BUSINESS AFFAIRS SUB-COUNCIL

October 19, 2011

MINUTES

The meeting began at 9:00 a.m. in the TBR Board Room. Present were Ms. Cynthia Brooks (TSU); Mr. Steve Campbell (NeSCC); Mr. Horace Chase (JSCC); Dr. David Collins (ETSU); Ms. Beth Cooksey (VSCC); Mr. John Cothern (MTSU); Ms. Mary Cross (NaSCC); Mr. Danny Gibbs (RSCC); Mr. Mike Gower (MTSU); Mr. Lowell Hoffman (DSCC); Mr. Ken Horner (CoSCC); Mr. Tim Hurst (APSU); Dr. Rosemary Jackson (WSCC); Mr. Ron Kesterson (PSCC); Ms. Deborah Mailen (ChSCC); Mr. Ron Parr (STCC); Mr. Mitch Robinson (APSU); Ms. Jeannie Smith (UOM); Dr. Claire Stinson (TTU); Ms. Hilda Tunstill (MSCC); Mr. Greg Wilgocki (ETSU); Dr. Tommy Wright (ClSCC); Ms. Alicia Gillespie, Ms. Tammy Gourley, Ms. Angela Gregory, Ms. Deanna Hall; Ms. Pat Massey, Ms. Mary Moody, Ms. April Preston, Ms. Brooke Shelton, Mr. Dale Sims, Ms. Renee Stewart, and Mr. Bob Wallace (TBR).

1. <u>Report of the Committees</u>

A. Finance Committee

Dr. Collins highlighted the following issues from the October 5, 2011 Finance Committee meeting.

- Travel Policy

  The committee discussed the travel policy regarding out-of-country travel authorization subject to approval by the president. It had been requested that the committee discuss whether designee could be added to the policy. Some institutions have presumed that the president can delegate this authorization since designee is stated in other parts of the policies and guidelines.

  TBR Legal Counsel was contacted and it was determined that if there is no designee stated, then it is not permissible to delegate the authorization. A group will be formed to consider developing a policy on delegations.

- Cell Phone Tax Change

  The committee discussed the most recent IRS guidance on the tax treatment of employer-provided cell phones. The IRS guidance explains that if the cell phone is provided to the employee for business purposes, both the business and personal use of the phone will be non-taxable.

  The committee discussed this guidance. Most institutions are paying employees a stipend rather than providing cell phones to employees. This is currently considered taxable income to the employee. APSU has found a Banner screen that will allow a non-taxable stipend. Institutions should contact Mitch Robinson or Tim Hurst if they need instruction on how to set this up. (Attachment A)

- Out-of-State Performance Scholarship

  The committee discussed the out-of-state performance scholarship amount reported on the athletic budget analysis form. It was discussed whether institutions separate the out-of-state portion of the scholarship or report the full amount of the scholarship. The assumption was that most institutions were reporting the full amount of the scholarship.

  Renee Stewart will send out a survey to the institutions to determine how everyone is reporting this. Once the information is received, this issue will be discussed further so that a consistent method of reporting can be developed.

- Gas Receipts

  The committee discussed prepaid gas receipts. It was brought to the attention of Internal Audit to be aware of potential problems in this area. One institution had an employee that would prepay for gas inside the store, and then fill up with a lesser amount of gas. The employee would go back to the store clerk and obtain a refund for the difference. When the employee turned in his travel claim, he was submitting the original receipt in order to be reimbursed for the higher amount. This was happening with rental cars that employees were using for business travel because they could not use the Fuelman card. It was discussed that this could also happen with state cars if the employee used his own debit card.

  Internal Audit wanted to make institutions aware of this problem. They suggested that persons reviewing travel reimbursements should look closely at the miles driven and the gallons of gas purchased.

- TTU Investigation

  The committee discussed the recent investigation at TTU regarding their farm manager. The committee discussed the allegations and recommendations. None of the allegations could be substantiated. It was determined that TBR will develop a livestock policy.

- Scholarship Policy

  The committee discussed the added language to Policy 3:04:01:00. A committee made up of contacts from Business and Finance, Academic Affairs, and Student Services had a conference call to discuss this policy. The goal was to revise the policy so that it was clear that scholarships, waivers and grants were acceptable as long as the 10% limit was not exceeded. (Attachment B)

- Findings and Weaknesses

  The committee was given all findings and weaknesses published since the last quarterly Finance Committee meeting. There were two audit reports released in the last quarter, with a total of three findings. Two of the findings dealt with improving review procedures to prevent errors in the preparation of financial statements and notes to the financial statements. The other finding dealt with inadequate internal controls related to donations received for the foundation. (Attachments C and D)

The Finance Committee minutes, with the policy changes, were approved.

B. Council of Buyers

Ms. Moody and Ms. Gregory highlighted the following issues from the March 31, 2011 Council of Buyers meeting.

- Upcoming Trainings

  Historically, training has been provided by the Central Office every three to four years, with each training session covering numerous subjects. Based on recent feedback, as well as review of documents sent to the Central Office for approval, the decision has been made to provide some specialized training, allowing a more in-depth training experience.

  The first specialized training session will cover Request for Proposals (RFP) during the month of January. The second specialized training session will cover clinical affiliation agreements.

- Reporting of Disabled Veterans

  Pursuant to Senate Bill No. 2785, reporting is now required on Tennessee service-disabled veterans. This was effective July 1, 2010 but was not communicated to TBR by the Governor's Office of Diversity Business Enterprise until August of this year. Therefore, the Council should now add Service-Disabled Veteran Business Enterprise (SDVBE) to its vendor application, ethnicity form, Small, Minority, Disabled Veteran and Women-Owned Business Report, and the Diversity Report. DV will be the code to use in Banner. The Central Office will provide all of the revised forms that come from TBR to the Council. It will be up to each institution how to capture this information from its vendors.

- Collaboration with the State and UT

  Ms. Gregory asked the Council to send a list of larger dollar procurements from vendors that were being utilized via a UT contract. She will review this information to see of the level of expenditures would substantiate approaching the vendor for deeper discounting.

The Council of Buyers minutes were approved.

C. Human Resources

Ms. Preston highlighted the following issue from the September 28, 2011 Human Resource Officers Committee meeting.

- Return to Work Policy

  At the recommendation of the State of Tennessee Risk Management Office, the committee is working on a Return to Work policy. The committee has researched other policies for best practices and will provide a draft policy for review at the January meeting.

- FLSA Audit Update

  There are some institutions that still have not submitted their review of athletic and administrative assistant positions, which were due July 22 and August 18, respectively. The next group to review for compliance is the coordinator positions. Due to the potentially large number of positions in this category and other projects at this time of year, a February due date was requested.

The HR Officers minutes were approved.

D. Internal Audit

Ms. Gourley highlighted the following issues from the October 3, 2011 Internal Auditors meeting.

- Preventing and Reporting Fraud, Waste or Abuse (FWA) Policy Revisions

  Ms. Gourley discussed the reasons for the revisions to the TBR FWA Policy 4:01:05:50, particularly the change from "must" to "should" in several sections of the policy regarding employees' responsibilities to report or cooperate in investigations involving allegations of potential fraud, waste or abuse. These changes are the result of consulting with legal counsel on wording in the policy and the FWA brochure, and better reflect the intentions of related state statutes and federal case law, in this circumstance, *Garrity*. Although internal audit investigations are administrative reviews of activities, some reviews might reveal a potential criminal act. TCA 8-50-116, regarding reporting violations, states that "employees **shall be encouraged** to report…evidence…constituting violations…" Under *Garrity*, if public employees are threatened with termination for failure to cooperate with an internal investigation of potential criminal activity, any statement obtained under such a threat would be inadmissible in a subsequent criminal matter against them. In interviews conducted by system internal auditors, employees may be encouraged to provide the information requested, but may not be threatened with termination for failure to cooperate with internal audit if the matter would implicate the employee in a criminal matter. After discussion of the reasons for the changes and recommendations to change some of the wording in the Methods for Reporting FWA section of the policy, the group approved the policy. Legal counsel will be asked to participate in a meeting in the future to discuss interviewing. (Attachment E)

- Internal Audit Policy Revisions

  Ms. Gourley discussed the revisions to the TBR Internal Audit policy 4:01:05:00. The revisions were made to incorporate current standards from the Institute of Internal Auditors and to update the policy for current practices. The group voted to approve the policy. (Attachment F)

The Internal Auditors minutes were approved.

2. <u>Edison Reports</u>

Since the conversion from STARS to Edison, institutions are no longer receiving capital projects reports. Instead, they are receiving a listing of transactions with no total expenses by object code or project. This leaves the institutions unable to perform reconciliations. Ms. Tunstill will write a description of the report that was generated from STARS, and Ms. Stewart will send it to the state to see if they can develop a new report with the needed information from Edison.

3. <u>Student Refund Processing – Heartland Payment Systems</u>

Heartland Payment Systems and Discover gave a presentation on the student refund disbursement service that they are offering. Heartland was the winning proposer of the RFP for this service. Mr. Sims asked the institutions to notify him regarding their interest in the service.

The meeting was adjourned at 12:30 p.m.

Part III - Administrative, Procedural, and Miscellaneous

Tax Treatment of Employer-Provided Cell Phones

Notice 2011-72

PURPOSE

This notice provides guidance on the tax treatment of cellular telephones or other similar telecommunications equipment (hereinafter collectively "cell phones") that employers provide to their employees primarily for noncompensatory business purposes.

BACKGROUND

Section 2043 of the Small Business Jobs Act of 2010, Pub.L.No. 111-240, (the Act) removed cell phones from the definition of listed property for taxable years beginning after December 31, 2009. The Act did not otherwise alter the requirement that an employer-provided cell phone is a fringe benefit, the value of which must be included in the employee's gross income, unless an exclusion applies, or the potential treatment of an employer-provided cell phone as an excludible fringe benefit. Since enactment of the Act, the IRS has received questions about the proper tax treatment of employer-provided cell phones. Accordingly, this notice addresses the treatment of employer-provided cell phones as an excludible fringe benefit.

Gross Income2

Section 61 of the Internal Revenue Code (Code) defines gross income as all income, from whatever source derived. Section 61(a)(1) provides that gross income includes compensation for services, including fees, commissions, fringe benefits, and similar items. A fringe benefit provided by an employer to an employee is presumed to be income to the employee unless it is specifically excluded from gross income by another section of the Code. See Income Tax Regulations § 1.61-21(a).

Working Condition Fringe Benefits

Section 132(a)(3) of the Code provides that gross income does not include any fringe benefit which qualifies as a working condition fringe. Section 132(d) provides that "working condition fringe" means any property or services provided to an employee of the employer to the extent that, if the employee paid for such property or services, such payment would be allowable as a deduction under §§ 162 or 167.

Section 1.132-5(a)(1)(ii) of the Income Tax Regulations (Regulations) provides that if, under section 274 or any other section, certain substantiation requirements must be met in order for a deduction under §§ 162 or 167 to be allowable, then those substantiation requirements apply when determining whether a property or service is excludable as a working condition fringe. See also Regulations § 1.132-5(c)(1).

Section 162(a) of the Code provides that a deduction is allowed for all the ordinary and necessary expenses paid or incurred during the taxable year in carrying on any trade or business. However, section 262(a) of the Code provides that, except as otherwise expressly provided, no deduction shall be allowed for personal, living, or family expenses. 3

In the case of certain listed property, as defined in section 280F(d)(4) of the Code, special heightened substantiation rules apply. Section 274(d)(4) of the Code provides that no deduction shall be allowed with respect to any listed property (as defined in § 280F(d)(4)), unless the taxpayer substantiates by adequate records or by sufficient evidence corroborating the taxpayer's own statement (A) the amount of such expense or other item, (B) the use of the property, (C) the business purpose of the expense or other item, and (D) the business relationship to the taxpayer of persons using the property.

The Act removed cell phones from the definition of listed property for taxable years beginning after December 31, 2009. Because the Act removed cell phones from the definition of listed property, the heightened substantiation requirements that apply to listed property no longer apply to cell phones for taxable years beginning after December 31, 2009.

De Minimis Fringe Benefits

Section 132(a)(4) of the Code provides that gross income does not include any fringe benefit which qualifies as a de minimis fringe. Section 132(e) defines a de minimis fringe as any property or service the value of which is (after taking into account the frequency with which similar fringes are provided by the employer to the employer's employees) so small as to make accounting for it unreasonable or administratively impracticable. Except as specifically provided (i.e., occasional meal money or local transportation fare and reimbursements for public transit passes), a cash fringe benefit is not excludable as a de minimis fringe. See Regulations §1.132-6(c). 4

Guidance Regarding Employer-Provided Cell Phones

Many employers provide their employees with cell phones primarily for noncompensatory business reasons. The value of the business use of an employer-provided cell phone is excludable from an employee's income as a working condition fringe to the extent that, if the employee paid for the use of the cell phone themselves, such payment would be allowable as a deduction under section 162 for the employee.

An employer will be considered to have provided an employee with a cell phone primarily for noncompensatory business purposes if there are substantial reasons relating to the employer's business, other than providing compensation to the employee, for providing the employee with a cell phone. For example, the employer's need to contact the employee at all times for work-related emergencies, the employer's requirement that the employee be available to speak with clients at times when the employee is away from the office, and the employee's need to speak with clients located in other time zones at times outside of the employee's normal work day are possible substantial noncompensatory business reasons. A cell phone provided to promote the morale or good will of an employee, to attract a prospective employee or as a means of furnishing additional compensation to an employee is not provided primarily for noncompensatory business purposes.

This notice provides that, when an employer provides an employee with a cell phone primarily for noncompensatory business reasons, the IRS will treat the employee's use of the cell phone for reasons related to the employer's trade or business as a working condition fringe benefit, the value of which is excludable from the 5 employee’s income and, solely for purposes of determining whether the working condition fringe benefit provision in section 132(d) applies, the substantiation requirements that the employee would have to meet in order for a deduction under §162 to be allowable are deemed to be satisfied. In addition, the IRS will treat the value of any personal use of a cell phone provided by the employer primarily for noncompensatory business purposes as excludable from the employee’s income as a de minimis fringe benefit. The rules of this notice apply to any use of an employer-provided cell phone occurring after December 31, 2009. The application of the working condition and de minimis fringe benefit exclusions under this notice apply solely to employer-provided cell phones and should not be interpreted as applying to other fringe benefits.

EFFECTIVE DATE

This notice is effective for all taxable years after December 31, 2009.

CONTACT INFORMATION

The principal author of this notice is Joseph Perera of the Office of Associate Chief Counsel (Tax Exempt & Government Entities). For further information regarding this notice contact Joseph Perera on (202) 622-6040 (not a toll-free call).

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 all applicable laws. Institutions may participate in publicly or 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 and after consultation with legal counsel. Institutions may participate in any educational assistance programs provided by the federal government or the State of Tennessee for affirmative action or diversity purposes in furtherance of the institution's affirmative action and or diversity plan.

II. Institutional Scholarships and Grant Programs

A. General Parameters

1. State appropriations shall be expended or applied only to Access and Diversity 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

1. Academic Scholarships and Institutional Grants may be funded by a maximum of l0% of 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. Access and Diversity 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 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 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 obligation will be structured to primarily provide an educational benefit to the student, not a work benefit to the institution. 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

1. Access and Diversity grants may be provided to students in order to achieve diversity plan objectives.

2. Students receiving Access and Diversity 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.

4. Students receiving privately-funded or publicly-funded scholarships which require an institutional match are not by this policy required to provide service to the institution.

E. Exceptions

1. The President or his/her designee is authorized to approve other scholarships/grants so long as the total amount of these and other academic scholarships and institutional grants funded under this policy do not exceed a maximum of l0% of total tuition and fees received by the institution in any one year.

Source: SBR Meetings: December 8, l978; March l8, l983; September 30, l983; June 29, l984; June 29, l990; December 11, 1992; March 30, 2001; April 2, 2004; June 30, 2006: June 19, 2009; TBR Board Meeting September 25, 2009.

Tennessee Board of Regents
Audit Committee
September 7, 2011
Review of Comptroller's Office Audit Reports
Financial and Compliance Audits—Findings Reported

Institution	For the Years Ended	Fairness of Financial Statement Presentation	Report on Internal Control	Report on Compliance	Findings
Volunteer State Community College	June 30, 2009 and June 30, 2010	Unqualified Opinion	Both findings identified as material weaknesses	No instances of noncompliance required to be reported	2

Finding 1 – Inadequate internal controls related to donations received for the foundation

The college lacks adequate internal control regarding the receipt of donor checks to the foundation, increasing the risk that errors or fraud could occur and not be detected in a timely manner. Specifically, the following deficiencies were noted:

- A daily check log of donations received was not prepared as foundation mail was opened.
- Checks were not restrictively endorsed immediately upon receipt; and
- An independent reconciliation was not performed comparing donations to the daily deposit.

Management indicated the control weaknesses were due to personnel changeover. A donations log should be prepared as the mail is opened, and checks should be restrictively endorsed upon receipt, prior to handing the funds over for posting and deposit. A subsequent reconciliation should be performed by someone not involved in the posting and deposit preparation duties to ensure all funds received were actually deposited.

Management's Comment – Management concurs and stated that cash receipt procedures of the foundation's staff have been modified. Responsibility of opening of the mail, restrictively endorsing checks, and logging of receipt for each check is separated from the responsibility of posting the checks into donor records and preparation of the deposit slip. Business Office staff verifies the check log and deposit.

Finding 2 – The college did not ensure that amounts were properly reported in the foundation's financial statements and accompanying notes to the financial statements

The disclosure of changes in endowment net assets was a new requirement as of June 30, 2009, under FASB standards, and college staff had difficulties in determining what was required in the new disclosure.

In the college's 2009 and 2010 unaudited financial report, the disclosure of changes in endowment net assets for the foundation contained several significant errors; permanently restricted net assets were understated by $556,760 in 2009 and $258,614 in 2010; temporarily restricted net assets were overstated by $332,049 in 2009 and $115,034 in 2010; and unrestricted by $230,241in 2009 and $60,138 in 2010. These errors also caused similar errors on the Statement of Net Assets for nonexpendable net assets restricted for scholarships and fellowships, expendable net assets restricted for scholarships and fellowships, and unrestricted net assets.

Management's Comment – Management concurred and stated the accounting staff has received additional training on reporting endowment income and net assets as required by FASB. The foundation financial reports will be reviewed prior to submission by knowledgeable staff to ensure compliance with the FASB requirements.

Internal Audit Follow-Up: A follow-up audit on this finding will be reported to the Audit Committee in a subsequent meeting.

Tennessee Board of Regents
Audit Committee
September 7, 2011
Review of Comptroller's Office Audit Reports
Financial and Compliance Audits—Finding Reported

Institution	For the Years Ended	Fairness of Financial Statement Presentation	Report on Internal Control	Report on Compliance	Findings
Tennessee Technological University	June 30, 2010	Unqualified Opinion	One finding identified as a material weakness	No instances of noncompliance required to be reported	1

Finding – As noted in the prior audit, the university did not ensure that amounts were properly reported in the financial statements and accompanying notes to the financial statements

Although management concurred with the finding in the prior year and added a financial statement preparation checklist to ensure the correctness of the financial statements and notes, this checklist did not include proper analytical procedures to adequately analyze amounts to detect unusual or unreasonable amounts.

Errors in the preparation of the foundation's financial statements

- Statement of Net Assets Errors – The Director of Accounting transposed the foundation's nonexpendable net assets restricted for research amount and nonexpendable net assets restricted for instructional department uses. As a result, net assets restricted for research were overstated by $2,099,735; net assets for instructional department uses were understated by the same amount.

Errors in the preparation of the notes to the university's financial statements

- Errors in the Commitments and Contingencies Note to the Financial Statements – The total amount of sick leave was reported as $31,490,688 for the fiscal year ended June 30, 2010; it should have been stated as $25,677,697. Due to information being miscoded in the information system, two former full-time employees, who now serve in an adjunct capacity, were erroneously included in this calculation. Adjunct employees are eligible to accrue leave. In addition, these two employees' sick leave balance in hours was multiplied by their monthly salary, instead of their hourly salary. Management was unable to determine why this happened and was unable to recreate the discrepancy.

These errors were corrected in the audited financial statements.

Management's Comment – Management concurred with the finding, stating that the error noted on the foundation State of Net Assets was clerical in nature. In the future, management review and analytical processes will include additional proofreading to avoid clerical errors. Management stated that the error in the notes to the financial statements occurred because of the reliance upon a prewritten report that picked up the wrong rate in two instances. Management stated the Payroll and Benefits Manager will analyze this report going forward for significant changes, variances and pay rates that are outside the norm. This analysis will be provided to the Associate Vice President for Business and Fiscal Affairs as supporting documentation of the disclosed amount.

Internal Audit Follow-Up: A follow-up audit on this finding will be reported to the Audit Committee in a subsequent meeting.

FINDINGS AND RECOMMENDATIONS

1. **<u>Volunteer State Community College lacks adequate internal control related to donations received for the foundation, increasing the risk that errors or fraud could occur and not be detected in a timely manner</u>**

Finding

The Volunteer State Community College Foundation is a legally separate, tax-exempt organization supporting Volunteer State Community College. The foundation acts primarily as a fund-raising organization to supplement the resources that are available to the college in support of its programs. One way the foundation receives these supplemental resources is by constituents mailing donation checks to the college.

The college lacks adequate internal control regarding the receipt of donor checks to the Volunteer State Community College Foundation, increasing the risk that errors or fraud could occur and not be detected in a timely manner. Specifically, we noted the following deficiencies:

- A daily check log of donations received was not prepared as foundation mail was opened.
- Checks were not restrictively endorsed immediately upon receipt.
- An independent reconciliation was not performed comparing donations received to the amount of the daily deposit.

During our intital documentation and review of foundation cash receipting controls, we noted that one employee opened the mail and made copies of any checks received. The checks and the copies of the checks were then provided to a second person, who posted donations to the donor records, restrictively endorsed the checks, prepared the deposit, and took the deposit to the cashier's office. This person also filed the copies of the checks in the donor files. Because of the specific deficiencies noted above in the process, the risk of fraud or errors occurring and not being detected was increased.

We discussed the issues with the Vice President of Business and Finance concerning the lack of adequate controls related to donor checks. The Vice President of Business and Finance stated that the control weaknesses were due to a personnel changeover within the foundation office. The risk of fraud or error associated with donations was documented in the college's risk assessments; however, sufficient mitigating controls such as the issues noted above were not included.

Recommendation

The President and Vice President of Business and Finance should ensure that adequate internal control is always maintained, even during personnel changeovers. A log of donations received should be prepared as the mail is opened, and checks should be restrictively endorsed immediately upon receipt, prior to handing the funds over to be posted and deposited. Also, a subsequent reconciliation should be performed by someone not involved in the posting and deposit preparation duties to ensure that all funds received were actually deposited.

Management should also periodically examine controls in place for receiving, recording, and depositing donor checks to help mitigate the risk of errors and fraud, and include those specific mitigating controls in its risk assesssment.

Management's Comment

We concur that the lack of separation of duties regarding the receipt of donor checks by the Volunteer State Community College Foundation did not provide adequate internal controls to +mitigate the risk of errors and fraud occurring and being detected in a timely manner. Management modified the cash receipt procedures of the foundation's staff when this concern was addressed by the auditor. The current process separates the responsibility of opening of the mail, restrictively endorsing of all checks, and the logging of the receipt for each check from the responsibility of posting the checks into the donor records and the preparation of the deposit slip. A staff person in the Business Office compares the numbered and dated deposit receipt to the check log that is prepared when the mail is opened and to the donor record report verifying that all checks received are posted to donor records and deposited in the bank account. Annually or when personnel changes occur, management will review the current process and revise as appropriate to mitigate risk of errors and fraud.

2. The college did not ensure that amounts were properly reported in the foundation's financial statements and accompanying notes to the financial statements

Finding

Our audit of the financial statements of Volunteer State Community College—including its foundation, which is a discretely presented component unit of the college—discovered reporting errors in the foundation's financial statements and the notes to the financial statements of the foundation.

The college reports under standards of the Governmental Accounting Standards Board (GASB), while the Volunteer State Community College Foundation reports under standards of the Financial Accounting Standards Board (FASB). Certain revenue recognition criteria and presentation formats are different in FASB and GASB reporting. The scope of our audit includes only the foundation's GASB financial statements and notes included in the college's financial report.

The errors we found in the foundation reporting were as follows:

- In the college's 2009 unaudited financial report, the disclosure of changes in endowment net assets for the Volunteer State Community College Foundation contained several significant errors. Specifically, permanently restricted net assets were understated by $556,760.45, temporarily restricted net assets were overstated by $332,049.29, and unrestricted net assets were understated by $230,241.07. This and other errors were corrected in the audited note.

- In the college's 2010 unaudited financial report, the disclosure of changes in endowment net assets also contained several errors that resulted in permanently restricted net assets being understated by $258,614.74, temporarily restricted net assets being understated by $115,034.29, and unrestricted net assets being overstated by $60,138.07. This and other errors were corrected in the audited note.

The disclosure of changes in endowment net assets was a new requirement as of June 30, 2009, under FASB standards [FASB ASC 958-205-50 1B (d)], and the staff had difficulties in determining what was required in the new disclosure.

These errors also caused similar errors on the Statement of Net Assets for nonexpendable net assets restricted for scholarships and fellowships, expendable net assets restricted for scholarships and fellowships, and unrestricted net assets. Corrections were made to the audited statements.

These reporting errors resulted in significant misclassifications in the foundation's statement of net assets and the college's unaudited component unit note. Management is responsible for the fair presentation of the financial statements. Not following all FASB reporting requirements could adversely affect users of the financial statements.

Recommendation

The accounting management staff at Volunteer State Community College should follow all FASB reporting requirements that pertain to foundation endowments. Under FASB standards, endowment income and net assets should be classified, based upon the existence and/or nature of donor-imposed restrictions, as permanently restricted, temporarily restricted, or unrestricted. Additional training and interaction with peer institutions would aid the staff's understanding in this area. Foundation statements should be reviewed by knowledgeable supervisory personnel upon completion.

Management's Comment

We concur that management did not ensure that the foundation's financial statements and accompanying notes were properly reported. The accounting staff has received additional training on how to report and reflect endowment income and net assets as required by FASB. This training has provided the necessary understanding by the staff to correctly report endowment transactions and net assets. The foundation's financial reports will be reviewed prior to submission by knowledgeable staff to ensure compliance with the FASB requirements.

FINDING AND RECOMMENDATION

As noted in the prior audit, the university did not ensure that amounts were properly reported in its financial statements and the accompanying notes to the financial statements

Finding

As noted in the prior audit, the university did not ensure that amounts reported in its financial statements and the accompanying notes to the financial statements were free of misstatement. Our audit found that Tennessee Technological University's procedures for financial statement preparation should be improved to ensure the accuracy of the financial statements. This deficiency contributed to reporting errors in the financial statements for the foundation and the notes to the financial statements for the university. The Associate Vice President for Business and Fiscal Affairs is responsible for financial reporting for the university. The Director of Accounting and the Associate Vice President prepare portions of the financial statements, and the Manager of Payroll and Benefits, the Director of Accounting, and the Associate Vice President prepare portions of the notes to the financial statements. The Associate Vice President reviews the portions he does not prepare, and the Vice President of Business and Fiscal Affairs reviews the entire reporting package.

Although management concurred with the finding in the prior year and added a financial statement preparation checklist to ensure the correctness of the financial statements and notes, this checklist did not include proper analytical procedures to adequately analyze amounts to detect unusual or unreasonable amounts. While the errors noted in the prior year were not repeated, other errors were noted during our audit.

We found an error on the Statement of Net Assets for the foundation. The Director of Accounting transposed the foundation's nonexpendable net assets restricted for research amount and nonexpendable net assets restricted for instructional department uses. As a result, net assets restricted for research were overstated by $2,099,735.67; net assets restricted for instructional department uses were understated by the same amount. According to the Associate Vice President for Business and Fiscal Affairs, the error occurred because the amounts on the financial statements were transferred to a template (an excel spreadsheet) furnished by the Tennessee Board of Regents. The net asset categories on this template were in a different order than the university's internal template (spreadsheet). The different order was not noticed by university staff, and the two amounts were transposed. The error was discovered by university personnel; however, the discovery occurred after the report had been given to the Tennessee Board of Regents, and no further changes could be made. The audit report contains corrected amounts.

We also noted an error in the notes to the financial statements for the university. In the Commitments and Contingencies (Sick Leave) Note, the total amount of sick leave was reported as $31,490,688.15 for the fiscal year ended June 30, 2010; it should have been stated as $25,677,697.37 for a difference of $5,812,990.78. Two former full-time employees who now serve in an adjunct capacity were erroneously included in the calculation of the June 30, 2010, sick leave balance. Adjunct employees are not eligible to accrue leave; however, these two employees were initially miscoded within the information system. In addition, this error in coding caused these two employees' sick leave balance in hours to be multiplied by their monthly salary, instead of an hourly salary, to arrive at the amount of the liability. Management was unable to determine why this happened and was unable to recreate the discrepancy. The note was corrected for this report.

Management has identified within the university's risk assessment the risk of inaccurate/untimely financial reporting and the risk of financials issued with material misstatements. For this, management's intention is to monitor through supervisory controls, such as reviews. According to the Associate Vice President for Business and Fiscal Affairs, there were two main causes for the errors reported above. First, the Director of Accounting did not compare the 2010 financial statements to the 2009 financial statements when they were prepared; therefore, the error on the foundation's statement of net assets was not detected. Second, even though the Associate Vice President for Business and Fiscal Affairs did initially question the sick leave liability reported in the note, he was assured by the Manager of Payroll and Benefits that the note was correct as an information system report written by the staff at the Tennessee Board of Regents Central Office was used to compile the data. However, if an employee were not coded correctly in the information system, the report would compile the information incorrectly. The Manager of Payroll and Benefits and the Director of Human Resources did not adequately analyze the data compiled to look for anything unusual or unreasonable.

These reporting errors resulted in significant misstatements in the university and foundation's unaudited financial statements and the accompanying notes. With an improved review process, the Vice President or Associate Vice President for Business and Fiscal Affairs could have detected and corrected these errors before the financial statements were completed.

Recommendation

The President and Vice President for Business and Fiscal Affairs should ensure that all staff carefully and thoughtfully review the financial statements and related notes. The Associate Vice President should ensure that analytical procedures have been performed on the financial statements, comparing current-year amounts with prior-year amounts to ensure that the amounts reported in the financial statements are accurate at year-end.

Management should continue to evaluate risks and include them in documented risk assessment activities. Management should ensure that staffs who are responsible for the design and implementation of internal controls to adequately mitigate those risks and to prevent and detect exceptions in a timely manner are continually evaluating those controls. Management should ensure that staffs that are responsible for ongoing monitoring for compliance with all requirements are indeed monitoring and taking prompt action when exceptions occur. All controls and control activities, including monitoring, should be adequately documented.

Management's Comment

We concur with the finding that the university did not ensure that amounts were properly reported in its unaudited financial statements and the accompanying unaudited notes to the financial statements.

Error 1:

On the Statement of Net Assests, the foundation's nonexpendable net assets restricted for research and nonexpendable net assets restricted for instruction were transposed. This occurred at the point of transferring the foundation's data to templates for submission to the Tennessee Board of Regents. Reviews and analytics were performed on the worksheets before the transfer to the Tennessee Board of Regents' templates. The MD&A was correct due to fund balance categories being condensed and showing as one total for restricted nonexpendable. It should be noted that this error was of a clerical nature and did not result in a misstatement of the total restricted net assets held by the foundation as shown in the unaudited financial statements.

Proposed Action:

In the future, Tennessee Tech University's review and analytical process will include additional proofreading to avoid clerical errors during the transfer of data for both the university and foundation financial statements. This will occur both before and after transfer to the Tennessee Board of Regents' template.

Error 2:

The note for Commitments and Contingencies (Sick Leave) was reported as $31,490,688.15 when it should have been stated as $25,677,697.37. This number was used by the Payroll and Benefits Manager because of the reliance upon a prewritten report that picked up the wrong rates in two instances.

Proposed Action:

The Payroll and Benefits Manager will analyze this report going forward for significant changes, variances, and pay rates that are outside the norm. Significant changes or abnormalities will be further reviewed for correctness. Staff members have been instructed that all major variances between prior year and current year data must be investigated and documented as to the underlying reason for the variance. This analysis will be provided to the Associate Vice President for Business and Fiscal Affairs as supporting documentation of the disclosed amount.

Volunteer State Community College
Items Discussed at Field Exit Conference
Not Addressed In Audit Findings
For the Years Ended June 30, 2010 and June 30, 2009

1. Local Government Investment Pool (LGIP) totals in the draft investments note for 2009 only included LGIP deposits of $19,413,990.43, excluding the capital projects accounts of $1,045,103.46. The correct amount should be $20,459,093.89.

2. The college failed to show the cash balances related to the Technology Centers on the 2010 draft cash flow statement. This error was due to the incorrect cash flow statement being inserted into the printed annual report.

3. On the 2010 Foundation statement of cash flows, the college omitted Realized Gains and Losses in the calculation of "Proceeds from the sale and maturity of investments." Also, "Principal Return" should be included in this line item instead of "Purchase of investments." This caused the amount of cash provided by the line item to be understated by $111,930.89 with the correct amount of cash provided being $730,244.79.

4. "Proceeds from sales and maturities of investments" was understated on the foundation's 2009 Statement of Cash Flows. The amount originally reported was $320,140.38 and the audited amount was $886,365.73, an understatement of $566,225.35. It was determined that this understatement was caused by the failure to include Edward Jones Bond Maturities, CD Maturities, and Principal Returns in the total "Proceeds from sales and maturities of investments."

   "Purchases of investments" was understated on the foundation's 2009 Statement of Cash Flows. The amount originally reported was $266,609.71 and the audited amount was $969,668.01, an understatement of $703,058.30. This occurred because withdrawals to purchase securities and CDs from Edward Jones totaling $703,058.30 were not included in the calculated "Purchases of investments."

5. In the college's 2009 Statement of Cash Flows expenses for gifts in-kind totaling $149,244.14 were included in the reported cash flows for "payments to suppliers and vendors" and revenues for the same amount were included in the reported cash flows for "Gifts and grants received for other than capital or endowment purposes." This overstated "payments to suppliers and vendors" by $149,244.14 and understated "Gifts and grants received for other than capital or endowment purposes" by the same amount. Also in the Reconciliation of Operating Loss to Net Cash Used by Operating Activities, the amounts for gifts in-kind were not included. Amounts for gifts in-kind should not be included in any of the cash flows on the statement of cash-flows because they do not represent actual cash flows, but should appear as reconciling items in the reconciliation of Operating Loss to Net Cash Used by Operating Activities.

6. The college did not include the Investing Activities section in the 2009 printed financial report in the Statement of Cash Flows. The change in cash balance for the year, however, did include the amounts related to this section.

7. The college understated income on investments on the foundation cash flows statements by $32,597.57 in 2010 and by $139,456.06 in 2009.

TENNESSEE TECHNOLOGICAL UNIVERSITY
ITEMS DISCUSSED AT FIELD EXIT CONFERENCE
NOT ADDRESSED IN AUDIT FINDINGS
FOR YEAR ENDED JUNE 30, 2010

Schedule of Expenditures of Federal Awards

1. The Grant Accountant misstated items on the Schedule of Expenditures of Federal Awards (SEFA). Ten programs on the schedule had the wrong program name, two programs had the wrong program number, and three programs were classified incorrectly on the schedule.

   The Schedule of Expenditures of Federal Awards was revised by university personnel and forwarded to the Tennessee Department of Finance and Administration for inclusion in the 2010 Single Audit Report.

NCAA

2. The Director of Accounting failed to report $593,404.78 of outstanding intercollegiate athletics debt in the Notes to the NCAA Statement of Revenues and Expenses for the fiscal year ended June 30, 2010. A revised note was provided by the auditee.

POLICY: **4:01:05:50**

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

The Tennessee Board of Regents is committed to the responsible stewardship of its resources. Management of each TBR institution is responsible for maintaining a work environment that promotes ethical and honest behavior. Additionally, it is the responsibility of management of each TBR institution to establish and implement internal control systems and procedures to prevent and detect irregularities, including fraud, waste and abuse. 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.

Terms

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 institutional assets or resources, including but not limited to funds, securities, supplies, equipment, real property, intellectual property or data.
- Improper use or assignment of any institutional 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 TBR 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 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 institutional assets or resources to the detriment or potential detriment of the institution. 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 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.)

Preventing Fraud, Waste or Abuse

Maintaining an Ethical Work Environment – 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. To do so, management at all levels must behave ethically and communicate to employees and others that they are expected to behave ethically. Management must demonstrate through words and actions that unethical behavior will not be tolerated.

Implementing Effective Internal Control Systems – Management of each TBR institution has the responsibility to establish and implement internal control systems and procedures to prevent and detect irregularities, including fraud, waste and abuse. Internal controls are processes performed by management and employees to provide reasonable assurance of:

- safeguards over institutional assets and resources, including but not limited to cash, securities, supplies, equipment, property, records, data or electronic systems;
- effective and efficient operations;
- reliable financial and other types of reports; and
- compliance with laws, regulations, contracts, grants and policies.

To determine whether internal controls are effective, management should perform periodic risk and control assessments, which should include the following activities:

1. Review the operational processes of the unit under consideration.
2. Determine the potential risk of fraud, waste, or abuse inherent in each process.
3. Identify the controls included in the process (or controls that could be included) that result in a reduction in the inherent risk.
4. Assess whether there are internal controls that need to be improved or added to the process under consideration.
5. 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.

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:

- Adequate separation of duties among employees.
- Sufficient physical safeguards over cash, supplies, equipment and other resources.
- Appropriate documentation of transactions.
- Independent validation of transactions for accuracy and completeness.
- Documented supervisory review and approval of transactions or other activities.
- Proper supervision of employees, processes, projects or other operational functions.

Reviews of Internal Control Systems – Audits or other independent reviews may be performed on various components of the internal control systems.

Internal Audit – 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. 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.

External Audits – The Tennessee Department of Audit, Division of State Audit, performs periodic financial audits of Tennessee Board of Regents universities and community colleges. One purpose of this type audit is to evaluate an institution's internal controls, which will often result in recommendations for control improvements. State Audit will also perform tests designed to detect fraud, waste or abuse that may have occurred.

Other Reviews – 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.

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. Therefore, management should take steps to review internal controls whether or not audits are to be performed.

Reporting Fraud, Waste or Abuse

Responsibility for Reporting Fraud, Waste or Abuse – Institutional management, faculty and staff with a reasonable basis for believing that fraud, waste or abuse has occurred ~~must~~ are strongly encouraged to immediately report such incidents (TCA 8-50-116). Students, citizens and others are ~~strongly~~ also encouraged to report known or suspected acts of fraud, waste or abuse. 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. 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.

Protection from Retaliation - State law (TCA 8-50-116) prohibits discrimination or retaliation against employees for reporting allegations of dishonest acts or cooperating with auditors conducting an investigation. 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.

Confidentiality of Reported Information – According to ~~the Higher Education Accountability Act of 2004~~Tennessee Code Annotated, 49-14-103, detailed information received pursuant to a report of ~~illegal, improper, wasteful or fraudulent activity~~fraud, waste or abuse or any on-going investigation thereof shall be considered working papers of the internal auditor and shall be confidential. Although every attempt will be made to keep ~~Such~~ information confidential, circumstances such as ~~may be disclosed, however, upon~~ an order of a court or subpoena may result in disclosure. Also, if TBR or one of its institutions has a separate legal obligation to investigate the complaint (e.g., complaints of illegal harassment or discrimination), TBR and its institutions cannot ensure anonymity or complete confidentiality.

Methods for Reporting Fraud, Waste or Abuse – Any employee who becomes aware of known or suspected fraud, waste or abuse should immediately report the incident to an appropriate departmental official. ~~Several options are available to employees, students and others for reporting acknowledged or suspected dishonest acts.~~ Incidents should be reported to:

- a supervisor or department head;
- an institutional official;
- the institutional internal auditor;
- the Office of System-wide Internal Audit at 615-366-4441 or reportfraud@tbr.edu; or
- the Tennessee Comptroller of the Treasury's Hotline for fraud, waste and abuse at 1-800-232-5454.

~~Any employee who becomes aware of known or suspected fraud, waste or abuse must immediately report the incident to an appropriate departmental official.~~ If the incident involves their immediate supervisor, the employee should~~must~~ report the incident to the next highest-level supervisor or one of the officials listed below. Employees should not confront the suspected individual or initiate an investigation on their own since such actions could compromise the investigation.

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:

1. President/Vice President for Business and Finance/TTC Director (or designee)
2. Internal Audit Department
3. Safety and Security Office/Campus Police (when appropriate)

The President/Vice President/Director or designee will immediately notify the TBR Vice Chancellor for Business and Finance and the Director of System-wide Internal Audit regarding the acknowledged or suspected fraud or misconduct. TTC Directors should also report such matters to the Vice Chancellor for Tennessee Technology Centers and the Lead Institution Vice President for Business and Finance. The Director of System-wide Internal Audit will notify the Comptroller of the Treasury of instances of fraud, waste or abuse~~ulent activity or other misconduct~~. After initial notification, each institution should refer to TBR Guideline B-080, *Reporting and Resolution of Institutional Losses*, for additional reporting procedures.

Investigations/Actions

Cooperation of Employees – Individuals involved with suspected ~~fraudulent activity or misconduct~~fraud, waste or abuse ~~must~~ 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. The refusal by an employee~~Any person refusing~~ to provide such assistance ~~must be notified that such refusal~~ may result in ~~the imposition of discipline, up to and including termination~~disciplinary action. ~~Failure to provide such notice will not preclude the institution from terminating the employee.~~

Remedies Available – The Tennessee Board of Regents 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 ~~misconduct or fraudulent acts~~fraud, waste or abuse against the institution. Remedies include, but are not limited to, terminating employment, requiring restitution, and forwarding information regarding the suspected fraud to appropriate external authorities for criminal prosecution. In those cases where disciplinary action is warranted, the Office of Personnel/Human Resources, Office of General Counsel, and other appropriate offices shall be consulted prior to taking such action, and applicable institutional and Board policies related to imposition of employee discipline shall be observed.

Resignation of Suspected Employee – An employee suspected of misconduct may not resign as an alternative to discharge after the investigation has been completed. Exceptions to this requirement can only be made by the institution's President/Director, and require advance consultation with and approval by the Vice Chancellor for Business and Finance. 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 (*General Personnel Policy*, 5:01:00:00).

Effect on Annual Leave – 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 (*Annual Leave Policy*, 5:01:01:01; TCA 8-50-807).

Student Involvement – Students found to have participated in ~~misconduct or fraudulent acts~~fraud, waste or abuse as defined by this guideline will be subject to disciplinary action pursuant to the TBR Policy 3:02:00:01, *General Regulations on Student Conduct and Disciplinary Sanctions.* The Dean of Students/Vice President of Student Affairs/TTC Director (or designee) will be responsible for adhering to applicable due process procedures and administering appropriate disciplinary action.

Confidentiality During Investigation – All investigations will be conducted in as strict confidence as possible, with information sharing limited to persons on a "need to know" basis. The identities of persons communicating information or otherwise involved in an investigation or allegation of ~~misconduct or fraudulent activity~~fraud, waste or abuse will not be revealed beyond the institution and staff of the TBR Offices of General Counsel, Business and Finance and System-wide Internal Audit unless necessary to comply with ~~reporting requirements,~~ federal or state law or if legal action is taken.

Management's Follow-up Responsibility – Administrators at all levels of management must implement, maintain, and evaluate an effective compliance program to prevent and detect fraud, waste and abuse~~ulent activities~~. Once ~~fraud has~~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.

Source: TBR Meeting, March 28, 2008.

POLICY: 4:01:05:00

SUBJECT: Internal Audit

General Statement

The internal audit function contributes to the improvement of the institution's operations by providing objective and relevant assurance regarding risk management, control and governance processes to management and the Board. ~~effectiveness of controls that m~~Management is responsible for evaluating the institution's risks and establishing and maintaining adequate controls and processes. To provide relevant information, the internal audit activity will consider the goals of the institution, management's risk assessments and other input from management in determining its risk-based audit activities. ~~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 operations. Each internal audit function shall adhere to The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* and *Code of Ethics*.~~

This policy addresses staffing, responsibilities of the internal audit function, ~~and~~ audit planning and reporting on internal audit activities. In addition to this policy, the Office of System-wide Internal Audit maintains an audit manual. The purpose of the audit manual is to provide for consistency, continuity, and standards of acceptable performance.

Internal Audit Standards

Each 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* (TCA 4-3-304(9). The Institute of Internal Auditors, International Professional Practices Framework (IPPF), incorporates the definition of internal auditing, the *International Standards for the Professional Practice of Internal Auditing* and the institute's *Code of Ethics* into one document. It includes the following definition of internal auditing:

> 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.

Risk is the possibility of an event occurring that will have an impact on the achievement of an institution's goals and objectives. Risk is measured in terms of the impact an event may have and the likelihood that the event will occur. To optimize the achievement of the institution's goals and objectives, the Board and management acts to minimize the related risks by implementing reasonable procedures to control and monitor the risks.

Governance processes is the combination of processes and structures implemented by the Board to inform, direct, manage, and monitor the activities of the organization toward the achievement of its objectives. Examples of such processes include the organizational structure within an institution or a department; policies, guidelines and procedures instituted by the Board or management to direct and control a particular activity such as maintenance fees or hiring practices; preparation and review procedures for preparing reports such as annual financial statements or federal grant or financial aid reports.

The IPPF includes attribute standards, which address the expected characteristics of organizations and individuals performing internal audit activities and performance standards, which describe the nature of internal audit activities and establish criteria to evaluate the performance of internal audit activities.

To assure compliance with the IIA Standards, internal audit offices must implement and maintain a quality assurance and improvement program that incorporates both internal and external review activities. Internal reviews include both ongoing and periodic review activities. External reviews must be performed at least every five years by a qualified, independent reviewer. Results of quality assurance reviews will be communicated to the Audit Committee and management.

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 shall employ at least one 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 must ~~shall~~ possess the professional credentials, knowledge, skills, and other competencies needed to perform their individual ~~and experience requisite to position~~ responsibilities. The internal audit function collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities. The campus Internal Audit Director and the Director of System-wide Internal Audit must be licensed as a Certified Public Accountant or a Certified Internal Auditor, maintain an active license and annually complete sufficient, relevant continuing professional education to satisfy the requirements for the professional certification held. Other system auditors should annually complete sufficient, relevant continuing professional education to satisfy the requirements for their related professional certification or, at a minimum, forty hours of relevant continuing professional education. Internal Audit Directors should communicate concerns to management regarding the lack of sufficient resources to complete the objectives of an engagement or the audit plan. 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.

3. The appointment of campus Internal Audit Directors as recommended by the President is subject to approval by the Chancellor or designee (TCA 49-14-106). The appointment of the Director of System-wide Internal Audit is subject to review and approval by the Audit Committee of the Board of Regents (TCA 49-14-102).

4. Compensation of campus internal auditors is subject to review by the Audit Committee of the Board of Regents. Compensation of the Director of System-wide Internal Audit and the central office internal auditors is subject to review and approval by the Audit Committee of the Board of Regents.

5. The termination or change of status of campus Internal Audit Directors (TCA 49-14-106) requires the prior approval of the Chancellor and the Audit Committee of the Board of Regents. The termination or change of status of the Director of System-wide Internal Audit (TCA 49-14-102) or central office internal auditors requires the prior approval of the Audit Committee of the Board of Regents.

Internal Audit Role and Scope

1. In accordance with T.C.A. § 49-14-102, the Director of System-wide Internal Audit reports directly to the Audit Committee and the Tennessee Board of Regents. Campus internal auditors report to the respective campus President with audit reporting responsibility to the Audit Committee and the Board through the Director of System-wide Internal Audit. This reporting structure assures the independence of the internal audit function.

2. The TBR, Office of System-wide Internal Audit hosts periodic meetings and communicates with the institutional audit directors on matters of mutual interests.

3. The Office of System-wide Internal Audit 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.~~

4. The internal auditors' responsibilities include:

   a. Working with management to assess institutional risks and developing an audit plan that considers the results of the risk assessment.
   b. Evaluating institutional controls to determine their effectiveness and efficiency.
   c. Coordinating work with external auditors, program reviewers, and consultants.
   d. Determining the level of compliance with internal policies and procedures, state and federal laws, and government regulations.
   e. Testing the timeliness, reliability, and usefulness of institutional records and reports.

f. Recommending improvements to controls, operations, and risk mitigation resolutions.
g. Assisting the institution with its strategic planning process to include a complete cycle of review of goals and values.
h. Evaluating program performance.
i. Performing ~~management advisory~~consulting services and special requests as directed by the Audit Committee, the Chancellor, or the institution's President.

~~3~~5. 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.

6~~4~~. The scope of a particular internal audit activity may be as broad or as restricted as required to meet management needs.

~~5~~7. 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.

8~~6~~. Management is responsible for identifying, evaluating, and responding to potential risks that may impact the achievement of the institution's objectives. ~~The a~~Auditors continually evaluate the risk management, ~~processes and~~ internal control, and governance processes ~~structures~~. To facilitate these responsibilities, Internal Audit will receive notices or 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~~2. At the beginning of each fiscal year, after consultation with the Chancellor or President and other institution management, 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 institutional Internal Audit Director will submit an electronic copy of the audit plan for review by the Director of System-wide Internal Audit and the Audit Committee. The Director of

System-wide Internal Audit will prepare an annual system-wide internal audit plan for approval by the Audit Committee. Once approved by the Audit Committee, audit plans for all institutions will be submitted to the Comptroller's Office, Division of State Audit.

3. The status of the past year's plan will also be prepared in an annual activity report that should~~may~~ include ~~other~~ allsignificant audit services performed. The Internal Audit Director ~~President~~ will submit an electronic copy of the annual activity report ~~two copies of the institution's Audit Plan~~ for review by the Director of System-wide Internal Audit and the Audit Committee. Once reviewed by the Audit Committee, annual audit activity reports for all institutions will be submitted to ~~The Director of System-wide Internal Audit will forward one copy to~~ the ~~State~~ Comptroller's Office, Division of State Audit.

~~4~~3. ~~The Director of System-wide Internal Audit will prepare an annual system-wide internal audit plan for approval by the Audit Committee.~~

Audit Engagements

1. Audits engagements will be planned to provide relevant results to management and the Audit Committee regarding the effectiveness and efficiency of processes and controls over operations. To ensure management's expectations are met, auditors will communicate with management regarding the objectives and scope of the engagement.
2. In planning and during the engagement, auditors should consider and be alert to risks that affect the institution'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.
3. 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.
4. Working papers that are created, obtained or compiled by an internal audit staff are confidential and are not an open record (TCA 4-4-304(9).

Communicating Audit Results~~ports~~

1. ~~Each routine internal audit should result in a~~A written report that documents the objectives, scope, ~~and~~ 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. ~~Reports on special studies, consulting services, and other non-routine items should be prepared as appropriate, given the nature of the assignment.~~
2. Internal Audit will perform audits to follow-up on findings 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 Chancellor or institution's President, along with the Audit Committee, will be notified at the conclusion of a follow-up audit if management has not corrected the reported finding.

3. 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.
4. Reports on special studies, consulting services, and other non-routine items should be prepared as appropriate, given the nature of the assignment.
5. All internal audit reports will be signed by the institution's Internal Audit Director and transmitted directly to the Chancellor, President, or TTC Director in a timely manner.
6. The Internal Audit Director ~~President or TTC Director~~ will transmit an electronic copy ~~two copies~~ of the internal audit report to the Director of System-wide Internal Audit. ~~The Director of System-wide Internal Audit will forward one copy of each report to the State Comptroller's Office.~~
7. The Director of System-wide Internal Audit will ~~provide monthly summaries to the Audit Committee and~~ present significant results of internal audit reports to the Audit Committee quarterly.
8. The Director of System-wide Internal Audit will provide a copy of each report to the Comptroller's Office, Division of State Audit.

Exceptions

Any exceptions to the policy established herein shall be subject to the approval of the Director of System-wide Internal Audit and the Audit Committee.

Source: June 3, 1981 TBR Presidents' Meeting; July 1, 1984; May 20,1986; February 14, 1989; November 14, 1989; August 13, 2002; February 10, 2004; November 18, 2004; June 29, 2007; December 6, 2007.