



Audit Committee

Meeting Agenda

Austin Peay State University

Education Building 203

203 Bastogne Ave

Fort Campbell, KY 42223

March 8, 2018

2:00 p.m.

Call to Order

Roll Call/Declaration of Quorum

Action Items

- A. Audit Committee Charter
- B. Internal Audit Charter
- C. Internal Audit Policy
- D. Reporting Fraud, Waste and Abuse Policy
- E. Revised FY2018 Audit Program

Information Items

- A. Internal Audit Reports issued between November 6, 2017 and February 12, 2018, with list of outstanding audit recommendations
- B. Comptroller's Office Financial and Compliance Audit Report for Fiscal Year 2017

Executive Session

Agenda Item: A.

Date: March 8, 2018

Subject: Revised Audit Committee Charter

Action Recommended: Voice Vote

Background Information:

In accordance with the Audit Committee Charter, the Audit Committee is to review and assess the adequacy of the Audit Committee's Charter annually. The Chief Audit Officer reviewed the Audit Committee Charter to determine if revisions were necessary. The only suggested revision is updating the job title of the Chief Audit Officer from the previous job title of Director of Internal Audit.

Proposed Implementation Date: N/A

Item Details: N/A

Austin Peay State University

Audit Committee Charter

Purpose and Mission

The Audit Committee, a standing committee of the Austin Peay State University Board of Trustees, provides oversight and accountability on all aspects of university operations. The committee will assist the Board in fulfilling its oversight responsibilities by reporting regularly to the Board about Audit Committee activities and issues that arise with such recommendations as the committee deems appropriate. The Audit Committee will provide for open communications among the Board, university senior management, and the Tennessee Comptroller's Office auditors regarding audit matters.

The Audit Committee will provide oversight in the following areas:

- Audit engagements with the Tennessee Comptroller's Office, including the integrity of financial statements and compliance with legal and regulatory requirements.
- Audit engagements with external auditors.
- Internal Audit administration and activities.
- Management's internal controls and compliance with laws, regulations and other requirements.
- Management's risk and control assessments.
- Fraud, waste and abuse prevention, detection, and reporting,
- Review the university's Code of Conduct.
- Other areas as directed by the Board.

Authority

The Audit Committee has the authority to conduct or authorize audits or investigations into any matter within its scope of responsibility. The scope of internal auditing extends to all aspects of institutional operations and beyond fiscal boundaries. The committee is authorized to:

- Seek any information it requires from employees or external parties. Employees are directed to cooperate with the committee's requests.
- Have access to all books, records and physical properties of Austin Peay State University.
- Meet with Board and university officials, external and internal auditors, legal counsel, or others as necessary.
- Delegate authority to subcommittees, providing that such decisions by any subcommittee are presented to the full committee at its next scheduled meeting.

Responsibilities

The Board employs a person qualified by training and experience to serve as the Chief

Audit Officer ~~Director of Internal Audit~~, who reports directly to the Audit Committee and the Board of Trustees. The Chief Audit Officer ~~Director of Internal Audit~~ coordinates audit activities with the Tennessee Comptroller of the Treasury and with any other external auditors. The Audit Committee facilitates any audit and investigative matters, including advising auditors and investigators of any information the committee may receive pertinent to these matters.

The Audit Committee will carry out the following duties for the Board and Austin Peay State University and will report to the Board about Audit Committee activities and issues that arise with such recommendations as the committee deems appropriate:

Tennessee Comptroller's Office Audits

- Understand the scope and approach used by the auditors in conducting their examinations.
- Review results of the Comptroller's examinations of financial statements and any other matters related to the conduct of the audits.
- Review with management and legal counsel any legal matters (including pending litigation) that may have a material impact on the financial statements, and any material reports or inquiries from regulatory or governmental agencies.
- Resolve any differences between management and the Comptroller's auditors regarding financial reporting.
- Meet, as needed, with the Comptroller's auditors to discuss any matters that the Audit Committee or auditors deem appropriate.
- Work management and staff, as needed, to ensure implementation of audit recommendations.

External Audits

- Understand the scope and approach used by the external auditors in conducting their examinations.
- Review results of the external auditors' examinations and any other matters related to the conduct of the audits.
- Meet, as needed, with the external auditors to discuss any matters that the Audit Committee or auditors deem appropriate.

Internal Audit Activities

- Ensure that the Chief Audit Officer ~~Director of Internal Audit~~ has direct and unrestricted access to the chairman and other committee members.
- Review and approve the charter for the university's Internal Audit function.
- Review and approve the annual audit plans for the university's audit function, including management's request for unplanned audits.
- Receive and review significant results of internal audits performed.
- Review the results of the year's work with the Chief Audit Officer ~~Director of Internal Audit~~.
- Work management and staff, as needed, to ensure implementation of audit recommendations.
- Ensure the internal audit function maintains a quality assurance and improvement

program, including internal procedures and assessments and a periodic external quality assessment of conformance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

Internal Audit Administration

- Review the Chief Audit Officer's ~~Director of Internal Audit's~~ administrative reporting relationship to the President of Austin Peay State University to assure not only that independence is fostered, but adequate resources in terms of staff and budget are provided to enable the department to effectively perform its responsibilities. The President has administrative authority for approval of the Chief Audit Officer's ~~Director of Internal Audit's~~ time, travel and other expenses of the Office of Internal Audit. Additionally, the President may initiate a performance evaluation of the Chief Audit Officer ~~Director of Internal Audit~~ at the request of the Audit Committee or Chair of the committee. This administrative reporting relationship is meant to facilitate administrative activities and does not diminish the Chief Audit Officer's ~~Director of Internal Audit's~~ reporting relationship to the Audit Committee and the Board of Trustees.
- Review and approve the appointment, compensation, reassignment, or dismissal of the Chief Audit Officer ~~Director of Internal Audit~~ review and approve the compensation and termination of internal audit staff.

Risk, Internal Control and Compliance

- Consider the effectiveness of management's internal control system and compliance with laws and regulations, including computerized information system controls and security.
- Understand the scope of internal and external auditors' reviews of internal controls over financial reporting.
- Make recommendations to improve management's internal control and compliance systems to ensure the safeguarding of assets and prevention and detection of errors and fraud. The components of the control system are:
 1. control environment—creating a culture of accountability;
 2. risk assessment—performing analyses of program operations to determine if risks exist;
 3. control activities—taking actions to address identified risk areas;
 4. information and communication—using and sharing relevant, reliable, and timely information; and
 5. monitoring—tracking improvement initiatives and identifying additional actions needed to further improve program efficiency and effectiveness.
- Review and evaluate risk assessments performed by management of Austin Peay State University.

Fraud

- Ensure that the Board, and the management and staff of the Board and Austin Peay State University take all reasonable steps to prevent, detect, and report fraud, waste and abuse.
- Formally and regularly inform management of their responsibility for preventing,

- detecting, and reporting fraud, waste and abuse.
- Establish a process for employees, taxpayers and other citizens to confidentially report suspected illegal, improper, wasteful or fraudulent activity.
- Inform the Comptroller of the Treasury of assessments of controls to reduce risks of fraud.
- Promptly report indications of fraud to the Comptroller of the Treasury.

Other

- Review and assess the adequacy of the Audit Committee's charter annually, requesting Board approval for proposed changes.
- Ensure the receipt, retention and resolution of complaints regarding accounting, internal controls or auditing matters.
- Review the university's Code of Conduct policy to ensure it is readily available to all employees, easy to understand and implement, enforced and provide a confidential means of reporting violations. The Code of Conduct should remind management and staff of the need to:
 1. Maintain the highest level of integrity in regards to financial operations.
 2. Avoid preparing or issuing fraudulent or misleading information.
 3. Protect university assets from fraud, waste or abuse.
 4. Comply with all relevant laws, rules, policies and procedures.
 5. Avoid engaging in activities which would otherwise bring dishonor to the university.
- Review the Board's policy regarding conflict of interest to ensure that "conflict of interest" is clearly defined, guidelines are comprehensive, annual signoff is required for those in key positions and procedures are in place to ensure potential conflicts are adequately resolved and documented.

Membership

Tennessee Code Annotated, Section 49-8-201, includes the requirements for the appointment and terms of public members of the Austin Peay State University Board of Trustees. From this membership, the Audit Committee and its chair shall be nominated annually by the Board Chairman and approved by the Board. The Audit Committee shall consist of at least one member, preferably the chair of the committee, who shall have accounting and financial management expertise and other members who are generally knowledgeable in financial, management, and auditing matters. In addition to the Trustees nominated to the committee, the Board may select one or more certified public accountants or other qualified citizens who are not members of the Board to serve on the Audit Committee. The committee shall have at least three members.

Independence

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

Education

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

Meetings

The Audit Committee shall meet as necessary, but at least annually. Minutes of these meeting should be maintained. The committee may invite management, auditors, or others to attend and provide relevant information. Meeting agendas will be provided to members in advance, along with appropriate briefing materials. Minutes will be prepared. A majority of the members of the committee shall constitute a quorum for the transaction of business. The committee shall also meet at the request of the Comptroller of the Treasury.

The Audit Committee shall follow the public notice requirements of the Board. All meetings of the Committee shall be subject to the open meetings provisions of *Tennessee Code Annotated*, Title 8, Chapter 44, except that, as provided by *Tennessee Code Annotated*, Section 4-35-108(b), the committee may hold confidential, nonpublic executive sessions to discuss:

1. Items deemed not subject to public inspection under *Tennessee Code Annotated*, Sections 10-7-503 and 10-7-504, and all other matters designated as confidential or privileged under this code;
2. Litigation;
3. Audits or investigations;
4. Information protected by federal law, and
5. Matters involving information under *Tennessee Code Annotated*, Section 4-35-107(a), where the informant has requested anonymity.

Source: March 30, 2017 Board of Trustees meeting

Agenda Item: B.

Date: March 8, 2018

Subject: Revised Internal Audit Charter

Action Recommended: Voice Vote

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 was been signed by the President and the Chief Audit Officer on December 14, 2017. The charter contains two revisions. The first, as with the Audit Committee Charter, is updating the Chief Audit Officer job title from the previously used title of Director of Internal Audit. The second revision is more substantive. In January 2017, the Institute of Internal Auditors (IIA) added "Core Principles for the Professional Practice of Internal Auditing" to the list of items the office of Internal Audit is required to follow. The revised charter references this new guidance in the section titled, "Audit Standards and Ethics".

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 Chief Audit Officer 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 policy, *Internal Audit*, the Chief Audit Officer reports functionally to the Audit Committee of the Board and reports to the President for administrative purposes.

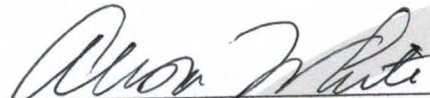
The internal auditing services provided by Internal Audit are reported directly to the President and the Audit Committee of the Board. All audit work is summarized in timely written reports distributed to management to ensure that the results are given due consideration. In addition to management, reports 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.

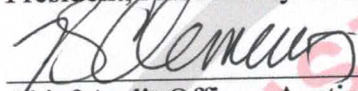
Periodic Review of Internal Audit Charter

This charter will be periodically assessed by the Chief Audit Officer 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.



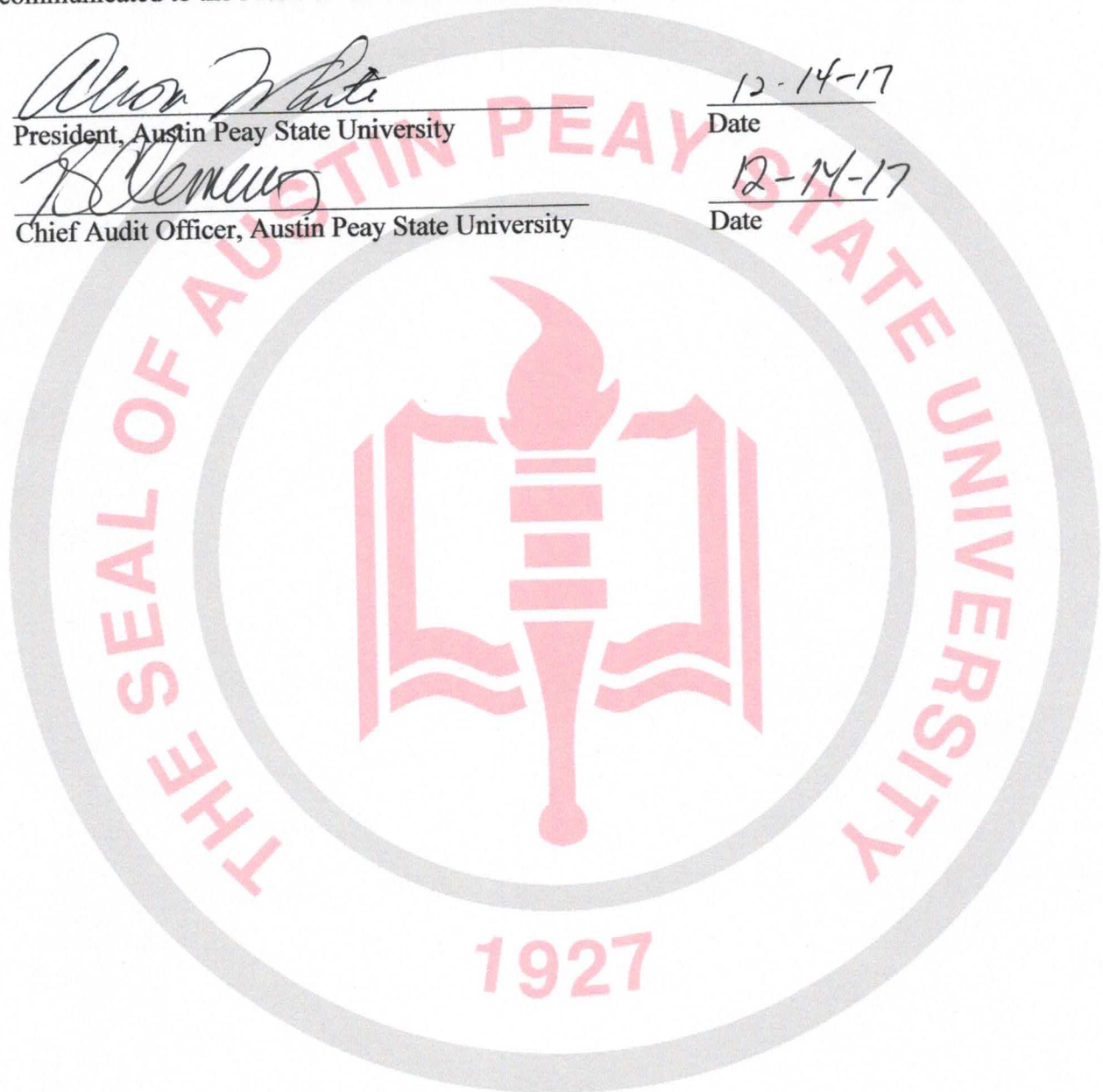
President, Austin Peay State University

12-14-17
Date



Chief Audit Officer, Austin Peay State University

12-14-17
Date



Agenda Item: C.

Date: March 8, 2018

Subject: Revised Internal Audit Policy

Action Recommended: Voice Vote

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).

As with the previously discussed Internal Audit Charter, the policy was revised to address job title changes and additions to the mandatory guidance promulgated by the Institute of Internal Auditors (IIA). Additionally, language was added to clarify that the Audit Committee is a standing committee of the Board of Trustees.

The policy was approved by the university's Policy Review Committee and signed by the President on February 1, 2018. 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

Issued: May 19, 2017

POLICIES

Responsible Official: ~~Director of Internal Audit~~ Chief Audit Officer

Responsible Office: Office of Internal Audit

Policy Statement

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.

Purpose

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

Contents

Procedures

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

Procedures

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* (*Standards*), *Core Principles 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 Board of Trustees 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~~ Chief Audit Officer 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~~Chief Audit Officer 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~~the Chief Audit Officer 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~~Chief Audit officer requires 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~~Chief Audit Officer 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 [Board of Trustees](#) 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, the Board of Trustees Audit Committee 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 Board of Trustees 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 Board of Trustees 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 [Board of Trustees](#) 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~~ Chief Audit Officer and transmitted directly to the President in a timely manner.
- F. The ~~Director of Internal Audit~~ Chief Audit Officer will present significant results of internal audit reports to the [Board of Trustees](#) Audit Committee quarterly.

G. The ~~Director of Internal~~Chief Audit ~~Officer~~Officer-Audit will provide a copy of each report to the Comptroller's Office, Division of State Audit.

Revision Dates

APSU Policy 1:015 (previously 4:001) – Rev.: May 19, 2017
 APSU Policy 1:015 – Rev.: March 28, 2017
 APSU Policy 1:015 – Rev.: September 14, 2015
 APSU Policy 1:015 – Rev.: October 21, 2011
 APSU Policy 1:015 – Issued: October 7, 2002

Subject Areas:

Academic	Finance	General	Human Resources	Information Technology	Student Affairs
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Approved

President: signature on file

Agenda Item: D.

Date: March 8, 2018

Subject: Revised Reporting Fraud, Waste and Abuse Policy

Action Recommended: Voice Vote

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.

As with the previously discussed Internal Audit Charter and Internal Audit Policy, this policy was revised to address job title changes and additions to the mandatory guidance promulgated by the Institute of Internal Auditors (IIA).

The policy was approved by the university's Policy Review Committee and signed by the President on February 1, 2018. 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

Issued:

POLICIES

Responsible Official: ~~Director of Internal Audit~~Chief Audit Officer

Responsible Office: Office of Internal Audit

Policy Statement

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.

Purpose

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

Contents

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

Definitions

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.

Procedures

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~~ Chief Audit Officer of the acknowledged or suspected fraud or misconduct.
5. The ~~Director of Internal Audit~~ Chief Audit Officer 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.

F. 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~~Finance and Administration
 3. ~~Internal Audit Director~~Chief Audit Officer
 4. ~~Office of Campus Police~~Public Safety (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.

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**

Revision Dates

APSU Policy 1:016 (previously 4:003) – Rev.:
APSU Policy 1:016 – Issued: March 28, 2017

Subject Areas:

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

Approved

President: signature on file

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)

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 _____**

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

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 [P](#)resident 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.

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
Fraud, Waste or Abuse (FWA)							
Any Resource	Any Amount	Yes	Yes	Physical Property Only	Yes	Yes	Covered Physical Property \geq \$25,000
Non-FWA							
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: E.

Date: March 8, 2018

Subject: Revised Internal Audit Plan

Action Recommended: Voice Vote

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 auditable areas. The Audit Committee approved the FY2018 Internal Audit Plan on September 14, 2017.

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.

The revised FY2018 Internal Audit plan is attached. When creating the Internal Audit Plan at the beginning of the fiscal year, time budgets were estimated. Depending on the complexity of the review or severity of the issues discovered during the review, time budgets may be revised. As time budgets are increased, less time resources are available for other planned audits. The most significant change is four reviews were removed due to a lack of time resources.

Proposed Implementation Date: Immediately

Item Details: N/A

Austin Peay State University
Internal Audit Plan
Fiscal Year Ended June 30, 2018
Revised February 9, 2018

Rank	Type	Area	Audit	Current Year Budget		Change Hours		Completion Date	Current Status
				Original	Revised				
Required	R	FM	President's Expenses	150	150	0		September 22, 2017	Completed
Required	R	AT	OVC Special Assistance Fund	115	115	0		August 23, 2017	Completed
Required	F	FM	State Audit Follow-Up	50	50	0		July 31, 2017	Completed
Required	M	IA	Risk Assessment	100	250	150	(1)		In Progress
Required	P	IS	Quality Assessment Review	150	150	0			In Progress
Investigation	I	IS	Unscheduled Investigations	300	0	(300)	(2)		
Carryforward	A	FM	Purchasing - Master Vendor List	60	60	0		August 14, 2017	Completed
Carryforward	I	IA	APSU 17-08 (not FWA)	50	50	0		July 19, 2017	Completed
	I	FM	APSU 18-01	0	40	40		August 9, 2017	Completed
	I	FM	APSU 18-02	0	30	30		November 1, 2017	Completed
	I	FM	APSU 18-03	0	30	30		November 21, 2017	Completed
	I	FM	APSU 18-04	0	150	150			In Progress
	F	IS	Internal Audit Follow-up	100	50	(50)	(2)		In Progress
	C	IS	General Consultation	150	75	(75)	(2)		In Progress
	S	SS	Internships/Career Services	120	0	(120)	(4)		Removed
	S	IT	Disaster Recovery	50	150	100	(3)		
	S	SS	Disability Services	120	120	0			
	S	IT	Data Security	75	75	0			In Progress
	A	PP	Construction and Design	200	200	0			
	A	FM	Travel Cards	120	250	130	(1)	January 31, 2018	Completed
	A	FM	Cash Receipting	100	100	0		February 9, 2018	Completed
	A	FM	Purchasing	75	0	(75)	(4)		Removed
	A	PP	Building Security/Key Control	100	250	150	(1)		In Progress
	A	IS	Institutional Scholarships	150	0	(150)	(4)		Removed
			Totals	2335	2345				

Estimate-Hours Available For Audits = 2245 (2 audit staff)

T--Tie

TBD-To Be Determined

Audit Types:	Functional Areas:	Status:
R - Required	AD - Advancement	Scheduled
A - Risk-Based (Assessed)	AT - Athletics	In Progress
S - Special Request	AX - Auxiliary	Completed
I - Investigation	FM - Financial Management	Removed
P - Project (Ongoing or Recurring)	IA - Instruction & Academic Support	
M - Management's Risk Assessment	IS - Institutional Support	
C - Consultation	IT - Information Technology	
F - Follow-up Review	PP - Physical Plant	
	RS - Research	
	SS - Student Services	

Footnotes:

1 - Budget estimates were increased or decreased based on the final determination of the scope of the project.

2 - Time budgets are created for follows ups, consultation and unscheduled investigations. As the year proceeds, these budgets are increased/decreased based on the actual time being spent on the projects.

3 - The time budget for this review was increased after discussing the scope in more detail with the Chief Information Officer. Given the changing nature of the review, it was reclassified from a risk based audit to a special request of management.

4 - This review was removed from the FY2018 audit plan due to lack of resources available.

Agenda Item: A.

Date: March 8, 2018

Subject: Internal Audit Reports and Listing of Outstanding Audit Recommendations

Action Recommended: Informational Item

Background Information:

A list of audits completed between November 7, 2017 and February 12, 2018 is included below. A detailed description of each type of audit and the audit reports follow this transmittal page.

1. Travel Card Review, January 31, 2018
2. Review of Cash Handling Process, February 9, 2018

With all recommendations included in audit reports, management must identify what actions will be taken, who is responsible for that action and provide an expected date of completion. After the expected completion date has passed, Internal Audit will perform a follow-up review to determine what 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 also included after this transmittal.

Proposed Implementation Date: N/A

Item Details: N/A

APSU - Status Report on Outstanding Internal Audit Recommendations as of February 12, 2018

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
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. 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 - Repurpose Duties of Existing Staff</p> <p>Consider repurposing the duties of existing business office staff to increase the investment of resources dedicated to collection efforts.</p>	Bursar	2/1/18	In Progress	NA
4/28/17	<p>Review of Cheerleading Invoices - Agreement Needed</p> <p>No formal agreement exists between the university and the off campus gym utilized for cheerleading practice. 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	Orig. 8/31/2017 Revised 12/31/17	In Progress	NA
8/23/2017	<p>OVC SAF 2017 - Address Timing Issues</p> <p>Internal Audit made adjustments to the FY 2016-2017 Report of Student Assistant Fund Financial Activity. Expenditures were understated by \$662.05 due to tutoring expenses that were charged to the account after the report was submitted. Due to this adjustment, the balance of funds on hand at June 30, 2017 should have been \$79,718.95. Management should report this expense to the OVC/NCAA and use the correct beginning balance (\$79,718.95) on the FY 2017-2018 Report of Student Assistance Fund Financial Activity.</p>	Director of Athletic Compliance	6/30/2018	Not Due Yet	NA

APSU - Status Report on Outstanding Internal Audit Recommendations as of February 12, 2018

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
1/31/2018	<p>Travel Card Review - Dedicate More Resources to Review Travel Transactions in Athletics</p> <p>The Athletic Director should consider allocating more resources to review and approve travel card transactions.</p>	Athletic Director	1/31/2018	In Progress	NA
1/31/2018	<p>Travel Card Review -Strengthen Internal Controls</p> <p>The Office of Procurement and Contract Services should:</p> <ul style="list-style-type: none"> -continue their training efforts to educate the travel card holders on the programs requirements and communicate to the managers what their review should include; -continue their increased monitoring of travel card transactions for compliance with established requirements; -establish consequences for non-compliance, communicate these expectations to travel card holders, and enforce consequences as necessary. <p>Additionally, management should take necessary steps to ensure the manager approving the travel/procurement card transactions and the travel claims of an employee.</p>	Various	6/30/2018	Not Yet Due	NA

Austin Peay State University
Review of the Cash Handling Process
Executive Summary Report
February 9, 2018

Key Staff: Bursar and Head Cashier	Auditor: Blayne M. Clements CIA, CFE, CRMA
<p>Introduction: The Student Account Services and Cashier's Office (formerly known as the Bursar's Office) is responsible for the collection and control of cash at the university. Only preauthorized departments with approved activities can collect or receive money or operate a petty cash fund. Departments not authorized to receive cash must direct the payer to the Cashier's Office, located on the first floor of the Ellington Building. The use of an unauthorized checking account or other account for depositing university cash is strictly prohibited.</p> <p>The Office of University Advancement handles the receipt of foundation funds and were not considered within the scope of this review.</p>	
<p>Objectives: To determine whether adequate controls are in place and functioning to ensure cash is properly safeguarded and accurately recorded. To determine if management is monitoring cash operations as described in university policy 4:011, <i>Cash Handling</i>. To search for unauthorized bank accounts which are using the university federal employer identification number (EIN).</p>	
<p>Scope: Cash Handling Process in effect December 2017-January 2018</p>	
<p>Audit Conclusion: Based on audit tests performed, adequate controls are in place and functioning properly to ensure cash is properly safeguarded and accurately recorded. However, the audit did discover two unauthorized bank accounts which were using the university's EIN number.</p> <p>The first account was related to a university athletic team. The account appears to have been created in 2003 and last used in 2011. The Office of Internal Audit worked with the Athletic Department and the Business Office to close the account and ensure the funds, \$699.85, were properly deposited and recorded in an authorized university account. The second account was related to a student group and was not university funds. The Office of Internal Audit is working with the department related to the student group and the Business Office to close the account.</p>	

Austin Peay State University
Travel Card Review
Executive Summary Report
January 31, 2018

Key Staff: Director of Purchasing/Assistant Athletic Director- Business Affairs	Auditor: Beth Chancellor, Internal Auditor
<p>Introduction: To assist employees and make the travel expense process more efficient, the university implemented the travel card program in July 2017. Certain travel related expenses can be paid directly by the employee using their university assigned travel credit card instead of the employee using a personal credit card, requesting a travel advance or submitting a purchase order. To streamline the operations of the Office of Procurement and Contract Services, management largely decentralized monitoring compliance of the travel card program to the department level.</p> <p>In the first three months of the program, travel cards were used for 767 transactions, totaling \$182,170. The Athletics Department is the largest user of the travel cards, accounting for 508 (66%) of the transactions, totaling \$136,484 (75%). The travel card holder responsibilities include uploading a copy of the related receipt to the bank website and approving the transaction on the bank website. A designated manager is to approve the transaction to ensure the purchase was proper and adequately supported by the uploaded receipt.</p>	
<p>Objectives: The objective of the review was to determine if travel card program controls are adequate and in place to ensure the travel card process is working efficiently and effectively.</p>	
<p>Scope: July 1, 2017 – September 30, 2017</p>	
<p>Observation 1: Internal Controls Over the Use of Travel Cards Should be Strengthened</p> <p>The audit discovered a high error rate of non-compliance with the established travel card procedures. This appears to be due to several factors including lack of monitoring, inadequate training, and challenges with the bank website.</p> <p>The Office of Procurement and Contracts Services only performed detailed monitoring of travel card transactions greater than \$10,000. Very few of the travel card transactions exceeded this amount, resulting in very little oversight of a department's compliance with established travel card procedures. During the course of this review, management requested that Procurement and Contract Services begin monitoring travel card transactions less than \$10,000. The Procurement and Contract Services now monitors travel card transactions to ensure receipts have been uploaded and approved on the bank website. The office also monitors for sales tax charges, excessive or unusual purchases, etc., and request additional information from cardholders when necessary.</p> <p>Some travel card holders commented the initial, mandatory training on the use of the card was not adequate. During the audit, the Office of Procurement and Contract Services started to offer more university wide, in-depth training sessions. Although attendance is voluntary, management stated training may become mandatory for travel card holders who repeatedly do not comply with the travel program requirements.</p> <p>The audit also revealed the manager approving an employee's travel card transaction may not be the manager approving the related travel claim or procurement card transaction. This increases the risk of a</p>	

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duplicate payment not being detected (i.e. a hotel bill paid via the employee's travel card or departmental procurement card and also reimbursed to the employee via a travel claim). Having the same manager approve the employee's travel card use and travel claims mitigates this risk of duplicative payments.

Additionally, the banking website had a limited window of time for users to upload receipts and for managers to approve the travel card transactions. During the audit, management worked with the bank to extend the window to six months.

Recommendation: The Office of Procurement and Contract Services should continue their training efforts and increase their monitoring of travel card transactions for compliance with established requirements. The training should educate the travel card holders on the program requirements and communicate to the managers what their review should include.

Consequences for non-compliance should be established, well communicated to travel card holders, and enforced as necessary. Management should take necessary steps to ensure the same manager is approving the travel/procurement card transactions and the travel claims of any employee.

Management's Response: We concur. The Office of Procurement and Contract Service has scheduled and performed additional training and will continue to do so on an ongoing basis, established a monthly process to monitor travel cards for tax charges and unusual expenses as well as compliance with procedures, and developed consequences for non-compliance with procedures which will be enforced as necessary. The Office of Procurement and Contract Services is also reviewing all travel card approvers and Accounts Payable will develop a process to ensure the same approver reviews travel claims and cardholder claims.

Observation 2: Increased Monitoring of Travel Card Transactions in Athletics is Needed

The audit discovered a high error rate of non-compliance with the established travel card procedures within the Athletics Department. Many of the factors for non-compliance described in Observation #1 also apply with the rate of non-compliance in the Athletics Department. As stated in the Introduction section above, the Athletics Department is the largest user of the travel card program. The Assistant Athletic Director for Business Affairs is responsible for reviewing and approving the travel card transactions. However, the volume of athletic travel card transactions (150-200 per month during the scope of the audit) presents a unique challenge. Given her workload, the Assistant Athletic Director for Business Affairs does not appear to have enough time to perform an adequate review of the transactions.

Recommendation: The Athletic Director should consider allocating more resources to review and approve travel card transactions.

Management's response: We concur. At the beginning of December 2017, the Athletic Director reassigned an employee to effectively function as a travel coordinator for the Athletics Department. This employee reviews and approves all athletic travel card transactions and travel claims, as well as providing support and advice to Athletic Department employees on travel related issues.

Audit Conclusion: Based on audit tests performed, it appears management has adequate controls in place to ensure travel cards are managed appropriately, except as noted in the observations above.

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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.

Agenda Item: B.

Date: March 8, 2018

Subject: Financial and Compliance Audit Report Fiscal Year 2017

Action Recommended: Informational Item

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, and
- A summary of the FY2017 Comptroller's audit results

Proposed Implementation Date: N/A

Item Details: N/A

Austin Peay State University**Audit Committee****March 8, 2018***Review of Comptroller's Audit Report issued February 21, 2018**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, 2017	Unmodified Opinion	Two internal control findings, both identified as significant deficiencies	No instances of noncompliance required to be reported	2
<p>Finding 1 – The university did not have adequate policies and procedures to prevent or detect and correct errors in enrollment reporting for the federal Direct Loan Program Federal regulations require a school to report enrollment status changes within a certain time frame. The audit discovered 36% of the tested Direct Loan borrowers who had status changes during FY2017 were not reported timely because staff provided the wrong file to the Registrar's Office.</p> <p>Management's Comment: Management concurred with the finding and recommendations. The Office of the Registrar has added two quality control steps to current procedures that will require the Office of the Registrar to 1) compare the file sent with the graduation list and 2) randomly check five (5) percent of the students on the list to confirm the correct file was submitted. Additionally, the Office of the Registrar will continue to work with the Office of the Provost to improve communication in order to ensure that faculty are aware of the deadlines and made aware of the importance of reporting changes in enrollment status.</p> <p>Finding 2 – The university did not return Title IV funds in compliance with federal regulations Federal regulations require scheduled breaks of at least five days be excluded from the return calculation. The audit tested 42 students who received Title IV aid and withdrew from classes during the 2016-17 award year and found the returns for 15 students (36%) were calculated incorrectly because the university did not exclude spring break from the return calculation. The error resulted in the university and some students returning more aid than required, while in other instances, the university and some students returned less than required. The net effect of these errors was \$615.</p> <p>Management's Comment: Management concurred with the finding and recommendation. The Office of Student Financial Aid has detailed procedures in place for calculating the return of Title IV funds; however, exclusion of break dates is part of the Office of the Registrar's annual set up in Banner when the academic calendar is developed.</p> <p>After discussion with the Office of the Registrar, a review of scheduled breaks has been added to their annual set-up procedures. In turn, the Office of Student Financial Aid has added a step to its annual new aid year set-up procedures to send a reminder to ensure these break dates are entered in the student module when the academic calendar dates are established.</p> <p><i>Internal Audit Follow up: An internal audit follow-up report will be completed by the Office of Internal Audit.</i></p>				

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

The Comptroller's Office, 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 Control¹

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 Deficiency¹

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 Weakness¹

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 Reported²

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.

¹ 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.

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