BUSINESS AFFAIRS SUB-COUNCIL

January 28, 2004

MINUTES

The meeting began at 9:00 a.m. in the TBR Board Room. Present were Ms. Tammy Swenson, Chairperson (CSTCC); Ms. Debra Bauer (NSCC); Mr. Horace Chase (JSCC); Dr. David Collins (ETSU); Mr. John Cothern, (MTSU); Dr. Ashok Dhingra (STCC); Mr. Bill Fuqua (RSCC); Mr. Danny Gibbs (VSCC); Mr. Mike Gower (MTSU); Mr. Clay Harkleroad, Jr. (TSU); Mr. Ken Horner (COSCC); Dr. Charles Hurley (CLSCC); Mr. Al Irby (APSU); Ms. Rosemary Jackson (WSCC); Dr. Julian Jordan (WSCC); Mr. Ron Kesterson (PSTCC); Mr. Charles Lee (UOM); Ms. Linda Maxwell (TTU); Mr. Mike Posey (MSCC); Ms. Susan Rains (STCC); Mr. Terry Rector (TTU); Mr. Mitch Robinson (APSU); Dr. Claire Stinson (NSTCC); Ms. Velma Travis (DSCC); Mr. David Zettergren (UOM); Mr. Greg Wilgocki (ETSU); Dr. Bob Adams, Ms. Kathy Crisp, Ms. Deanna Hall, Ms. Lisa Hall, Mr. Raja Kodali, Ms. Ann Rutland, Mr. Ron Simmons, Mr. Sam Smith, Ms. Renee Stewart and Ms. Nancy Washington. (TBR).

Ms. Swenson called the meeting to order. Velma Travis and Ashok Dhingra were introduced as the new chief business officers at DSCC and STCC, respectively.

BUSINESS

1. **Great-West Retirement Services Presentation**

Mr. John Reeder, a senior account executive with Great-West Retirement Services, discussed recent reforms to the 457 pension plan. These reforms include allowing changes to distribution methods and eliminating the penalty for early distributions. A more detailed discussion of these changes can be found at Great-West's website.

Mr. Reeder also discussed the training sessions he conducts at state agencies and TBR campuses. He is available to conduct a training session at any campus and is requesting suggestions for increasing attendance at these sessions. Mr. Reeder can be contacted at 615-244-1030 or john.reeder@gwl.com.

2. **Lottery Impact on Deferred Payment and Tuition Discount Programs**

Dr. Adams gave a brief overview of how lottery scholarships will work when combined with other financial aid. The total cost of attendance will be compared to the total financial aid package, including lottery scholarships. If the total cost of attendance exceeds the total financial aid package, the students will receive the entire lottery scholarship. This may result in students receiving cash proceeds at registration. If the total financial aid package exceeds the total cost of attendance, the lottery scholarship will be reduced first.

The BASC inquired if lottery scholarship proceeds could be used to offset discount programs not fully funded by the State. Dr. Adams stated that he had discussed this issue during the development of the lottery rules and was denied.

The BASC discussed the impact lottery scholarships will have on the TBR deferred payment program and the state employee and spouse/dependent tuition discount programs. The deferred payment program will treat the lottery scholarship as any other scholarship. All scholarship proceeds are applied first, 50% of the remaining balance must be paid at registration, and the remaining balance is paid in two installments during the course of the semester.

Dr. Adams questioned whether the lottery will require additional staff in financial aid, the bursar's office, the business office, or other areas. Any additional positions needed and the approximate cost should be forwarded to the TBR Business Office for use when discussing lottery issues during the legislative session.

3. Report of the Finance Committee

Dr. Collins highlighted the following issues from the January 13, 2004, Finance Committee meeting.

A. Foundation Financial Issues

Chancellor Manning opened the discussion by noting that the foundation-related bills filed by legislators are in response to issues noted during the Shumaker investigation. TBR will want to take actions that clearly demonstrate the arms-length relationship that exists between institutions and foundations, otherwise, legislators may determine that foundation money is no different than state money and should be subject to the same regulations.

The Finance Committee developed a paper discussing the advantages and disadvantages of establishing separate bank accounts for foundation funds (see Attachment A). Ms. Washington expanded upon the advantages listed by noting that courts have used the commingling of funds as a factor when determining if foundations are separate entities from institutions. In many cases, the commingling of funds has led the court to determine that the two are one entity, subjecting the foundation to state regulations and open records laws.

The ramifications of institutional employees serving on the foundation boards were discussed. To avoid the appearance of a conflict of interest, institutional employees should not be voting members of the foundation boards. While a president may make requests of a foundation, a president should not direct the activities of a foundation.

The Finance Committee paper also included recommendations to strengthen the existing TBR foundation policy. Mr. Robinson requested that the TBR Central Office develop a format for the agreement between the institution and the foundation. Dr. Adams stated that he will work with TBR legal counsel to develop a standard format.

The BASC determined that the TBR foundation policy will be revised at the Spring meeting and a decision regarding separate bank accounts will also be made at that time.

B. Policy 4:02:10:00 Purchasing Policy

The Finance Committee recommended revising the library bidding exception in the purchasing policy to include a provision for electronic subscriptions (see Attachment B). Sole source documentation will be required, as well as the approval of the Fiscal Review Committee for noncompetitive contracts exceeding $249,999. It was noted that the $249,999 amount is cumulative for all contract years.

C. Inventory of Library Materials

State Audit approved the TBR position paper that advocated deleting the requirement of an annual inventory of library materials. The Finance Committee recommended the attached revisions to Policy 4:05:01:01 (see Attachment C).

D. Guideline B-060 Fees, Charges, and Refunds

The Finance Committee discussed the provisions for miscellaneous course fees and when Board approval is required. To avoid inconsistent interpretations of these provisions, the Committee recommended deleting all provisions after the first sentence and instructed institutions with miscellaneous course fees that have not received Board approval to submit those fees with their FY 2004-05 incidental fee requests.

The BASC inquired about RODP-related course fees. Dr. Adams instructed the Finance Committee to review this issue at the April meeting, but noted that the Board would probably need to approve these type fees.

The BASC approved the Finance Committee's recommended revisions with the following exception: Fees related to off-campus facilities or services will not require Board approval. This change has been incorporated into the proposed revisions to Guideline B-060 (see Attachment D).

E. 5% Contingency Allocation for Auxiliaries

The Finance Committee discussed whether institutions with contracted-out auxiliaries should be required to establish a 5% contingency allocation in the proposed and revised budgets. The committee determined that the contingency is required to fund unforeseen operational problems and should continue to be required in the budgets.

This issue was discussed further at the BASC and it was determined that the 5% contingency allocation will be optional for contracted-out auxiliaries.

F. SACS Core Requirement 11(c)

The Finance Committee discussed the SACS core requirement of an audited statement of financial position of unrestricted net assets, exclusive of plant assets and plant-related debt. This statement is not one of the statements required by GASB 34/35 and is not audited by State Audit. Dr. Collins stated that he has spoken with representatives from SACS and the word "audited" will be deleted from this requirement.

G. Waiver of Certain Mandatory Fees for Off-Campus Students

MTSU is considering waiving the recreation fee, general access fee (except TAF) and debt service fee for students enrolled in a graduate program at an off-campus site in West Tennessee. MTSU felt that consideration for consistent application of this type waiver across the system would be appropriate. The Finance Committee discussed the proposal, but determined that a system-wide waiver was not appropriate. Individual institutions may request and justify waiver proposals for their campus, but a blanket waiver will not be considered at this time.

H. Remedial Fee Distribution

APSU and NSCC have an agreement in which NSCC teaches remedial courses for APSU students. NSCC receives 50% of student fees and keeps the FTE. APSU keeps 50% of the fees for the services APSU performs, such as registration, admissions, financial aid, etc. The Finance Committee discussed whether APSU should record the remission of student fees to NSCC as an expense or a contra-revenue. The Committee recommended recording the remission of fees to NSCC as a contra-revenue since the FTE belongs to NSCC.

The Finance Committee minutes were approved with the revisions noted above.

3. <u>Report of the Human Resources Officers Committee</u>

Debbie Johnson highlighted the following issues from the January 20, 2004, Human Resource Officers meeting.

A. Policy 5:01:01:01 Annual Leave

The HR Officers recommended revising Policy 5:01:01:01 to clarify that employees who retire to prevent termination for gross misconduct will not receive payment of unused annual leave. Additional housekeeping changes were also recommended to correct grammatical errors.

B. Guideline P-040 Optional Retirement Program

The HR Officers recommended revising Guideline P-040 to clarify eligibility requirements for employees transferring membership from the Tennessee Consolidated Retirement System to the Optional Retirement System.

C. Guideline P-120 Longevity

The HR Officers recommended including examples with the faculty retirement provisions outlined in the guideline. The BASC felt that the current guideline is sufficient and the examples were not needed.

D. Temporary Employment Forms for ORP Retirees

Ms. Johnson reported that the temporary employment forms for ORP retirees have been consistently returned to the campuses by TCRS. Ms. Johnson will work with Ed Hennessee to resolve this problem.

E. Compensation

Ms. Johnson updated the BASC on the status of the non-exempt pay plan. The target date is June 1, 2004. The plan is scheduled to have 38 core job titles. These titles will serve as benchmarks to help determine the appropriate skill level for a position using a point-factor analysis process. The BASC requested that any plan implemented not include a cumbersome approval process for the campuses.

The Human Resource Officers Committee minutes were approved.

4. Report of the GASB Committee

Dr. Collins discussed the upcoming GASB 39 training. The training will be held February 11th and 12th in Knoxville and will part of the SACUBO drive-in workshop program. The second day will be tailored to TBR needs and will include a presentation on the recasting of ETSU's FY 03 statements as well as GASB 34/35 follow-up training. All institutions will be required to recast their FY 03 statements by March 31, 2004. The TBR Central Office strongly recommends that each institution send at least one person responsible for preparing the financial statements to this training. Registration materials can be found on SACUBO's website at www.sacubo.org.

Dr. Collins also discussed the GASB 39 position paper TBR will submit to State Audit (see Attachment E). The position paper addresses the criteria used to determine which affiliated entities will be considered component units, how these component units will be reported, component unit note disclosures, and how transactions between the primary unit and the component unit will be computed.

5. Guideline B-050 Internal Audit

Dr. Adams discussed revising Guideline B-050 to include provisions for two-year institutions that have an agreement with a university or other two-year institution to provide required audit services (see Attachment F).

Dr. Adams also stated that this guideline will need major revisions when the proposed legislation regarding internal audit is finalized and adopted. We expect the legislation to require a standing audit committee of board members, a director of internal audit housed at the TBR Central Office, and a possible organizational structure that includes all TBR internal auditors reporting to the Director of Internal Audit and the Director reporting to the Board Committee. The Director of Internal Audit will formally present all internal audits at the quarterly board meetings, be responsible for auditing the TBR Central Office, and be responsible for hiring internal auditors at the campuses. Additionally, this position will be expected to spend a lot of time at the campuses assisting internal audit staff.

6. Other Business

- Mr. Kesterson discussed his experience with the Horizon representatives. The Horizon representatives do not agree with the documentation requirements set forth by State Audit and have told some campuses that these requirements are not correct. Dr. Adams has requested that Horizon submit their disagreements in writing and he will convene another meeting with State Audit.
- Raja Kodali and Sam Smith discussed the problems that have arisen with the program that calculates the tax for longevity payments based on the employee's W-2. The program appears to work properly unless an employee has additional withholdings or extra compensation. The BASC requested that Mr. Kodali and Mr. Smith continue to eliminate these problems so that campuses can tax longevity at the W-2 rate and not the flat 25% rate.
- Dr. Adams discussed the new guidelines adopted by the State for using the state plane. Any spouse traveling on the state plane must now be paid for by the state employee. The guideline applies to all state-owned planes, including those owned by universities, and applies to athletic directors and coaches. The guideline prohibits the foundations from paying this cost.
- Dr. Adams requested that campuses be very careful in accepting anything from vendors. Any gift should not cause a state employee to gain a benefit. Food items at Christmas may be allowable if the food is shared among the employees. The Comptroller's Office may issue guidance on this subject soon.
- Dr. Adams discussed the recent information collected from the campuses regarding bookstore operations. There was a wide disparity in the mark-up percentages reported. Dr. Adams requested that campuses review their mark-up percentage and ensure that it was calculated on cost, not retail. Any revisions should be forwarded to Renee Stewart.
- Dr. Adams discussed a revision to Policy 3:04:01:00 Student Scholarships, Grants, Loans, and Financial Aid Programs (see Attachment G). This revision will change the wording in the policy regarding the 10% maximum calculation for institutional scholarships. The revised wording will state that the 10% is calculated on total tuition and fees, not maintenance fees only.
- Dr. Adams updated the BASC on the status of the ERP. We have received the results of the Comptroller's review and Ann Rutland is working with a small group of campus personnel to incorporate their suggestions.
- Dr. Adams informed the BASC of a recent meeting he had with an IRS auditor. The IRS auditor offered to do a workshop in each of the three regions of the state to address taxation issues of concern to higher education. It was recommended that campuses send an HR employee and a payroll employee to these workshops.

There being no further business, the BASC adjourned.

ATTACHMENT A

(ii) The goods or services to be procured;

(iii) The specific requirement of this policy believed to be satisfied by the subject procurement;

(iv) The justification for non-competitive negotiation detailing sound, business reasoning why a competitive procurement is not appropriate and why non-competitive negotiation is in the best interests of the institution;

(v) The maximum cost of the non-competitive procurement; and
(vi) The contract duration.

C. Purchases for Resale in Auxiliary Enterprises

Purchases of items for resale shall be made as follows:

1. Textbooks and other course related materials may be purchased without adherence to Section IV of this Policy, Minimum Notice and Number of Bids. All textbook ordering lists and authorization forms must be maintained for audit purposes.

2. Certain items for resale for which customers have expressed a preference, and/or promotional items procured under accepted retail merchandising practices, may be purchased without adherence to Section IV of this Policy, Minimum Notice and Number of Bids. Appropriate documentation shall be maintained which supports the action taken.

D. Purchases for Libraries, Excluding Materials and Supplies Identified for Consumption by the Library

Purchases of materials for additions to a library collection include cost of books, catalogs, periodicals, binding, audio-visual media, and other general publications. These items are capital expenditures. Each institution and technology center shall be responsible for developing purchasing policies and procedures for the library. These purchases may be made without formal bids or quotations, and appropriate documentation shall be maintained on these purchases to support sole source procurement.

Purchases of electronic subscriptions for libraries may also be made without formal bids or quotations. Appropriate documentation must be maintained for these purchases to support sole source procurement. Additionally, these items may require the approval of the Fiscal Review Committee if the purchase exceeds the Fiscal Review Committee threshold.

E. Acquisition of Computer Systems

Acquisition of computer systems involving the purchase of hardware with the development of application software shall be made in accordance with TBR Guideline B-030, Acquisition of Data Processing Equipment/

ATTACHMENT B

FOUNDATIONS

Pros and Cons of Separate Bank Account and Recommendations for Improvement to Policy

The Finance Committee was asked to provide input to the BASC regarding pros and cons of requiring Foundation bank accounts to be separate from University accounts. The committee was also asked to review how the policy on Foundations might be strengthened.

Separate Bank Account

Pros

- Enhances an image that the foundation is separate from the University
  - Legal issues
  - View of the Layperson
- Better audit trail on transfers of funds
- Less chance for overdraft

Cons

- Additional Work
  - Bank Reconciliations
  - Check Runs
  - JV Batching
- Additional Costs
  - Checks
  - Bank Fees
  - Additional computer runs
  - Personnel
  - Credit card machines

Recommendations

POLICY 4:01:07:02

5.1 The policy should be modified to include the specific responsibilities and services that should be addressed in the “agreement” between the foundation and the institution. Although policy requires an agreement, it is not stated what should be in the agreement. At a minimum, I feel the following items should be required:

1. The agreement should state that the institution’s personnel, i.e., vice president for business, should be provided access to the financial records of the foundation if these records are not maintained on the institution’s financial reporting system.
2. The agreement should require the foundation to develop a spending policy for endowed scholarships that ensures that liquid assets will be available to fund the scholarships prior to the award of the scholarships. Restricted scholarships should only be awarded if sufficient legal obligation has been obtained from the donor of the funds, i.e., cash has been received or the pledge and/or account receivable will be collected within a reasonable timeframe and other foundation cash is available to support the expenditure prior to its disbursement.
3. The foundation should be required to transfer cash, or provide assurance cash is available, to the institution in an amount sufficient to cover scholarships prior to the disbursement of the scholarship awards.
4. The executive director of the foundation should be provided monthly accounting reports if the institution maintains the foundation’s records.
5. The executive director of the foundation and the institution’s vice president for business should meet at least quarterly to review the foundation’s financial records.
6. The agreement should state that the institution will refuse to make requested disbursements for the foundation if sufficient cash is not available to support the disbursement or if the request is not properly supported by budget.
7. The agreement should state that the institution will bill the foundation within 30 days of the institution incurring expenses that are reimbursable by the foundation and the foundation will pay the invoice upon receipt.

5.2 The vice president for business should be included on the membership of the foundation’s executive body or at least an ex officio member of the finance committee or other committee that is responsible for the foundation’s financial affairs.

The foundation’s budget should include a revenue budget to support proposed expenditures. Both the foundation executive committee and the institution’s personnel should approve the foundation budget. Scholarship awards should be estimated for the fiscal year and supported by revenues or cash already available to expend. A budget comparison report showing budget to actual expenditures should be provided to both the foundation’s executive committee and the institution’s president at least quarterly.

ATTACHMENT C

POLICY 4:05:01:01

SUBJECT: Inventory Method for TBR Libraries

In the TBR libraries, collections vary significantly in their size and in the type of material they contain; consequently, the prescription of a specific or uniform inventory method for all of the libraries to follow is not appropriate. The cost of conducting a systematic inventory of bookstock and other library materials is also an important management consideration in TBR libraries. ~~On the other hand, a variety of tested inventory techniques and practices are now well documented, and recent automation applications make possible a multi-level approach to library materials accounting. The availability of a variety of inventory techniques and of automation support is the basis for the use of the following guidelines for inventory practice in TBR libraries.~~

(1) A full or partial inventory or census ~~will~~ **may** be conducted annually to meet TBR requirements for materials accountability, and to meet the guidelines of internal accounting and administrative control that are cited in the Financial Integrity Act.

(2) ~~Each TBR library will use an inventory method that best fits the type and size of the collection of material for which it is accountable. Libraries will conduct a partial in-stack shelflist inventory that covers the entire collection over a two- to five-year period; or, conduct a book census annually or biennially using a reliable sampling technique that provides accurate data for inventory reporting to its institution.~~ **If a TBR library chooses to do an inventory, one of the two following methods should be used: (A) A partial inventory that covers the entire collection over a two- to five-year period; or (B) An annual or biennial book census using a reliable sampling technique derived from an authoritative statistics textbook that explains how to do standard deviation calculations.**

(3) ~~An in-stack shelflist inventory is the traditional style of library inventory. It is conducted by taking the shelflist (drawers of 3 x 5 cards, arranged by catalog number into the stacks) and comparing the items on the shelf with successive cards in the shelflist.~~ **In order to meet the guidelines of internal accounting and administrative control that are cited in the Financial Integrity Act, TBR libraries not choosing to do an inventory <u>must</u> annually report to their institutions the numbers of library materials withdrawn from their collections.**

~~(4) If the catalog is automated, a computer printout or hand-held microcomputer loaded with all of the catalog records can be substituted for shelflist cards and used in an appropriate method.~~

~~(5) Libraries with large collections that prefer to employ a sampling technique can consult an authoritative statistics textbook that explains how to do standard deviation calculations. The sample size used will be determined to a large extent by the size of the collection and the degree of accuracy the library requires for its inventory data report.~~

~~(6) A book census, also called a gross inventory, is an actual count of the number of volumes either on the library shelves or otherwise accountable for processing, binding, circulation, mending, etc. The number of volumes physically present and counted on the shelves can be subtracted from the number of volumes recorded in the shelflist (card or machine-readable data base) to establish the number of items physically present in the library and the number of books that are missing in relation to the shelflist record. Copy specific inventory information is not provided in a book census.~~

Source: TBR Meeting, June 30, 1989

ATTACHMENT D

VII. Miscellaneous Course Fees

Unless specifically approved by the Tennessee Board of Regents, miscellaneous course fees are not authorized. **However, fees for courses requiring special off-campus facilities or services may be charged and should reflect the cost of the facilities or services.** ~~The following guidelines have been developed regarding course-related fees to be administered at the institution and technology center level.~~

~~A. Subject to the following provisions, students may be required to purchase or obtain various materials in order to complete requirements for a course (for example: textbooks, workbooks, personal tools and instruments, etc.). These items should be purchased directly by the student.~~

~~B. Materials which students may be required to purchase are in all cases to be items which remain the property of the student. The department may require various quality and quantity material specifications.~~

~~C. Fees for courses requiring special off-campus facilities or services may be charged and should reflect the cost of the facilities or services.~~

ATTACHMENT E

POSITION PAPER: IMPLEMENTATION OF GASB 39

Purpose: GASB 39, issued in May 2002, requires institutions to report financial information on component units as defined in GASB 14 and provides guidance regarding entities to be included and presentation of required financial information. This position paper provides guidance to TBR institutions in the implementation of the requirements of GASB 39 and provides guidelines for the consistent reporting of component units in the institutions' financial statements.

Background: GASB 14, issued in June 1991, provides guidance on the financial reporting entity. Paragraph 41 stated that "…An example of an affiliated organization that may be evaluated for inclusion is a nonprofit corporation whose purpose is to benefit a governmental university by soliciting contributions and managing those funds…The GASB is studying circumstances under which foundations, similarly affiliated organizations, and PERS might be included in the financial reporting entity. Appropriate pronouncements will be issued at a later date." GASB 39, *Determining Whether Certain Organizations Are Component Units* was issued in May 2002. The effective date of this statement is for financial statements periods beginning after June 15, 2003. Therefore, all TBR institutions must implement the provisions of this statement for their FY 2004 financial statements.

Issues:

1. Component Units to be Included:

Paragraph 5 of GASB 39 requires "A legally separate, tax-exempt organization should be reported as a component unit of a reporting entity if *all* of the following criteria are met:

- The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents
- The primary government is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization
- The economic resources received or held by an *individual organization* that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government."

Recommendation: Each institution is responsible for identifying the separate organizations that may meet the requirements for inclusion as a component unit. Justification for inclusion/non-inclusion based on the first two criteria above are the responsibility of the institution and must be documented. The following criteria should be used for determining if a separate organization meets the significance criteria: Regardless of any other circumstances, all institutional foundations will be considered significant. Other entities, including departmental foundations, research foundations, and other organizations, whose Total Assets or Total Revenues exceed 10% of the institution's Total Assets or Total Revenues will be considered significant. Organizations that do not meet the above criteria may still be included if it is determined by the institution that the non-inclusion would be misleading to financial statement readers. Such determinations must be justified and documented.

2. Reporting Component Units:

In accordance with paragraphs 125 and 126 of GASB 34 and paragraph 42 of GASB 39, major component units must be discretely presented for the Statement of Net Assets and SRECNA. Component unit information is not required on the Statement of Cash Flows. FASB entities have the option to present statements on a separate page following the GASB statement or adapt to the GASB nomenclature and present on the same page.

Recommendation: Each component unit that must be reported in accordance with 1 above must be presented in a separate column to the right of the institution's information. A total column is not required and will not be presented. All component units must be reported in the GASB formats. Any component unit that is reporting under FASB must be adapted to the GASB nomenclature and reported on the same page. Templates will be provided by TBR with the financial statement instructions. The Statement of Cash Flow template will not include a component unit column.

3. Note Disclosure

Recommendation: In accordance with Paragraph 44 of GASB 39, the following note disclosures are required for each discretely presented component unit:

- Brief description of the component unit
- Their relationship to the institution
- Discussion of criteria for including the component units
- How component units are reported
- Nature and amount of significant transactions between the institution and the component unit
- Other disclosures required for fair presentation.
    - Investments

- Debt
- Other

4. Transactions Between Institution and the Component Unit

Recommendation: As noted above, the institution is required to report the nature and amount of significant transactions between the institution and the component unit. Any expenditure made to, or for, the institution should be recorded. This would include amounts paid directly to the university as well as any expenditures made directly by the component unit that provided a direct benefit to the institution. As an example, if a travel expense was made directly by the component unit for a faculty member to attend a conference, this amount would be included regardless of whether it was paid directly to the faculty member or to the university who then reimburses the faculty member. However, fund-raising expenses paid by the component unit does not have a direct benefit to the institution and would not be reported in the above total.

ATTACHMENT F

Guideline B050

SUBJECT: INTERNAL AUDITING

General Statement

The internal audit function contributes to the effectiveness of controls that management is responsible for establishing and maintaining. While particular responsibilities and activities vary among institutions, the fundamental purpose of internal auditing is to provide an independent, objective assurance and consulting activity designed to add value and improve the institution’s operations. Each internal audit function shall adhere to The Institute of Internal Auditors' *Standards for the Professional Practice of Internal Auditing* and *Code of Ethics.* This guideline addresses staffing, responsibilities of the internal audit function, and audit planning and reporting on internal audit activities. In addition to this guideline, the internal auditors maintain an audit manual. The purpose of the audit manual is to provide for consistency, continuity, and standards of acceptable performance.

Internal Audit Personnel

1. Each university shall employ at least two individuals with full-time responsibility as internal auditors. Additional internal audit staff shall depend upon institutional size and structure. Two-year institutions will employ a full-time internal auditor **or have an approved agreement with a university or other two-year institution to provide required audit services**. Titles of internal audit staff shall be consistent within the overall institutional structure.

2. Internal audit staff shall possess professional credentials and experience requisite to position responsibilities. The director must be licensed as a Certified Public Accountant or a Certified Internal Auditor.

3. The appointment, change of status, termination, and compensation of the chief or lead internal auditor as determined by the President is subject to approval by the Chancellor or designee.

Internal Auditing Role and Scope

1. Internal Audit reports directly to the President. In addition, TBR has an oversight role. TBR hosts periodic meetings and communicates with the audit directors on matters of mutual interests. The TBR maintains an internal audit manual to guide the internal audit activity in a consistent and professional manner at each institution. This reporting structure assures the independence of the internal audit function.

2. The internal auditors' responsibilities should include:

- Working with management to assess institutional risks and developing an audit plan that considers the results of the risk assessment.
- Evaluating institutional controls to determine their effectiveness and efficiency.

- Coordinating work with external auditors, program reviewers, and consultants.
- Determining the level of compliance with internal policies and procedures, state and federal laws, and government regulations.
- Testing the timeliness, reliability, and usefulness of institutional records and reports.
- Recommending improvements to controls, operations, and risk mitigation resolutions.
- Assisting the institution with its strategic planning process to include a complete cycle review of goals and values.
- Evaluating program performance.
- Performing management advisory services and special requests as directed by the institutions President.

3. The scope of internal auditing extends to all aspects of institutional operations and beyond fiscal boundaries. The internal auditor shall have access to all records, personnel, and physical properties relative to the performance of duties and responsibilities.

4. The scope of a particular internal audit activity may be as broad or as restricted as required to meet management needs.

5. 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.

6. An independent quality assurance review of the internal audit function is required by the IIA *Standards* every five years.

7. Management is responsible for identifying, evaluating, and responding to potential risks that may impact the achievement of the institution’s objectives. The auditors continually evaluate the risk management processes and internal control structures. Internal Audit will receive copies of external audit reviews, program reviews, fiscally related consulting reports, notices of cash shortages, physical property losses, and employee misconduct. These will be considered in the evaluation of risks.

Audit Plans

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

2. Audit areas and respective audit programs are available in the TBR Audit Manual for guidance in these areas.

3. At the beginning of each fiscal year, the Internal Audit director will prepare an annual plan listing proposed areas to be audited. The audit work plan must be flexible to respond to immediate requests. The status of the past year's plan will also be prepared in an annual activity report that may include other significant audit services. The President will submit two copies of the institution's Audit Plan for review by the Chancellor. The Chancellor will forward one copy to the State Comptroller’s Office.

Audit Reports

1. Each routine internal audit should result in a written report that documents the objectives, scope, and conclusion of the audit. Management will include corrective action for each reported finding. Reports on special studies, consulting services, and other non-routine items should be prepared as appropriate, given the nature of the assignment.

2. The institution's president will be notified at the conclusion of a follow-up audit if management has not corrected the reported finding.

3. All internal audit reports will be signed by the director and transmitted directly to the President in a timely manner.

4. The President will transmit two copies of the internal audit report to the Chancellor. The Chancellor will forward one copy to the State Comptroller's Office.

Exceptions

Any exceptions to the guideline established herein shall be subject to the approval of the Chancellor.

Source: June 3, 1981 TBR Presidents' Meeting; July 1, 1984; May 20,1986; February 14, 1989; November 14, 1989; August 13, 2002

<u>ATTACHMENT G</u>

POLICY 3:04:01:00

SUBJECT: Student Scholarships, Grants, Loans, and Financial Aid Programs

This policy covers the establishment of and participation in student scholarship and financial aid programs by TBR universities, community colleges, and technical institutes. (TTCs are covered by separate policy.)

I Federal, State and Private Financial Aid, Loan, and Scholarship Programs

A. All institutions are hereby authorized to participate in any private, federal, or state programs providing financial aid, loans, scholarships, grants, and other forms of educational assistance to students. Institutions must meet the eligibility requirements for participation and comply with all federal and state laws and regulations related to said programs.

B. In participating in educational assistance programs, institutions shall comply with anti-discrimination laws. Institutions may participate in privately funded educational assistance programs which provide preference on the basis of race, color, creed, sex, handicap, age, religious preference, veteran's status, or national origin in the selection of students or awards to students, but only where the aggregate of all such participation is non-discriminatory. Institutions may participate in any educational assistance programs provided by the federal government or the State of Tennessee for affirmative action or desegregation purposes.

II. Institutional Scholarships and Grant Programs

A. General Parameters

l. State appropriations shall be expended or applied only to desegregation grants.

2. Each institution is authorized to employ students under local work programs, and each university is authorized to employ students and graduate assistants pursuant to Board Policy No. 5:02:05:00.

3. Institutions may award scholarships and grants, in any of the programs listed below in Sections II. C. and D., to students who are full-time, part-time, out-of state, or Tennessee residents.

4. The maximum amount of an individual academic service scholarship awarded for any one semester or summer session shall be the amount of the maintenance fees (and/or out-of-state tuition) for the semester or summer session plus an allowance for books and supplies. The maximum books and supplies allowance shall be commensurate with the book and supply allowance component of the standard student budget compiled by the institution's financial aid officer. The maximum amount that may be awarded to any individual during a single fiscal year shall not exceed the total amount of combined fees and book allowances defined herein. For the purposes of this policy, maintenance fees (and\or out-of-state tuition) shall be defined as all mandatory fees payable by a student for continued enrollment at the institution, including but not limited to debt service fees, student activity fees, and registration fees. The maximum amount awarded to a part-time student shall be prorated based on the number of hours for which the student is enrolled. Refunds shall be handled in accordance with TBR refund policy outlined in TBR Guideline B-060. The provisions of this section do not apply to privately funded scholarships or grants.

5. Each institution shall establish specific criteria for the scholarship programs listed below in Sections II. C. and D. Such criteria must meet the minimum limitations set forth in this TBR policy, however, the institution may set criteria which is more restrictive than the TBR policy. The written procedures implementing this policy and all requirements for eligibility, maintenance, and renewal shall be clearly published in the official catalog of the institution.

B. Funding Sources for Scholarships and Grant Programs

l. Academic Scholarships and Institutional Grants may be funded by a maximum of l0% of ~~the maintenance fees~~ **total tuition and fees** received by the institution in any one year. An exception to this limitation may be made upon approval of the Chancellor and subsequent approval of the budget by TBR.

2. Athletic and Performance Grants may be funded by private contributions, donations, endowment earnings designated for scholarships and grants, revenues derived from the activities in which the student participates, and student fees specifically programmed and approved for such assistance.

3. Desegregation Grants shall be funded by state funds and may be supplemented by other campus revenue sources.

4. Academic Work Scholarships in the College of Medicine (ETSU) may be funded by a maximum of 10% of ~~the maintenance~~ **total tuition and** fees received by the College of Medicine in any one year.

C. Scholarship and Grant Programs Requiring Service to the Institution

1. ATHLETIC GRANTS

(a) Each institution is authorized to award grants for students involved in athletics.

(b) Grants for athletes awarded by institutions shall be subject to applicable limitations imposed by any national, regional, or other conference or association of which the institution is a member.

(c) The requirement of service to the institution is satisfied by student performance of athletic endeavors.

2. PERFORMANCE GRANTS

(a) The institution may award grants to students who perform a service to the institution, such as band members, cheerleaders, spirit squad members, staff of student newspapers and yearbooks, etc.

(b) The service requirement is fulfilled by the performance of the activity by the student.

3. OTHER INSTITUTIONAL GRANTS

(a) Institutional Grants may be provided for meeting affirmative action and minority recruitment goals.

(b) Institutional Grants may be provided for assisting handicapped, physically disadvantaged, and economically disadvantaged students.

4. ACADEMIC SERVICE SCHOLARSHIPS

(a) Awards to first-time freshmen shall be limited to students who had a minimum high school average of 2.9 or the equivalent. In addition, first-time university freshmen shall have a minimum enhanced ACT composite score of 19 to be eligible for consideration. Awards to GED students shall be based upon evidence of comparable scholastic ability. Institutions may make exception to the requirements of this paragraph when admitting freshmen who have not attended high school or another postsecondary institution for at least four years.

(b) Awards to transfer and other than first-time freshman students will require a minimum cumulative college GPA of 2.9 for universities and 2.5 for two year colleges earned on the basis of at least twelve (12) credit hours. Students who have completed less than twelve (12) credit hours shall, for the purposes of this policy, be considered first-time freshmen.

(c) Renewal of academic service scholarships after the initial academic year of the freshman shall require a minimum GPA of 2.5. All subsequent renewals shall require a minimum semester GPA of 2.5 for students of both universities and two year institutions.

(d) Awards of academic service scholarships shall be made on a semester basis. Failure to maintain the required grade-point average or a satisfactory standard of conduct or failure to fulfill the required work obligation will result in the automatic forfeiture of the scholarship. A student who forfeits his/her scholarship for any of the above reasons may be eligible for consideration after the lapse of at least one full semester. Exceptions to this provision may be made when approved by the institution's president or his/her designee.

(e) Economic status and need of the applicant will be considered a favorable factor only when all other conditions appear equal. Consideration may be given to the student's potential for the future as well as his or her area of specialization in relation to the needs of the state and the nation.

(f) An Academic Service Scholarship shall involve a service obligation to the institution of 75 hours per semester. The service requirement for part-time and summer session students shall be prorated based on the number of hours for which the student is enrolled.

5. ACADEMIC WORK SCHOLARSHIPS (in the College of Medicine - ETSU)

(a) Awards shall be made to incoming freshmen who are Tennessee residents, present an MCAT score of 9.0 or better and a "P" in writing skills, and have an undergraduate GPA of 3.3 or better.

(b) Students are ineligible for the Academic Work Scholarship if they are a recipient of a grant or award from the Armed Forces, NHSC, THEC, or under contractual obligation for practice after residency. Likewise, students who receive funding from CWSP or RSWP (work programs) or who hold a salaried position at ETSU are ineligible for a TBR scholarship.

(c) The award will be for tuition plus book stipend. No award will exceed total in-state fees, debt service, student activity, registration, and a book allowance commensurate with the educational cost allowance for all other students.

(d) Scholarship recipients must earn at least a 3.0 GPA to qualify for renewal awards. In addition, recipients must earn overall GPA and progress normally through the curriculum as defined by Title IV "satisfactory academic progress" regulations to maintain the scholarship or qualify for renewal awards.

(e) Recipients must work not less than 300 hours per calendar year. Activities will include but not be limited to participation in research projects, generation of publications, support of activities related to increased extramural findings, and other scholarly activities as deemed appropriate by the Special Research Project Review Committee. This Committee, made up of basic scientists, clinical practitioners/research and research project administrators, will oversee the selection of and assignments to work-study projects.

D. Grants Which Do Not Require Service to the Institution

l. DESEGREGATION GRANTS may be provided to students in order to achieve desegregation objectives.

2. Students receiving desegregation grants are not required to provide service to the institution.

3. Students enrolled in institutional Honors programs which require significant enrichment activities by the student over and above normal course requirements are not by this policy required to provide service to the institution.

Source: SBR Meetings: December 8, l978; March l8, l983; September 30, l983; June 29, l984; June 29, l990; December 11, 1992;March 30, 2001.