

THE UNIVERSITY OF MEMPHIS
BOARD OF TRUSTEES

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

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

I. CALL TO ORDER

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

II. ROLL CALL AND DECLARATION OF QUORUM

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

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

*Voting members

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

III. AGENDA ITEM 3: COMMITTEE CHAIR

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

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

IV. AGENDA ITEM 4: Leadership Transition

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

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

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

V. AGENDA ITEM 5: Tennessee Financial Integrity Act Overview

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

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

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

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

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

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

VII. AGENDA ITEM 7: External Audit Overview

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

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

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

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

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

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

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

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

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

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

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

X. AGENDA ITEM 10: Additional Committee Business

There was no additional committee business.

XI. ADJOURNMENT

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

Respectfully Submitted,

Jeanine H. Rakow
Coordinator of the Board Office