aware of known or suspected fraud, waste or abuse should immediately report the incident to an appropriate departmental official. Incidents should be reported to one of the following officials or offices:
  - a. A supervisor or department head;
  - b. A university official;
  - c. The university internal auditor;
  - d. or The Tennessee Comptroller of the Treasury's Hotline for fraud, waste and abuse at 1-800-232-5454.
2. If the incident involves their immediate supervisor, the employee should report the incident to the next highest-level supervisor or one of the officials or offices listed above. Employees should not confront the suspected individual or initiate an investigation on their own since such actions could compromise the investigation.
3. A department official or other supervisor who receives notice of known or suspected fraud, waste or abuse must immediately report the incident to the following:
  - a. President/Vice President for Finance and Administration
  - b. Internal Audit Department
  - c. Campus Police/Public Safety (when appropriate)
4. The President/Vice President or designee receiving such notice will immediately notify the Director of Internal Audit regarding the acknowledged or suspected fraud or misconduct.
5. The Director of Internal Audit will notify the Comptroller of the Treasury of instances of fraud, waste or abuse.

**Investigations/Actions**

**A. Cooperation of Employees**

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

**B. Remedies Available**

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

C. Resignation of Suspected Employee

1. An employee suspected of gross misconduct may not resign as an alternative to discharge after the investigation has been completed.
2. Exceptions to this requirement can only be made by the President.
3. If the employee resigns during the investigation, the employment records must reflect the situation as of the date of the resignation and the outcome of the investigation (Personnel Policy, 5:011.)

D. Effect on Annual Leave

1. An employee who is dismissed for gross misconduct or who resigns or retires to avoid dismissal for gross misconduct shall not be entitled to any payment for accrued but unused annual leave at the time of dismissal (Leave Policy, 5:020; T.C.A. § 8-50-807).

E. Student Involvement

1. Students found to have participated in fraud, waste or abuse as defined by this guideline will be subject to disciplinary action pursuant to the APSU Policy 1:013, Student Code of Conduct. The Dean of Students/Vice President of Student Affairs will be responsible for adhering to applicable due process procedures and administering appropriate disciplinary action.

E. Confidentiality during Investigation



1. All investigations will be conducted in a strict confidence as possible, with information sharing limited to persons on a “need to know” basis.
2. The identities of persons communicating information or otherwise involved in an investigation or allegation of fraud, waste or abuse will not be revealed beyond the university unless necessary to comply with federal or state law, or if legal action is taken.

G. Management’s Follow-up Responsibility

1. Administrators at all levels of management must implement, maintain, and evaluate an effective compliance program to prevent and detect fraud, waste and abuse.
2. Once such activities have been identified and reported, the overall resolution should include an assessment of how it occurred, an evaluation of what could prevent recurrences of the same or similar conduct, and implementation of appropriate controls, if needed.

**Reporting and Resolution  
of Institutional Losses**

- A. Administrators at all levels of management should be aware of the risks and exposures inherent in their areas of responsibility, and should establish and maintain proper internal controls to provide for the security and accountability of all assets and other resources entrusted to them.
- B. It is the responsibility of the University to establish a process to identify, report and investigate losses of state or institutional funds, property or other resources, whether by malfeasance or misfeasance.
- C. This policy includes requirements for reporting suspected instances of fraud, waste or abuse to the Comptroller of the Treasury (T.C.A. § 8-19-501(a)).

**Reporting and Resolution  
Process**

- A. Reporting Losses – For each reportable incident, the institution must complete a “Notification of Loss Report” (Exhibit 1) or “Property Loss Report” (Exhibit 2).
  1. The Notification of Loss Report should be used to report single incidents of shortages or losses of any asset, resource or data immediately upon occurrence or discovery. This report should be used to report the loss or shortage of any amount which is the result of acknowledged or suspected fraud, waste or abuse by

- either an employee or a non-employee (for example, a vendor, contractor, or student).
2. The Property Loss Report may be used to report property losses in any quarter in which losses occur and may include more than one incident or loss of property. However, see above if the property loss is a result of fraud, waste or abuse.
  3. The institution must also report covered property losses to the State of Tennessee, Department of Treasury, and Office of Risk Management.
- B. Reporting Resolution – The investigation unit identified on the notification report will file a “Case Resolution Report” (Exhibit 3) at the conclusion of the investigation. Depending upon the nature and extent of the investigation, an Internal Audit Report may be issued in lieu of a Case Resolution Report.
- C. Distribution of Reports – Each notification and resolution report should be submitted to the following officials or offices:
1. President
  2. Vice President for Business and Finance
  3. Internal Audit Director
  4. Office of Campus Police (as appropriate)

**Requirements Regarding  
Losses and Shortages**

- A. Cash or Other Financial Resources – The University maintains cash, procurement cards, credit cards and other financial resources to facilitate its business needs. Cash shortages or losses equal to or greater than \$500 should be reported immediately.
1. Some cash shortages result from human error and are the cost associated with doing business. However, objective reviews must be completed to eliminate misconduct and provide assurance that controls are effective.
  2. Regardless of amount, management should routinely perform objective reviews of shortages or other losses to identify any unusual items, recurring issues or a pattern of financial shortages.
- B. Property – The University maintains inventory records for capitalized property and sensitive minor equipment, as required by APSU Policy 4:035, Fixed Assets and Sensitive Minor Equipment.
1. Losses of physical property due to inventory shrinkage, vandalism, unexplained events, natural disasters, or acts

of God should be reported on a quarterly basis on the Property Loss Report (Exhibit 2). A Case Resolution Report (Exhibit 3) is not required to be submitted for such losses.

2. However, unexplained losses and those due to shrinkage or vandalism should be objectively reviewed by management to identify any unusual items, recurring issues or a pattern of losses.
3. Occurrences that are potentially serious situations that would create public concern regardless of amount (e.g., the loss of certain chemicals) must be reported to the Office of Risk Management immediately, followed by a written report.

### **Property Claim Process**

Property Claims – Individual occurrences exceeding \$25,000 must be reported to Physical Plant and the Office of Risk Management immediately, followed by a written report.

1. The Office of Risk Management website at <http://treasury.tn.gov/risk/> contains contact information under the “Contact Us” link and details of the insurance claim process under the “Claims Process” link.
2. Each report of damage for a claim should include a detailed description of the loss and the estimated cost. In addition to the reporting requirements noted above, the department where the loss occurred should also receive a copy of this report.

### **Actions**

- A. Management will evaluate the information provided and make a determination concerning external reporting obligations, if any, and the feasibility of pursuing available legal remedies in cases of misconduct, including fraud, waste or abuse.

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### **Links**

**APSU Policy 1:013**

<https://www.apsu.edu/policy/student-code-conduct-1013>

**APSU Policy 5:011**

<https://www.apsu.edu/policy/personnel-policy-5011>

**APSU Policy 5:020**

<https://www.apsu.edu/policy/leave-policies-5020>

**Exhibit 1 – Notification of Loss Report**

**Exhibit 2 – Quarterly Property Loss Report**

**Exhibit 3 – Case Resolution  
Report**  
**Exhibit 4 – Reporting  
Matrix**

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**Revision Dates**

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APSU Policy 4:003 – Issued:

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**Subject Areas:**

Academic	Finance	General	Human Resources	Information Technology	Student Affairs
	<input checked="" type="checkbox"/>				

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**Approved**

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President:

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**NOTIFICATION OF LOSS REPORT**

(Date)

Mitch Robinson, Vice President for Finance and Administration  
Austin Peay State University  
601 College Street  
Clarksville, TN 37044

Dear Mr. Robinson:

Please be advised that the following loss has occurred in (Department Name) at Austin Peay State University.

Below is a brief description of the loss:

(Include individual's name, approximate amount in question, and the nature of the loss)

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The situation is currently being investigated by (investigating unit). A case resolution report will be issued to you by (name, title, phone number) at the conclusion of the investigation.

Sincerely,

\_\_\_\_\_  
(Name)

\_\_\_\_\_  
(Title)

**AUSTIN PEAY STATE UNIVERSITY  
PROPERTY LOSS REPORT  
QUARTER ENDING \_\_\_\_\_**

<b>Location of Loss</b>	<b>Item Description</b>	<b>Decal #</b>	<b>Serial #</b>	<b>Date of Loss</b>	<b>Cost/Value</b>	<b>Cause of Loss</b>

*Note for Preparer: The Property Loss Report should list property items individually and should include all related data as reflected on the property inventory list. This information may be forwarded to the Vice president for Finance and Administration on an Excel spreadsheet with a brief narrative explaining how the loss occurred. Each property damage report should include a detailed description of the loss and the estimated cost.*



**AUSTIN PEAY STATE UNIVERSITY  
CASE RESOLUTION REPORT  
DATE**

Department: \_\_\_\_\_ Unit: \_\_\_\_\_

1. Date of the loss: \_\_\_\_\_
2. Reported by: \_\_\_\_\_
3. Investigation unit: \_\_\_\_\_
4. Description of the loss: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
5. Total amount of loss: \_\_\_\_\_ Total amount of recovery: \_\_\_\_\_
6. Was employee misconduct discovered? Yes \_\_\_\_\_ No \_\_\_\_\_
7. Name(s) of employee(s) involved: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
8. Action taken: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
9. Methodology used to determine loss: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
10. Internal control weaknesses found: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
11. Actions taken to resolve weaknesses: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

*Note: An internal audit report may be issued in lieu of a case resolution report.*

EXHIBIT 4 TO APSU 1:016  
**Austin Peay State University**  
**Reporting Matrix for Institutional Losses**

Type of Loss		Immediate Notification to Vice Pres. for Finance and Administration	Attachment A Notification of Loss Report	Attachment C Property Loss Report ( a )	Attachment B Case Resolution Report ( b )	Internal Audit Reports to Comptroller of the Treasury	Report to Office of Risk Management
<b>Fraud, Waste or Abuse (FWA)</b>							
Any Resource	Any Amount	Yes	Yes	Physical Property Only	Yes	Yes	Covered Physical Property $\geq$ \$25,000
<b>Non-FWA</b>							
Cash	< \$500	No	No	No	No	No	No
Cash	$\geq$ \$500	Yes	Yes	No	Yes	Yes	No
Physical Property	Capitalized	Quarterly	Yes	Yes	Yes	Yes	Yes
Physical Property	Sensitive $\geq$ \$1,500	Quarterly	Yes	Yes	Yes	Yes	Yes
Physical Property	< \$1,500	No	No	No	No	No	No
Other Assets or Resources ( c )	Any value	Yes	Yes	No	Yes	Yes	No

**Notes:**

**FWA - Fraud, Waste or Abuse (Misconduct by an employee, student, vendor, contractor or other).**

( a ) For property losses, either Notification of Loss Report or Property Loss Report should be submitted; both are not required.

( b ) An Internal Audit Report may be issued in lieu of a Case Resolution Report.

( c ) Other assets or resources may include items such as intellectual property or data, including data that may be stored on electronic devices.



**Agenda Item: D.**

**Date:** May 18, 2017

**Subject:** Internal Audit Plan

**Action Recommended:** Voice Vote

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**Background Information:**

The Office of Internal Audit prepares an annual Audit Plan at the beginning of each fiscal year. The plan is based on the staffing and time resources available to perform audits and is prepared in conjunction with an annual risk analysis of the university's audit universe. The audit plan includes required audits, risk-based audits, known investigations and special requests. During the year, changes in audit priorities may result in alterations to the plan.

The *International Standards for the Professional Practice of Internal Auditing*, issued by the Institute of Internal Auditors (IIA) requires the audit plan, and any significant changes to the plan, be approved by the Audit Committee.

**Proposed Implementation Date:** Immediately

**Item Details:** N/A

**Audtin Peay State University**  
**Internal Audit Plan**  
**Fiscal year Ending June 30, 2017**  
**Revised April 30, 2017**

Type	Area	Audit	Estimated Audit Start Date	Completion Date	Current Status
R	FM	MTSU President Expenses Audit FY2016	September 2016	Sept 2016	Completed
R	AT	OVC Special Assistance Fund 2016	June 2016	August 2016	Completed
I	IA	APSU 16-04	June 2016	July 2016	Completed
I	FM	APSU 17-01	July 2016	August 2016	Completed
I	IA	APSU 17-02	August 2016	Sept 2016	Completed
I	IA	APSU 17-03	August 2016	Sept 2016	Completed
I	FM	APSU 17-04	October 2016	Nov 2016	Completed
I	IS	APSU 17-05	March 2017	March 2017	Completed
I	IS	Unscheduled Investigations	July 2016		Scheduled
F	IS	Follow up	June 2016		In Progress
C	IS	General Consultation	July 2016		In Progress
S	IS	FOCUS Transition Taskforce	July 2016	March 2017	Completed
S	IA	Study Abroad	April 2016	August 2016	Completed
S	AX	Camps and Individual Instruction	June 2016	Sept 2016	Completed
S	SS	Texts for Vets	November 2016	Nov 2016	Completed
S	AT	Cheerleading Invoices	April 2016	April 2017	Completed
C	FM	Grants Consulting	September 2016	Sept 2016	Completed
S	IA	PELPS and Honors - MTR	October 2016	Oct 2016	Completed
S	FM	Department of Music - Expense Transfers	October 2016	Dec 2016	Completed
M	IS	Risk Assessment Revisited	February 2017		In Progress
S	FM	3rd Party Scholarships/Private Bank Loans	February 2017	April 2017	In Progress
S	FM	I9 Review	February 2017	March 2017	Completed
C	IS	Complainece Consultation	March 2017		In Progress
S	FM	Bad Debt Expense	December 2016	March 2017	Completed
A	PP	Emergency Preparedness	November 2016	Jan 2017	Completed
A	FM	Payroll - Fictious Employees	March 2017		In Progress
A	FM	Wire Transfers	March 2017		In Progress
A	FM	Contracts and Procurement Services	April 2017		Scheduled

**Audit Types:**

R - Required  
A - Risk-Based (Assessed)  
S - Special Request  
I - Investigation  
M - Management's Risk Assessment  
C - Consultation  
F - Follow-up Review  
O - Other

**Functional Areas:**

AD - Advancement  
AT - Athletics  
AX - Auxiliary  
FM - Financial Management  
IA - Instruction & Academic Support  
IS - Institutional Support  
IT - Information Technology  
PP - Physical Plant  
RS - Research  
SS - Student Services

**Status:**

Scheduled  
In Progress  
Completed  
Removed



**Information Item: A.**

**Date:** May 18, 2017

**Subject:** Financial and Compliance Audit Report Fiscal Year 2016

**Action Recommended:** Informational Item

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**Background Information:**

The Comptroller of the Treasury, Division of State Audit, under T.C.A. 4-3-304, performs a financial and compliance audit of Austin Peay State University annually. The Comptroller's Office also performs performance audits and investigations of fraud, waste and abuse, as needed. Following this transmittal are the following documents:

- A description of the standards used by the Comptroller's Office,
- A summary of the FY2016 Comptroller's audit results, and
- A summary of the results of the Comptroller audits FY2009 through FY2016

This report was presented to the Audit Committee of the Tennessee Board of Regents on March 14, 2017.

**Proposed Implementation Date:** NA

**Item Details:** NA

**Standards followed by the Comptroller of the Treasury**  
**In relation to the Annual Financial and Compliance Audit**

Tennessee's Comptroller's Office, the Division of State Audit conducts audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards. Standards are generally accepted in the U.S. are the generally the accounting standards issued by the Governmental Accounting Standards Board for Financial Accounting Standards Board of the American Institute of Certified Public Accountants. Generally Accepted Government Auditing Standards (GAGAS) are those included in Government Auditing Standards, issued by the Comptroller General of the United States. The types of findings described below are based on the guidance provided in these standards.

**Types of Findings**

**Deficiencies in Internal Control<sup>1</sup>**

A deficiency in internal controls 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.

**Significant Deficiency<sup>1</sup>**

A significant deficiency is a deficiency, or 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.

**Material Weakness<sup>1</sup>**

A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

*A finding normally results when auditors consider a deficiency in internal control to be a significant deficiency or a material weakness.*

**Instance of Noncompliance required to be Reported<sup>2</sup>**

When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based on the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that have a material effect on the audit; (4) abuse that has a material effect on the audit.

<sup>1</sup> Statement on Auditing Standard 115, *Communicating Internal Control related matters Identified in an Audit*, was effective for periods ending on or after December 31, 2009.

<sup>2</sup> The December 2011 Revision of the Government Auditing Standards, issued by the Comptroller General of the United States, Government Accountability Office.



**Austin Peay State University**  
**Audit Committee**  
**May 18, 2017**

*Review of Comptroller's Audit Report issued February 3, 2017*  
*Financial and Compliance Audit – Findings Reported*

For the Year Ended	Auditor's Opinion on the Financial Statements	Report on Internal Control	Report on Compliance	Findings
June 30, 2016	Unmodified Opinion	Two internal control findings identified as a significant deficiency and one internal control finding identified as a material weakness	No instances of noncompliance required to be reported	3
<p><b>Finding 1 – University revenues were improperly treated as revenues of the university's foundation</b>  The university's foundation received sponsorship revenue belonging to the university from several corporate sponsors, including \$2,500,000 from a business for a football stadium sponsorship agreement.</p> <p><b>Management's Comment:</b> Management concurred with the finding and recommendations and is reviewing its policies and procedures for identifying and documenting revenues to provide for the proper recording and control of university and foundation funds. Policies and procedures will be modified as necessary.</p> <p><b>Finding 2 – The university did not record projects in progress transactions funded by capital appropriations</b>  The university understated capital assets and capital appropriations by \$5,346,850.18.</p> <p><b>Management's Comment:</b> Management concurred with the finding and recommendation and has filled vacant financial positions, including an accountant responsible for recording projects in progress funded by capital appropriations. The accountant has been trained on assigned responsibilities and now receives applicable communications from other entities. Procedures for recording capital projects are being documented and include procedures to ensure communications from other entities will be received by newly appointed staff when staff terminate.</p> <p><b>Finding 3 - The university did not prepare proper bank reconciliations</b>  Bank reconciliations for the university's operating and payroll account were not also performed timely.</p> <p>Management's Comment: Management concurred with the finding and recommendation and has filled vacant financial positions including an accountant assigned responsibility for bank reconciliations. Written procedures to ensure bank reconciliations are prepared and reviewed timely are being developed.</p>				
<p><i>Internal Audit Follow up: An internal audit follow-up report will be completed by the Office of Internal Audit.</i></p>				

**Austin Peay State University**  
**Audit Committee**  
**May 18, 2017**  
*Summary of Previous Comptroller Audit Reports*

<b>For the Year Ended</b>	<b>Auditor's Opinion on the Financial Statements</b>	<b>Number of Findings</b>
June 30, 2016	Unmodified Opinion	3 <sup>2</sup>
June 30, 2015	Unmodified Opinion	0
June 30, 2014	Unmodified Opinion	0
June 30, 2013	Unmodified Opinion <sup>1</sup>	3 <sup>3</sup>
June 30, 2012	Unqualified Opinion	3 <sup>4</sup>
June 20, 2011	Unqualified Opinion	0
June 30, 2010	Unqualified Opinion	0
June 30, 2009	Unqualified Opinion	0

<sup>1</sup> The audit terms changed from 'unqualified' to 'unmodified' in 2013.

<sup>2</sup> See previous page for details

<sup>3</sup>

1. The university needs to improve its system for financial control for the preparation of the financial statements.
2. The university did not properly report gifts pledged to its Foundation.
3. The university did not provide adequate information technology controls over the Banner computer system.

<sup>4</sup>

1. The university needs improved preparation and review procedures to prevent errors in its financial statements.
2. The Office of University Advancement did not maintain adequate documentation to support the classification of endowments for the university, increasing the risk that endowments could be misclassified on the statement of net assets, as well as increasing the risk that the intentions of donors could be misunderstood.
3. The Student Financial Aid Office did not always perform Title IV return-of-funds calculations, did not always properly verify documents, incorrectly awarded Title IV funds and did not always comply with satisfactory academic progress policies, resulting in federal questioned cost of \$4,486.50.



**Information Item: B.**

**Date:** May 18, 2017

**Subject:** Quality Assurance Review – Results of the May 2016 Periodic Internal Review

**Action Recommended:** Informational Item

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**Background Information:**

In accordance with the *International Standards for the Professional Practice of Internal Auditing* (the Standards) issued by the Institute of Internal Auditors (IIA), a Quality Assurance and Improvement Program has been implemented by the Office of Internal Audit. As required by the Standards, this program must include periodic external reviews and internal self-assessments, as well as ongoing internal monitoring covering all aspects of the internal audit activity.

The Standards require an external quality assurance review be performed every five years. Our previous external review occurred in the summer of 2013 and the next will be performed in the summer of 2018. Our Quality Assurance and Improvement Program requires an internal review be performed in between external reviews. The most recent internal review was performed in June 2016. Periodic self-assessments are designed to assess the internal audit activity's conformance with the internal audit charter, the IIA definition of Internal Auditing, Standards, and the Code of Ethics and to assess the efficiency and effectiveness of the internal audit function.

Attached is the report for the assessment performed in June 2016, along with a list of corrective action plans addressing each issue noted in the report.

**Proposed Implementation Date:** NA

**Item Details:** NA

# **AUSTIN PEAY STATE UNIVERSITY**

*OFFICE OF INTERNAL AUDIT*

*Report on Quality Self-Assessment Review*  
June 24, 2016



## Internal Audit

June 24, 2016  
Dr. Alisa White  
President  
Austin Peay State University  
601 College Street  
Clarksville, Tennessee 37044

Dear President White:

In accordance with the International Standards for the Professional Practice of Internal Auditing (Standards), issued by the Institute of Internal Auditors (IIA), we implemented a Quality Assurance and Improvement Program for the Office of Internal Audit. As required by the Standards, this program must include periodic external reviews and internal self-assessments, as well as ongoing internal monitoring covering all aspects of the internal audit activity.

The *Standards* require an external quality assurance review performed every five years. Our previous external review occurred in the summer of 2013 and the next will be performed in fiscal year 2018. Our Quality Assurance and Improvement Program requires an internal review be performed between external reviews. Ongoing monitoring procedures of internal audit activities are performed as part of the policies and practices of our office.

Periodic self-assessments are designed to assess the audit activity's conformance with the internal audit charter, the IIAs Definition of Internal Auditing, *Standards* and the Code of Ethics and to assess the efficiency and effectiveness of internal audit in meeting the needs of its various stakeholders. The assessment will also include a follow up on the corrective actions to address the issue noted in the previous external review.

This letter is to inform you our periodic internal self-assessment was performed in May and June of 2016. The results of our assessment will indicate we overall generally conform to the internal audit charter, IIA's Definition of Internal Auditing, *Standards*, and Code of Ethics and if any opportunities for improvement were noted. A summary of the self-assessment checklist is attached.

Please contact me at (931) 221-7466, should you have any questions regarding this review.

Sincerely,

A handwritten signature in black ink, reading 'Blayne M. Clements'.

Blayne M. Clements CIA, CFE, CRMA

CC: Mrs. Tammy Birchett, System-wide Chief Audit Executive

Austin Peay State University  
Report on Quality Self-Assessment Review  
June 24, 2016

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**Restrictions on Report Use:** *This report is intended solely for the internal use of the Tennessee Board of Regents and Austin Peay State University. 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 Austin Peay State University, Office of Internal Audit and handled in accordance with institutional policies; however, this report is a matter of public record.*



Austin Peay State University  
Report on Quality Self-Assessment Review  
June 24, 2016

**EXECUTIVE SUMMARY**

The Austin Peay State University, Office of Internal Audit, conducted a quality self-assessment of the internal audit activity during May and June 2016. The principal objective of the quality self-assessment was to determine the internal audit activity's conformity to The Institute of Internal Auditors' (IIA) *International Standards for the Professional Practice of Internal Auditing (Standards)*, the *Definition of Internal Auditing* and the *Code of Ethics*.

The overall opinion is that the Austin Peay State University's internal audit activity generally conforms to The IIA's *Standards*, *Definition of Internal Auditing* and *Code of Ethics*. The internal audit activity is well-structured and progressive and audit management is endeavoring to provide useful audit tools and implement appropriate practices. For a detailed list of conformance to individual standards, please see Attachment A to the report.

As part of the quality assessment, the Office of Internal Audit prepared a self-study of conformance to the IIA requirements. The Office of Internal Audit also reviewed the risk analysis and audit planning processes, audit tools and methodologies, engagement and staff management processes and a sample of working papers and reports.

**OBSERVATIONS**

The concept of general conformance to the *IIA Standards* recognizes that there may still be room for improvement. Auditors strive for continuous improvement and Quality Assurance Reviews provide a natural process for identifying these opportunities. Recommendations noted should not undermine the overall conclusion. Among the opportunities noted in this assessment, the following opportunities stood out as most significant in relation to the *IIA Standards* and have the highest potential to improve the program.

1. Continue to use and enhance checklists to document the planning of the audit engagement.
2. Continue the implementation and improvement of data analysis and computer-aided audit techniques.
3. Continue to obtain professional education related to emerging and relevant IT risks.

## **REQUIREMENT FOR QUALITY ASSESSMENTS**

The Office of Internal Audit is required by The *IIA Standards*, to have a quality assurance and improvement program, which includes periodic internal and external quality assessments and ongoing internal monitoring for conformance with the *Standards*.

Adherence to the *Standards* is essential for the professional practice of internal auditing. Within The *IIA Standards* are Attribute and Performance Standards. The IIA states that "Standards are the criteria by which the operations of an internal audit department are evaluated and measured. They are intended to represent the practice of internal auditing as it should be."

## **PROCEDURES PERFORMED**

As part of the quality assessment, the Office of Internal Audit prepared a self-study of conformance to the IIA requirements. The Office of Internal Audit also reviewed the risk analysis and audit planning processes, audit tools and methodologies, engagement and staff management processes and a sample of working papers and reports.

## **OPINION AS TO CONFORMITY TO THE STANDARDS**

The overall opinion is that the Austin Peay State University's internal audit activity generally conforms to The IIA's *Standards*, *Definition of Internal Auditing* and *Code of Ethics*. Efforts to conform to the spirit and intent of the *IIA Standards* are evident.

## **OBSERVATIONS**

### **Standard 1220 – Due Professional Care – Partially Conforms**

This standard requires internal audit to consider the probability of significant errors, fraud or non-compliance. Although significant errors, fraud or non-compliance are considered and documented in the creation of the annual audit plan, this consideration is not always documented at the individual audit level.

This standard also requires internal audit to have sufficient knowledge of key information technology (IT) risks and controls and available technology-based audit techniques to perform their assigned work. Currently internal audit is reliant on TBR System-wide Internal Audit to deploy an IT auditor to conduct IT-related engagements.

Corrective Action: The planning checklist, which is completed with each audit, has been revised to document the consideration of significant errors, fraud and non-compliance.

Austin Peay State University  
Report on Quality Self-Assessment Review  
June 24, 2016

Improvements in the internal audit activity's effectiveness and efficiency can be gained through continued implementation and improvement of data analysis and computer-aided audit techniques, and through professional education to ensure the auditor remains aware of emerging and relevant IT risks.

Austin Peay State University  
Report on Quality Self-Assessment Review  
June 24, 2016

**ATTACHMENT A - CONFORMITY WITH THE STANDARDS**

GC = **Generally Conforms** and means that IA has a charter, policies and procedures that are judged to meet the spirit and intent of the IIA Standards with some potential opportunities for improvement.

PC = **Partially Conforms** and means there are deficiencies in practice that are judged to deviate from the spirit and intent of the IIA Standards, but these deficiencies did not preclude IA from performing its responsibilities.

DNC = **Does Not Conform** and means deficiencies in practice are judged to be so significant as to seriously impair or preclude IA from performing adequately in all or in significant areas of its responsibilities.

NA = **Not applicable** Standard does not apply.

**Attribute Standards**

1000 - Purpose, Authority and Responsibility

1100 - Independence and Objectivity

- 1110 Organizational Independence
- 1120 Individual Objectivity
- 1130 Impairments to Independence or Objectivity

1200 - Proficiency and Due Professional Care

- 1210 Proficiency
- 1220 Due Professional Care
- 1230 Continuing Professional Development

1300 - Quality Assurance and Improvement Program

- 1310 Quality Program Assessments
- 1311 Internal Assessments
- 1312 External Assessments
- 1320 Reporting on the Quality Program
- 1321 Use of "Conformity with the Standards"
- 1322 Disclosure of Nonconformance

**Performance Standards**

2000 - Managing the Internal Audit Activity

- 2010 Planning
- 2020 Communication and Approval
- 2030 Resource Management
- 2040 Policies and Procedures
- 2050 Coordination
- 2060 Reporting to the Board and Senior Management
- 2070 External Service Providers

2100 - Nature of Work

- 2110 Governance
- 2120 Risk Management
- 2130 Control

2200 - Engagement Planning

- 2201 Planning Considerations
- 2210 Engagement Objectives
- 2220 Engagement Scope
- 2230 Engagement Resource Allocation
- 2240 Engagement Work Program

2300 - Performing the Engagement

- 2310 Identifying Information
- 2320 Analysis and Evaluation
- 2330 Documenting Information
- 2340 Engagement Supervision

2400 - Communicating Results

- 2410 Criteria for Communication
- 2420 Quality of Communications
- 2421 Errors and Omissions
- 2431 Engagement Disclosure of Non-compliance
- 2440 Disseminating Results
- 2450 Overall Opinions

2500 - Monitoring Progress

2600 - Management's Acceptance of Risks

GC	PC	DNC	NA
X			

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**QUALITY ASSURANCE REVIEW  
SELF ASSESSMENT 2016  
CORRECTIVE ACTION PLAN**

<b>Corrective Action Item #1</b> QAR Checklist Reference: 1000 – Purpose, Authority and Responsibility		<b>Responsibility:</b> Blayne M. Clements
<b><u>Issue:</u></b> The Internal Audit Charter will need to be revised to reflect the post-FOCUS environment, specifically the following sections: <ul style="list-style-type: none"> <li>• Introduction</li> <li>• Responsibility and Role</li> <li>• Organizational Status/Reporting Structure</li> </ul> These revisions will need to correspond to other policy revisions noted in other corrective action plans.		<b>Date:</b> 5/3/16
<b><u>Status:</u></b> In Progress		
<b>Corrective Action Steps:</b>	<b>Completion Date</b>	<b>Comments</b>
In conjunction with other necessary revisions pursuant to the FOCUS act, work with executive management to revise the internal audit charter.		The Internal Audit Charter was revised to reflect the post-FOCUS environment. The BOT inaugural meeting was on March 30, 2017. The President's signature will be obtained in a meeting scheduled for April 28, 2017. The signed charter will be presented to the Audit Committee for approval on May 18, 2017.

<b>Corrective Action Item #2</b> QAR Checklist Reference: 1100 – Independence and Objectivity		<b>Responsibility:</b> Blayne M. Clements
<b>Issue:</b> APSU policy on Internal Audit (4-0001) is outdated for two reasons. The policy, last revised 10/7/2002, refers to TBR Guideline B-050 which no longer exists. TBR B-050 was replaced with TBR Policy 4-01-05-00, Internal Audit, when the TBR created an Audit Committee in 2004. Secondly, the policy states the internal auditor reports directly to the President and does not recognize the current dual reporting structure that was implemented after the TBR created an Audit Committee in 2005.		<b>Date:</b> 5/3/16
<b>Status:</b> In Progress		
<b>Corrective Action Steps:</b>	<b>Completion Date</b>	<b>Comments</b>
In conjunction with other necessary revisions pursuant to the FOCUS act, work with executive management to revise APSU's internal audit policy. <i>Suggestion: Revise the current TBR Internal Audit Policy.</i>		APSU Policy on Internal Audit was revised in early 2017. It was approved by the university Policy Review Committee and signed by the President on March 28, 2017. The policy will be voted on by the BOT Audit Committee at the meeting scheduled for May 18, 2017 and the full Board on May 19, 2017.

<b>Corrective Action Item #3</b> QAR Checklist Reference: 1200 – Proficiency and Due Professional Care		<b>Responsibility:</b> Blayne M. Clements
<b>Issue:</b> Although in practice, fraud and IT risks are considered in both developing the annual audit plan and developing engagement level objectives, this consideration is not also properly documented.		<b>Date:</b> 5/3/16
<b>Status:</b> Completed		
<b>Corrective Action Steps:</b>	<b>Completion Date</b>	<b>Comments</b>
A planning checklist is completed for each engagement. An item will be added to this planning checklist to document the auditor's consideration of fraud and IT risks in relation to the engagement objectives.	July 2016	The planning checklist for each engagement was revised to address IT and fraud related risks.

<b>Corrective Action Item #4</b> QAR Checklist Reference: 1300 – <i>Quality Assurance and Improvement Program (QAIP)</i> & 2000 – <i>Managing the Internal Audit Activity</i>		<b>Responsibility:</b> Blayne M. Clements
<b>Issue:</b> Currently internal audit follows the Quality Assurance and Improvement Program QAIP as documented in the SWIA Manual. This manual is outdated because it has not been revised to reflect the use of electronic working papers. As noted in other corrective actions plans, various other documents used to manage the internal audit function need to be revised. This includes, but may not be limited to the APSU Internal Audit Policy and the Internal Audit Charter.		<b>Date:</b> 5/3/16
<b>Status:</b> In Progress		
<b>Corrective Action Steps:</b>	<b>Completion Date</b>	<b>Comments</b>
In a post FOCUS environment, APSU Internal Audit function will need to develop their own manual and ensure it contains a QAIP. <i>Suggestion: The existing IA manual can be revised for APSU specific needs.</i>		A draft Internal Manual was drafted in October 2016. The draft should be revisited to ensure it is adequate post-FOCUS.
Revise policies, procedures and other documents as noted in other corrective action plan items. <i>Suggestion: Existing TBR documents can be revised for APSU specific needs.</i>		See Corrective Action Plan Items #1 and #2.
Consider the cost benefit of continued use of MKI, electronic working papers in a post FOCUS environment.	January 2017	Every university determined the use of MKI was not cost beneficial and discontinued using the software in Jan. 2017.

<b>Corrective Action Item #5</b> General Items		<b>Responsibility:</b> Blayne M. Clements
<b>Issue:</b> Other actions related to FOCUS, but not necessary directly tied to internal audit guidance, were noted during this quality assurance review self-assessment		Date: 5/3/16
<b>Status:</b> No Progress		
<b>Corrective Action Steps:</b>	<b>Completion Date</b>	<b>Comments</b>
APSU's Audit Committee will need to develop an audit charter. Suggestion: the existing TBR AC charter can be revised for APSU's specific needs.	March 30, 2017	The Audit Committee Charter was approved by the Board of Trustees at their meeting held March 30, 2017.
At some point, TBR SWIA provided Regents training on their responsibility as Audit Committee members and educating them on laws, policies and procedures applicable to them adequately performing their duties.		The idea of an educational session for new Audit Committee members was discussed with the Board Secretary and the President. Both stated this would be ok, if deemed necessary by the Audit Committee members.
The Audit Committee will need to ensure a process exists for receiving confidential complaints. Currently we rely on the Comptrollers hotline and TBR SWIA website. Suggestion: Create a report fraud email that goes to the Chief Audit Executive anonymously. Create a form on the IA website users could use to report issues directly to the Chief Audit Executive.	February 2017	<p>A web form was created and added to the Internal Audit website which allows for anonymous reporting of potential fraudulent or wasteful situation.</p> <p>A dedicated fraud email (ReportFraud@apsu.edu) was created. Only internal audit staff have access to this email account.</p> <p>Both means of reporting were announced in a dedicated GovSays email sent on February 7, 2017.</p>





**Information Item: C.**

**Date:** May 18, 2017

**Subject:** Customer Satisfaction Survey Results

**Action Recommended:** Informational Item

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**Background Information:**

The Office of Internal Audit is committed to a continuous quality assessment and improvement program. This program includes periodically soliciting feedback directly from the clients we have served about the quality of services we have provided. Each April and October, the Office of Internal Audit sends a 10 question survey to staff who have had significant interaction with the office pursuant to internal audit engagements for the previous six months. The survey responses are anonymous to ensure honest feedback. Thirty-four employees have been surveyed in FY2017. The results of these surveys follows this transmittal page.

**Proposed Implementation Date:** NA

**Item Details:** NA

Austin Peay State University  
Office of Internal Audit  
Client Satisfaction Survey

The Office of Internal Audit is committed to a continuous quality assessment and improvement program. This program includes soliciting feedback directly from our clients. Please take a moment and complete the brief 10 question survey by clicking the link below. Your responses are completely anonymous.

1. The purpose, goals, objectives, areas to be reviewed and tentative completion dates were clearly explained.

- ☐ Agree
- ☐ Somewhat Agree
- ☐ Somewhat Disagree
- ☐ Disagree

2. The review was conducted in a courteous and professional manner.

- ☐ Agree
- ☐ Somewhat Agree
- ☐ Somewhat Disagree
- ☐ Disagree

3. Internal Audit was responsive to my concerns and perspectives throughout the review.

- ☐ Agree
- ☐ Somewhat Agree
- ☐ Somewhat Disagree
- ☐ Disagree

4. The review was conducted as to minimally disrupt operations.

- ☐ Agree
- ☐ Somewhat Agree
- ☐ Somewhat Disagree
- ☐ Disagree

5. Internal Audit's comments and recommendations will assist us to improve our operations.

- ☐ Agree
- ☐ Somewhat Agree
- ☐ Somewhat Disagree
- ☐ Disagree

6. The review was completed in a reasonable time frame.

- ☐ Agree
- ☐ Somewhat Agree
- ☐ Somewhat Disagree
- ☐ Disagree

7. Overall, how satisfied were you with the services of Internal Audit.

- ☐ Satisfied
- ☐ Somewhat Satisfied
- ☐ Somewhat Dissatisfied
- ☐ Dissatisfied

Austin Peay State University  
Office of Internal Audit  
Client Satisfaction Survey

8. Which of the following words would you use to describe Internal Audit services. Check all that apply.

- ☐ High Quality
- ☐ Valuable
- ☐ Effective
- ☐ Ineffective
- ☐ Impractical
- ☐ Poor Quality

9. Internal Audit is a resource I would use in the future.

- ☐ Agree
- ☐ Somewhat Agree
- ☐ Somewhat Disagree
- ☐ Disagree

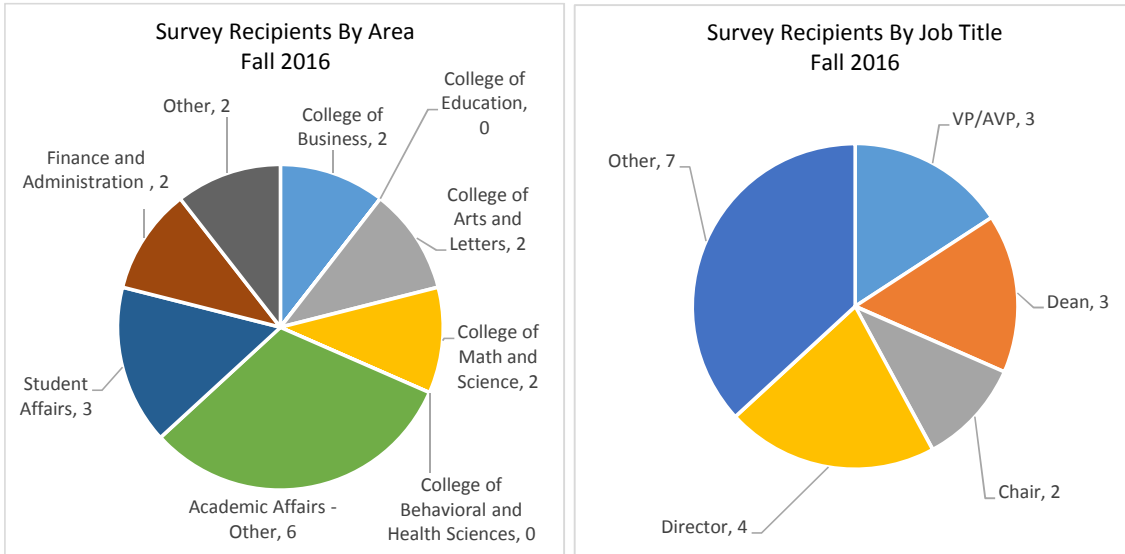
10. What suggestions do you have for improving the audit process? What did you especially like or dislike?



## Fall 2016 - Customer Satisfaction Survey

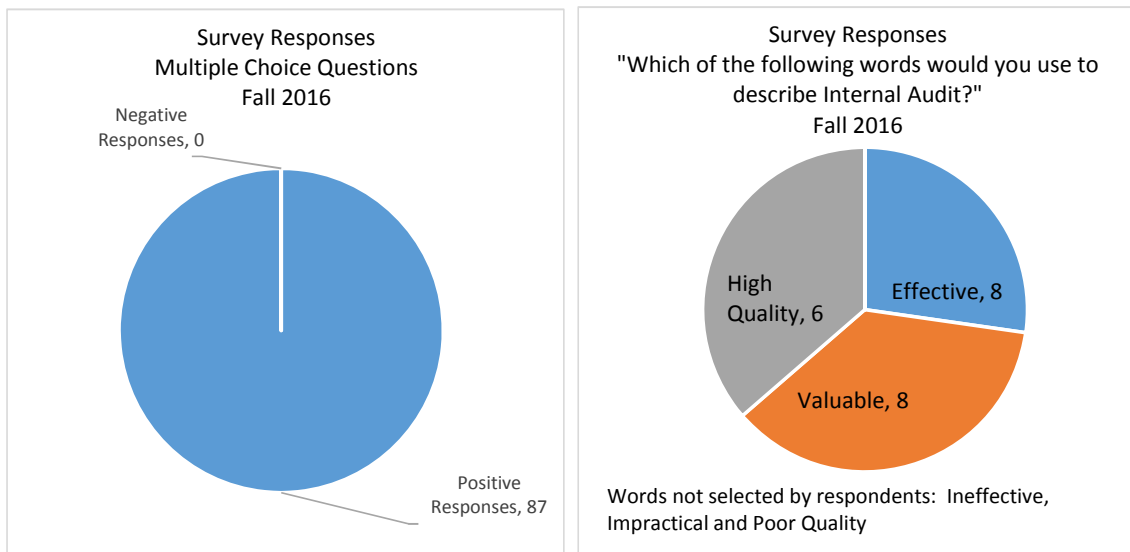
### Fall 2016 - Who received the Client Satisfaction Survey?

Internal Audit identified nineteen employees that had significant contact with Internal Audit for reviews completed between April 2016 and September 2016. The demographics of the recipients is summarized below.



### What did they say?

As of October 24, 2016, eleven surveys had been completed (58%). Survey responses are summarized below.



#### Survey Comments:

"I liked the in-person meeting and being able to ask specific questions."

"Overall, it was a great experience even though the timing of the audit took place during our busy season."

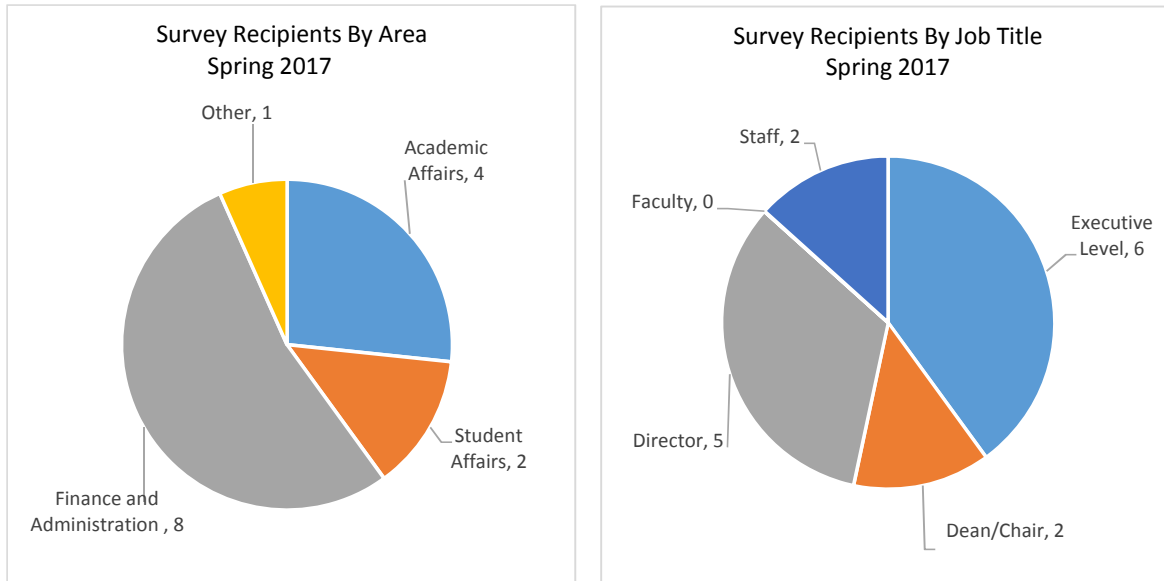
"Very appreciative of the work Internal Audit did, and how courteous they were during the process."

"I appreciate the professionalism and approach to correct mistakes made by individuals rather than seeming to threaten. Mostly, the incidents in my area seem to have been due to a lack of understanding of procedure and we all do a better job after the audit - a good thing."

## Spring 2017 - Customer Satisfaction Survey

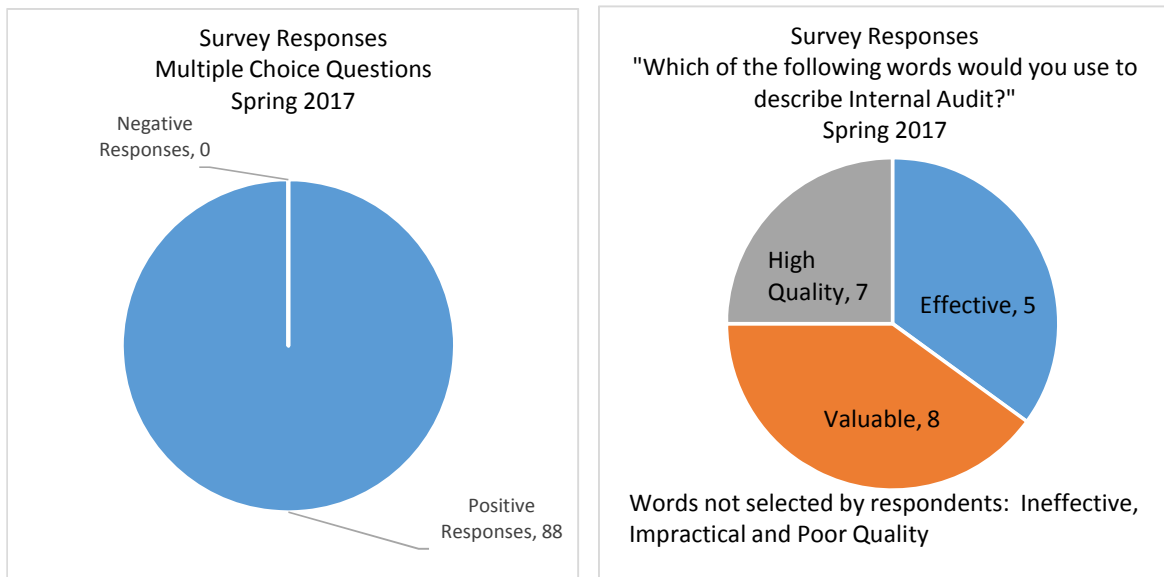
### Spring 2017 - Who received the Client Satisfaction Survey?

Internal Audit identified 15 employees who had significant contact with the Office of Internal Audit for reviews completed between October 2016 and March 2017. The demographics of the survey recipients is summarized below.



### What did they say?

As of April 28, 2017 (when the survey was closed), 11 surveys had been completed (73%). Survey responses are summarized below.



#### Survey Comments:

"Great experience and actually look forward to our next audit."

"No suggestions for improvements. The audit was conducted in a very professional manner."

"I don't have any suggestions for improvement. I found the auditors' approach to be focused enough to clearly respond to the objectives of the review but their observations were broad enough to pick up on some peripheral process that might be improved. The review was conducted with a great deal of professionalism and courtesy."

"No suggestions for improvement. Excellent resource."



**Information Item: D.**

**Date:** May 18, 2017

**Subject:** Internal Audit Reports and Listing of Outstanding Audit Recommendations

**Action Recommended:** Informational Item

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**Background Information:**

Internal Audit classifies audits into different categories: Required, Risk Based, Special Request, Investigation, Risk Assessment, Consultations and Follow-up Reviews. A detailed description of each type follows this transmittal.

A list of audits completed between July 1, 2016 and April 30, 2017 also follows this transmittal. This listing identifies the type of review, a general description of the review and the date the review was completed. Internal audit reports issued between July 1, 2017 and February 28, 2017 were reported to the Audit Committee of the Tennessee Board of Regents. Internal audit reports issued since March 1, 2017 are included after this transmittal.

With all recommendations included in the audit reports, management must identify what actions will be taken to remedy the issue, who is responsible for that action and an expected date of when that action will be completed. After the expected action date has past, Internal Audit will perform a follow-up review to determine if the action was taken and if that action adequately addresses the issue in the report. Internal Audit generally does not issue reports for follow-up reviews, however, we do maintain a list of outstanding audit recommendations, which is included after this transmittal.

**Proposed Implementation Date:** NA

**Item Details:** NA

**Austin Peay State University**  
**Audit Committee**  
**May 18, 2017**  
**Types of Reviews Performed by Internal Audit**

Required	Certain reviews are required, whether by contract, statute, or outside authorities (such as the Tennessee Higher Education Commission or the Comptroller's Office).
Risk Based	Risk-based reviews are deemed necessary by the Internal Audit Office per the results of an annual risk analysis of all university activities.
Special Request	Management often requests Internal Audit review an area or process. These are generally different than Consultations because Special Requests generally result in audit reports.
Investigation	The Office of Internal Audit manages a variety of means for stakeholders to report suspected issues of fraud, waste and abuse.
Risk Assessment	Management is required by several statutes to conduct risk assessments. The Office of Internal Audit assists in facilitating this risk management process.
Consultation	Consultations closely resemble Special Requests, except Consultations need less time resources and generally do not result in a report unless significant issues are discovered.
Follow-up Reviews	To ensure management has taken adequate corrective action, Internal Audit performs follow-ups on any recommendations included in an audit report. These follow-ups to Internal Audit recommendations do not generally result in a report unless something significant is discovered. Internal Audit is required to perform follow-ups on any findings included in State Audit reports. The follow-ups to State Audit reports always result in a written report.

**Austin Peay State University**  
**Audit Committee**  
**May 18, 2017**  
**List of Internal Audits Completed - July 1, 2016 and April 30, 2017**

Audit Type	Description	Date issued
Required by TCA	MTSU President's Expenses Audit FY2016	September 2016
Required by OVC	OVC Special Assistance Fund FY2016	August 2016
Investigation	17-01, Study Abroad (addressed in Study Abroad report below)	August 2016
Investigation	17-02, Potentially Improper Purchases	September 2016
Investigation	17-03, Missing Cash	September 2016
Investigation	17-04, FMLA Abuse <b>FN 3</b>	October 2016
Investigation	17-05, Unemployment Claims <b>FN 3</b>	March 2017
Follow-up	Follow-ups on outstanding Internal Audit recommendations	<b>FN 1</b>
Consultation	General Consultation	<b>FN 1</b>
Consultation	FOCUS Transition Taskforce	<b>FN 1</b>
Consultation	Grants	<b>FN 1</b>
Special Request	Study Abroad	August 2016
Special Request	Camps and Individual Instruction	September 2016
Special Request	Text for Vets	November 2016
Special Request	Management Transition Review – President's Emerging Leadership Program (PELPS) and Honors Program	October 2016
Special Request	Department of Music – Expenses Transfers	December 2016
Special Request	Human Resources I9 Process	March 2017 <b>FN 2</b>
Special Request	Bad Debt Expense (report attached)	March 2017
Special Request	3 <sup>rd</sup> Party Scholarship Checks and Private Bank Loans (report attached)	April 2017
Risk Based	Emergency Preparedness	January 2017

**FN 1** Unless a significant issue is discovered, engagements such as follow-up on internal audit recommendations and consultations do not generally result in reports. Results are generally communicated verbally.

**FN 2** Internal Audit issued a letter in lieu of a full report. This is an acceptable option for engagements such as special requests when the review did not reveal any significant issues.

**FN 3** When an issue of fraud, waste or abuse is reported to Internal Audit, Internal Audit reviews the issue to determine if the allegation appears to have merit. When an allegation does not appear to have merit, the review is closed with a memo, not a report.



**Austin Peay State University**  
**Review of Bad Debt Expense**  
**Executive Summary Report**  
**March 15, 2017**

<b>Key Staff:</b> Bursar/Collections Staff	<b>Auditor:</b> Blayne M. Clements CIA, CFE, CRMA
<b>Introduction:</b> The Vice President for Finance and Administration requested the Office of Internal Audit review the university's bad debt expense because write offs were increasing.	
<b>Objectives:</b> The objective of this review was to determine if the university bad debt expense is within industry norms and review business processes for improvements which may result in reducing the bad debt expense.	
<b>Scope:</b> Current processes deployed to identify and collect bad debt and related data between FY2009-FY2016.	
<p><b>Results:</b> Austin Peay State University's (APSU) write offs for the past five years (\$4,164,379) are the second lowest of the university's in the Tennessee Board of Regents (TBR) system. However, APSU has the second highest cohort default rate (CDR) as compared to our four-year TBR and sister UT institutions. The university's level of staffing dedicated to collections appears in line with these universities. The review analyzed the processes of financial aid refund calculations, disbursement of balance and refund checks, and collections efforts to determine if the processes were properly aligned to minimize the occurrence of bad debts.</p> <p>During the review, Internal Audit became aware of a study which showed delinquent APSU students have similar attributes. For example, the study found as student's withdrawal hours increased, so did the rate of delinquency. The study also found Pell eligible students, conditional admits, and students with lower GPAs have a higher delinquency rate. Since students with a higher delinquency risk correlate to a higher academic risk, the university student success initiatives were considered as part of this review.</p>	
<p><b>Observation –</b> The review identified several actions which may reduce the bad debt expense over the long term. This list is not an exhaustive list and any action implemented by management should be properly monitored to ensure the action is effective. Management should consider:</p> <ol style="list-style-type: none"> <li>1. Enhancing the academic alert program to monitor student attributes that indicate an increased likelihood of becoming delinquent. <i>See attachment for more details.</i></li> <li>2. Holding student refund checks for 14 days after a student officially withdraws to allow the Financial Aid Office time to determine if the student owes the university for any unearned financial aid. <i>See attachment for more details.</i></li> <li>3. Partnering with companies focused on increasing student success and lowering default rates.</li> <li>4. Taking steps to ensure faculty report timely a student's failure to attend. Doing so ensures the collection process starts sooner, increasing the probability of successful collections.</li> <li>5. Repurposing the duties of existing staff.</li> <li>6. When appropriate, reevaluate the performance of the collection agencies currently under contract and determine if the university would be better served by utilizing other agencies.</li> </ol> <p>Management's Response: We concur. The academic alert program will be reviewed for opportunities to incorporate alerts influenced by delinquency attributes (1). Starting in April 2017, the Bursar will wait the allowable 14 days after a student officially withdraws before the balance check is processed (2). Products and technology solutions, both internal and external, that promote the success of our students and reduce delinquency rates will be explored (3). On January 23, 2017 and February 21, 2017, the Office of the Registrar sent an email reminder and instructions on reporting students' lack of attendance to all faculty and division leaders (4). In addition to considering repurposing the duties of existing staff, a flex schedule will be implemented to make collection calls outside normal business hours (5). The performance of collection agencies under contract will be reevaluated (6).</p>	
<b>Audit Conclusion:</b> Based on audit tests performed, adequate controls are in place to ensure bad debt expense is managed appropriately, however as noted in the observation above, some areas for improvement exist.	

**Austin Peay State University**  
**Review of Bad Debt Expense**  
**Attachment – Details on Certain Observations**  
**March 15, 2017**

1. **The university's academic alert program is an early warning system designed to identify and assist low performing students. Management should consider enhancing the academic alert program by monitoring student attributes found to correlate low performing students and student delinquency.**

The Office of Academic Alert administers the Academic Alert program. This program identifies at risk students and provides assistance for the students to be successful in the classroom. Concerned instructors contact low performing students via email and put the students in touch with the Office of Academic Alert. The office contacts these students to connect the student with the needed resources, such as tutoring or counseling.

In their 2015 master's program capstone project entitled, "Evaluating Student Attributes that Correlate with Being Sent to Collections", Austin Siders and Jarad Sneed analyzed university student financial delinquency data. The study analyzed 33 attributes of students in delinquency to identify data patterns. The study determined the university delinquency rate among student to be 11% and low performing students have an increased likelihood of becoming delinquent. Once delinquent, the student cannot reenroll in classes, demonstrating a correlation between student delinquency and student success.

The university's strategic plan identifies student success interventions and initiatives as a priority (2.4). In support of this priority, the university's Student Success Committee issued a report in 2016, "Leading Through Student Success" which evaluated 33 recommendations designed to promote a comprehensive student success agenda. One of these recommendations was to "enhance the early alert process to trigger interventions during the 4<sup>th</sup> and 5<sup>th</sup> week of the term." This recommendation was identified as having a "high impact" and "high level of feasibility".

The Siders/Sneed study identified common attributes of delinquent students which could be monitored to trigger early student interventions. To support the strategic plan and fulfill a recommendation by the Student Success Committee, the Academic Alert program could monitor attributes identified in the Siders/Sneed study, including but not limited to:

- Pell eligible students have an increased delinquency rate
- Students who withdrew from more than 11 hours have an increased delinquency rate.
- Students 22 or under and with a GPA less than 1.49 had a 34% rate of delinquency.
- Students with more than 56 withdrawn hours have a 22% rate of delinquency.
- Students ages of 20-22 with a GPA between 1.48 and 2.49 had a 20% rate of delinquency.
- Students 19 or under and with a GPA between 1.48 and 2.49 had a 12% rate of delinquency.

In his letter dated, July 7, 2016, John Gardner advocated that "greater support (be) provided to the record number of Conditional Admit students" noting "the university does not have a comprehensive program of support for these higher risk students." The Siders/Sneed study also found conditional admits were more likely to be delinquent.

- Conditionally enrolled students with more than 11 withdrawn hours were twice as likely to be delinquent as conditionally admitted students between 4 and 11 withdrawn hours.
- One in 5 conditionally admitted students with more than 11 withdrawn hours will become delinquent.

Management should consider enhancing the academic alert program to monitor student attributes identified in the Siders/Sneed study found to correlate with student delinquency.

2. **The review revealed that waiting until the 14<sup>th</sup> day of classes to issue balance checks would not have a significant effect on bad debt expense/write offs because only a small portion of the student population officially withdraws within the first 14 days of classes. However, the university waiting 14 days from when a student officially withdraws before issuing a refund check could have a more significant effect on bad debts/write offs.**

For the main campus between fall 2009 and spring 2016 (fall and spring semesters only), the university wrote off 484 student receivables. All of these students withdrew from classes but the write off may not have been related to tuition and fees. Of these 484 students, only 41 (8.4%) officially withdrew within the first 14 days of classes AND had tuition and fees as part of the write off. If the university waited until the 14<sup>th</sup> day of classes to disburse balance checks, the write off for this period would have been reduced by \$21,715. However, if the university waited 14 days from the withdrawal date to issue a refund check for these 41 students, the write off would have been reduced by \$26,186, an increase of \$4,471 (20.5%).

A student officially withdrawing prompts two important actions by the university. First, if the withdrawal occurs before the "last date to receive a 25% fee adjustment, it creates a credit on the student account and a refund check is written to the student for the amount of the credit balance. The second action is the Financial Aid Office determines if the student has earned all the Title IV aid the student received. If not, the university returns the unearned amount of aid to the Department of Education, and the student owes the university for the same amount. This process can take several days to complete.

During the course of the audit, it was noted a student's refund check was often issued before the Financial Aid Office has determined how much the student owed the university related to the unearned Title IV aid. This increases accounts receivable, causing the university to spend resources trying to collect on that receivable. Had the university held the refund check until the Financial Aid Office determined what the student owed, the credit balance on the student account would offset the amount the student owed, reducing or eliminating the student receivable.

Because refund checks are only due to students before the last date to withdraw with a 25% tuition adjustment, holding a refund check only helps reduce write offs during the first few weeks of a given semester. Of the 484 student who withdrew between fall 2009 and spring 2016, only 146 (30%) withdrew before the last date to receive a 25% fee adjustment.

The university cannot hold student credit balances indefinitely. The Department of Education requires a student must receive payment for any credit balance within 14 days. Waiting 14 days after the student withdraws to disburse a refund check allows a larger window for the Financial Aid Office to determine what the student may owe the university.

The audit recommends management consider adopting a policy that all student refund checks be held for 14 days after a student officially withdraws to maximize the time window for the Financial Aid Office to determine what the student owes before a refund check is written.

**Austin Peay State University**  
**3<sup>rd</sup> Party Scholarships/Private Bank Loans**  
**Executive Summary Report**  
**April 20, 2017**

<b>Key Staff:</b> Bursar	<b>Auditor:</b> Blayne M. Clements CIA, CFE, CRMA
<b>Introduction:</b> The Associate Vice President for Finance requested the Office of Internal Audit review the handling of 3 <sup>rd</sup> party scholarships and private bank loans to ensure processes are efficient and effective.	
<b>Objectives:</b> The objective of this review was to determine if the university's processes for handling 3 <sup>rd</sup> party scholarships and private bank loans is operating efficiently and effectively.	
<b>Scope:</b> Current process for 3 <sup>rd</sup> party scholarships and private bank loan data for 2007-2017.	
<p><b>Background:</b> The Bursar's Office receives 3<sup>rd</sup> party scholarship checks and notifies the Student Financial Aid Office, so the student's account can be reviewed and their aid adjusted if necessary.</p> <p>Student private bank loans are received via the Electronic Loan Management system (ELM). ELM sends the funds electronically to the university bank account. The Business Office records the receipt of funds and the Financial Aid Office applies the funds to the student's account. ELM activity is accounted for in an account code called EFT Loans Not Disbursed (Electronic Funds Transfer).</p> <p>Private loans are often awarded for a full academic year and disbursed on a semester basis. If a student does not enroll for the full year, the university returns the unused portion of the loan to the bank via the ELM system. Therefore, the account's balance should represent loans received for students, but not yet disbursed to students.</p>	
<p><b>Observation 1</b> The risk exists that private bank loans received are not awarded to the student in a timely manner or returned to the bank in a timely manner. To mitigate this risk, the Bursar's Office has begun to reconcile the ELM account to ensure the balance represents loan funds received and intended to be disbursed to students in a subsequent semester.</p> <p>Once completed, the Bursar's Office should ensure a full reconciliation is performed and reviewed at least once per semester. Since the initial ELM transactions are related to the university's bank account, the audit recommends the reconciliation process remain in the Bursar's Office. However, the Bursar's Office and Student Financial Aid will need to collaborate to ensure the reconciliation is accurate.</p> <p>Management's Response: We concur. The reconciliation will be completed by the fiscal year ended June 30, 2017. The Bursar's Office will ensure the ELM account is reconciled at least once a semester and the Associate Vice President for Finance will review the reconciliations.</p>	
<p><b>Observation 2</b> An agency account, EFT Student Loans, has a current balance of \$445,100.02. Given the issues noted in the observation above, Internal Audit reviewed the transactions in this account from 2007 to present. The purpose of the account was unclear. Management should research the account activity to determine the account's purpose and how account transactions should be handled.</p> <p>Management's Response: We concur. Historically, the ELM account balance (Observation #1) was transferred to this agency account at year end to ensure the funds were properly reported on the financial statements. The Bursar's Office will review the account activity and determine if any undisbursed student loan balances should be transferred back to the ELM account. Since this account had a balance when the accounting systems were changed in 2007, there may not be adequate detail to explain the entire account balance or it may become not cost beneficial to continue the reconciliation. If so, any remaining balance may be transferred to Miscellaneous Revenue or Expense. Ultimately, the account will be closed.</p>	
<b>Audit Conclusion:</b> Based on audit tests performed, the university's process to handle 3 <sup>rd</sup> party scholarships and private bank loans are effective and efficient, except as noted in the observations above.	

**Austin Peay State University  
Review of Cheerleading Invoices  
Executive Summary Report  
April 28, 2017**

<b>Key Staff:</b> Cheerleading Coach	<b>Auditor:</b> Blayne M. Clements CIA, CFE, CRMA
<b>Introduction:</b> On April 3, 2017, the Controller contacted the Office of Internal Audit about invoices for the cheerleading program. The Controller was concerned the items purchased were shipped to a non-university address, which is unusual. The Controller requested the Office of Internal Audit conduct a review to ensure the transactions were handled appropriately and items purchased were received by the university.	
<b>Objective:</b> The objective was to determine if the recent cheerleading transactions were proper, if the items purchased were received by the university and if the purchases were properly documented.	
<b>Scope:</b> Cheerleader account activity between July 1, 2016 and March 31, 2017.	
<p><b>Background:</b> The Cheerleading Coach is a part time employee, who does not have an office on campus or a university phone number. The coach stated he is usually only on campus for cheerleading practices, which often are often outside normal business hours to accommodate the cheerleader class schedules. Cheerleading practices are held in three locations: the Dunn Center, the Memorial Health Building, and the coach's gym (off-campus.)</p> <p>The items noticed by the Controller were sent to two different off-campus locations: the coach's residence and a gym owned by the coach. To ensure items purchased are received in a timely manner, the coach stated he often has items shipped to his residence or his gym. The audit physically observed items recently purchased which were delivered to the off-campus locations.</p>	
<p><b>Observation:</b> As noted above, cheerleading practices occur at the Cheerleading Coach's gym (off-campus). The gym is a business offering tumbling classes, private lessons and co-ed and all girl stunt classes. Although university insurance would cover costs related to cheerleader injuries during an official practice at the gym, no formal agreement exists between the university and the gym.</p> <p>The Office of Legal Affairs stated the university typically requests students sign waivers if they are traveling in their personal vehicles to and from a university-sponsored event. No such waivers are obtained for cheerleaders driving personal cars to the off campus gym. Additionally, the Office of Legal Affairs recommended the cheerleaders sign an agreement when they utilize the off-campus gym.</p>	
<p><b>Management's Response:</b> We concur. The Athletic Director and Cheerleading Coach will work with the Office of Legal Affairs to develop an agreement between the off-campus gym and the university, as well as agreements to be used by cheerleaders using the off-campus gym and waivers for cheerleaders driving their personal vehicles to and from practices held at the off-campus gym.</p>	
<p><b>Audit Conclusion:</b> Based on audit tests performed, the university's process regarding cheerleading transactions were proper, received by the university and were properly documented; however, the audit did reveal an opportunity for improvement as noted in the above observation.</p>	

APSU - Status Report on Outstanding Internal Audit Recommendations					
Date of report	Recommendation	Responsible Staff	Date Management's Actions to be Implemented	Date Internal Audit Follow up Completed	Internal Audit's Conclusion on Management's Action s
8/9/16	<p>Study Abroad - Procedures should be adequately documented.</p> <p>The Procedures and Information Manual for the Office of International Education needs to be updated - The Director of the Office of International Education has been in the position for almost 3 years. In this time, the Director has obtained an understanding of how the study abroad program processes. Although the Director could verbally explain study abroad operational processes of the study, the Office of International Education's Procedures and Information manual lacked written procedures of key operations (such as refunds process, program budgeting process, criteria for awarding travel grants .....)</p> <p>The Director stated the current manual is updated as time allows. Having written procedures ensures all staff understand management's expectations of operations and that institutional knowledge of operations is maintained should there be staff turnover.</p> <p>Management should take the necessary steps to ensure the Procedures and Information Manual is current and provides guidance for all key study abroad operations.</p>	Director of the Office of International Education	6/30/17	Not Yet Due	NA
8/26/16	<p>OVC SAF- The report totals are incorrect</p> <p>Internal Audit noted that adjustments need to be made to the FY 2015-2016 Report of Student Assistance Fund Financial Activity. The balance of funds on hand at June 30, 2015 was understated by \$804.99, this was primarily due to \$803.60 that was remaining on gift cards and not included in the amount submitted by Athletics to the OVC as well as a minor rounding adjustment.</p> <p>Expenditures were overstated by \$4,912.16, this was due to a \$1,125 academic support services expense as well as \$968.85 in tutoring expenses that were charged to the account after the report was submitted, it was also due to \$3,095.59 in scholarship expenses being removed from the account after the report was submitted because two students dropped the class they intended to take as well as \$3,914.07 in scholarship expenses being removed from the account because scholarships were mistakenly added for three students that were not taking classes until the second summer session which started after June 30, 2016.</p> <p>Due to these adjustments, the balance of funds on hand at June 30, 2016 should have been \$59,921.33 which includes \$800.00 remaining on gift cards and a minor rounding adjustment.</p> <p>Management should ensure information reported to the OVC is accurate and based on information they have at the date the report is due.</p>	Compliance Coordinator	6/30/17	Not Yet Due	NA
12/8/16	<p>Music Department Expense Transfers - Consider streamlining accounts</p> <p>The Music Department should consider closing some of the restricted accounts in order to streamline their account structure. They should also consider spending the current balance in the two agency accounts first in order to close these accounts out as soon as possible.</p>	Dean of Arts and Letters, Chair of the Music Department	6/30/17	Not Yet Due	NA

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1/31/16	<p>Emergency Preparedness Plan - Management should document the university's relationships and shared responsibilities with outside agencies that are integral in the university's Emergency Management Plan.</p> <p>The emergency management plan recognizes the importance of collaborating with outside agencies to adequately respond to an emergency. Although the university has good relations with outside agencies, as evidenced by regularly meeting with these outside agencies and participating in multi-agency training, these relationships with other agencies have not been formally documented.</p> <p>Recommendation: To ensure all parties are fully aware of their commitments in an emergency, as well as to recognize the need for collaboration to adequately respond to an emergency, management should obtain Memos of Understanding with outside agencies who are significant partners identified in the plan</p>	Chief of Police	8/31/17	Not Yet Due	NA
1/31/2017	<p>SWIA IT Carry Forward - Management should ensure a Disaster Recovery Plan exists that addresses all significant data systems.</p> <p>Management completed a Disaster Recovery Plan for the Banner system in January 2017. This DRP only addresses the Banner system. The Chief Information Officer stated a disaster plan focusing on other systems will be completed in 2017 and it will address distribution of the plan to ensure it is easily accessible in the event of an emergency.</p> <p>Management should develop a Disaster Recovery Plan that address all mission critical systems.</p>	Chief Information Officer	Org. 4/28/2017 Rev. 5/5/17	In Progress	NA
1/31/17	<p>SWIA IT Carry Forward - Management should develop a comprehensive Business Continuity Plan.</p> <p>The university does not have a Business Continuity Plan. Having such a plan would significantly enhance the ability of the university to prepare for and respond to an emergency. The task of creating a Business Continuity Plan has been delegated to the Chief of Police/Director of Public Safety, who stated that this process will be initiated in 2017.</p> <p>Management should develop a comprehensive Business Continuity Plan.</p>	Chief of Police	6/1/18	Not Yet Due	NA
3/15/17	<p>Bad Debt Expense - Enhance the Academic Alert System</p> <p>Consider enhancing the academic alert program to monitor student attributes that indicate an increased likelihood of becoming delinquent.</p>	Associate Provost for Student Success	Multiple actions to be completed between March 2017 to October 2017	Not Yet Due	NA
3/15/17	<p>Bad Debt Expense - Align Financial Aid and Business Office processes</p> <p>Consider holding student refund checks for 14 days after a student officially withdraws to allow the Financial Aid Office time to determine if the student owes the university for any unearned financial aid.</p>	Bursar and Director of Financial Aid	4/28/17	In Progress	NA

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3/15/17	Bad Debt Expense - Partnerships with companies Consider partnering with companies focused on increasing student success and lowering default rates.	Associate Provost for Student Success, Associate Vice President for Finance and the Director of Financial Aid	Multiple action to be completed between Fall 2017 and Fall 2018	Not Yet Due	NA
3/18/17	Bad Debt Expense ensure failure to attend grade are recorded timely Consider taking steps to ensure faculty report timely a student's failure to attend. Doing so ensures the collection process starts sooner, increasing the probability of successful collections.	Associate Provost for Student Success	Fall 2017	Not Yet Due	NA
3/19/17	Bad Debt Expense - Repurpose Duties of Existing Staff Consider repurposing the duties of existing business office staff to increased the investment of resources dedicated to collection efforts.	Bursar	2/1/18	Not Yet Due	NA
3/20/17	Bad Debt Expense - Reevaluate the Performance of Collection Agencies When appropriate, reevaluate the performance of the collection agencies currently under contract and determine if the university would be better served by utilizing other agencies	Bursar	4/28/2017	In Progress	NA
4/20/17	Private Bank Loans - Continue Efforts to Reconcile the ELM Account  The risk exists that private bank loans received are not awarded to the student in a timely manner or returned to the bank in a timely manner. To mitigate this risk, the Bursar's Office has begun to reconcile the ELM account to ensure the balance represents loan funds received and intended to be disbursed to students in a subsequent semester.  Once completed, the Bursar's Office should ensure a full reconciliation is performed and reviewed at least once per semester. Since the initial ELM transactions are related to the university's bank account, the audit recommends the reconciliation process remain in the Bursar's Office. However, the Bursar's Office and Student Financial Aid will need to collaborate to ensure the reconciliation is accurate.	Bursar	6/30/2017	Not Yet Due	NA
4/20/17	Private bank Loans - Research the EFT Account  An agency account, EFT Student Loans, has a current balance of \$445,100.02. Given the issues noted in the observation above, Internal Audit reviewed the transactions in this account from 2007 to present. The purpose of the account was unclear. Management should research the account activity to determine the account's purpose and how account transactions should be handled.	Bursar	6/30/2017	Not Yet Due	NA



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4/28/17	<p>Review of Cheerleading Invoices - Agreements and waivers need ti be in place</p> <p>No formal agreement exists between the uniiversity ansd the off cmapus gym utilized for cheerleading practuice. The Office of Legal Affairs stated the university typically requests students sign waivers if they are traveling in their personal vehicles to and from a university-sponsored event. No such waivers are obtained for cheerleaders driving personal cars to the off campus gym. Additionally, the Office of Legal Affairs recommended the cheerleaders sign an agreement when they utilize the off-campus gym.</p> <p>The Athletic Director and Cheerleading Coach will work with the Office of Legal Affairs to develop an agreement between the off-campus gym and the university, as well as agreements to be used by cheerleaders using the off-campus gym and waivers for cheerleaders driving their personal vehicles to and from practices held at the off-campus gym.</p>	Athletic Director Cheerleading Coach General Counsel	8/1/2017	Not Yet Due	NA



**Information Item: E.**

**Date:** May 18, 2017

**Subject:** Educational Session

**Action Recommended:** Informational Item

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**Background Information:**

The Office of Internal Audit is available to meet with the Audit Committee, individually or in a group, to provide an educational session. This session can be tailored to the preferences of the Trustees, but could include a discussion of internal audit policies, operational procedures and/or industry standards.

**Proposed Implementation Date:** NA

**Item Details:** NA