BUSINESS AFFAIRS SUB-COUNCIL

October 15, 2013

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); Ms. Kathy Johnson (VSCC); Ms. Renee Moore (PSCC); Mr. Mitch Robinson (APSU); Mr. Stanley Robinson (STCC); Ms. Jeannie Smith (UOM); Dr. Claire Stinson (TTU); Ms. Tammy Swenson (ChSCC); Mr. Alan Thomas (MTSU); Ms. Hilda Tunstill (MSCC); Mr. Greg Wilgocki (ETSU); Dr. Tommy Wright (ClSCC); Mr. Jeff Young (TTU); Mr. David Zettergren (UOM); Mr. Pat Couch, Ms. Angela Flynn, Ms. Alicia Gillespie, Ms. Lisa Hall, Ms. Pat Massey, Ms. April Preston, Mr. Wayne Pugh, 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 1, 2013 Finance Committee meeting:

- Payments to Research Participants

  The committee discussed payments to research participants through petty cash or gift card. ETSU allows payments (less than $50) to non-employee research participants through a gift card or petty cash. When paying these participants, a signature, name, address, and SSN are collected for the distribution of payments.

  ETSU has developed a draft guideline for procedures on how to handle these situations. The draft is for review only and will be submitted for approval during the January cycle. (Attachment A)

- Works of Art and Historical Collections

  The committee discussed updating the current capitalization policy and chart of accounts for works of art and historical collections. One of the institutions was given a work of art and needed to capitalize it, but there was no account code in Banner for works of art. The value of the art was appraised at over $5,000, so the institution determined that it should be capitalized.

  It was recommended that an account code be added. Ms. Stewart will work up language to add to the capitalization policy for review during the January cycle.

- Moving Allowance

  The committee discussed revising the moving expense language in the General Personnel Policy 5-01-00-00. It has been proposed to implement a moving expense allowance rather than reimbursing moving expenses.

  The committee discussed obtaining estimates for moving expenses. Under the current reimbursement method, the institution obtains estimates from different moving companies. With the allowance method, the employee would be responsible for obtaining the estimates. The committee discussed whether there needs to be a certain dollar amount that would require approval from the Chancellor. The committee determined that all moving allowances should be approved by the President or designee. For the hiring of direct reports to the President who already require Chancellor approval, the moving allowance for those employees would be part of their compensation package and be approved by the Chancellor through the hiring process.

  The committee proposed that each institution should be responsible for maintaining a report of annual moving expenses for auditors.

  Language has been added to the moving expense section of this policy and was approved with a January 1, 2014 effective date. (Attachment B)

- Scanned Travel Claims

  The committee discussed whether institutions can accept scanned copies of travel claims and receipts. The institution needing to accept scanned copies felt that accepting a scanned signature did not meet the definition of an electronic signature as defined by TBR policy and recommended changes to the policy.

  Several of the committee members have been accepting scanned copies of travel claims for some time. The committee discussed the controls that these institutions have in place, including segregation of duties and destroying the original receipts after submission. ETSU has worked with SciQuest to develop procedures for scanned travel claims. ETSU shared their process through a web presentation subsequent to the meeting.

  The committee recommended waiting to make any changes until the travel policy is discussed during the review of policies and guidelines.

- Findings and Weaknesses

  The committee was given all findings and weaknesses published since the last quarterly Finance Committee meeting. There were seven audit reports released in the last quarter, with a total of seven findings. Four of the findings dealt with the Banner information systems. Two of the findings were that institutions did not ensure that amounts were properly reported in the financial statements and accompanying notes to the financial statements. One dealt with the employer portion of the insurance premiums. (Attachments C & D)

- Review of Policies and Guidelines

  The committee discussed Policy 4-01-00-00 Budget Control, Policy 4-01-00-10 Community College Resource Allocation Plan, Policy 4-01-01-10 Deposit and Investment of Funds, and Guideline B-020 Classification and Operation of Auxiliary Enterprises.

  Comments are included in Attachments E-H. These changes will be submitted for approval during the January cycle.

- Pearson Fee Recording

  The committee discussed the accounting treatment of the Pearson fee being collected from students at campus bookstores. The committee discussed whether to put it in the auxiliary account or to use an agency account. The money is being collected and then submitted to Pearson. It was suggested that a common treatment be adopted.

  Subsequent to the BASC meeting, the community college CBO's agreed to record the Pearson fee as unrestricted tuition and fees.

The Finance Committee minutes were approved.

B. Council of Buyers

Ms. Flynn highlighted the following issues from the September 25, 2013 Council of Buyers meeting:

- Sales and Use Tax

  Ms. Flynn updated the committee on the sales and use tax requirements. Going forward, institutions must either obtain a vendor's sales and use tax number for verification, or receive written documentation from the Department of Revenue verifying that the vendor is exempt. Verification is required before any goods or services may be ordered. This is also the current practice that the University of Tennessee is following.

  Ms. Flynn will issue further guidance on the issue as it becomes available.

- Fiscal Review Requirements

  Ms. Flynn informed the committee that effective July 1, 2013, Public Chapter 403 requires additional contract amendments, for both competitive and non-competitive contracts, to be presented to the Fiscal Review Committee. Ms.

Flynn indicated that the Central Office is still trying to sort through the new requirements and further guidance will be sent out to the Council of Buyers as soon as a clear understanding of the requirements is obtained.

The Council of Buyers minutes were approved.

C. Human Resources

Ms. Preston highlighted the following issues from the October 2, 2013 Human Resource Officers meeting:

- Affordable Care Act Update

  Ms. Preston informed the committee that there is an initiative from the White House to notify individuals between the ages of 18-35 about the market place. The Central Office was contacted regarding supporting this initiative at TBR institutions. The non-profit organization may come on campus using a facilities use agreement.

- Use of 2012 and 2013 FSA Forfeiture Refund Toward Pre-Funding New Vendor

  TBR will need to either issue an RFP or join the UT Flexible Spending Account (FSA) contract effective January 2015. At this point, the feedback from UT and conversations with their FSA vendor, PayFlex, lead us toward joining the UT contract.

  One of the requirements of joining a new FSA provider is providing pre-funding to cover the cost of claims made, prior to withdrawals being made from payroll. PayFlex has agreed to an 8% pre-fund balance, or approximately $296,000, based on current system-wide participation. Ms. Preston recommended that we use the 2012 and 2013 forfeiture checks toward the cost of pre-funding, instead of disbursing the respective percentages back to the institutions.

  The committee expressed some concern about switching FSA vendors, due to some negative issues that have happened with previous vendors.

- Workers Compensation Fund

  It was brought to the committee's attention that TBR's workers compensation claims are almost double UT's claims. Mr. Sims urged the group to work on ways to reduce the number of claims.

The Human Resource Officers minutes were approved.

D. Internal Audit

Mr. Zettergren highlighted the following issue from the September 18, 2013 Internal Auditors meeting.

- QAR Discussion

  The committee discussed the results of the recent external Quality Assurance Review and proposed plans to address the recommendations made during the review. Various topics were discussed, including better documentation of engagement planning processes, tracking of management's implementation of both findings and observations, consideration of a "recommendation focused" report format and the use of electronic working paper, customer surveys, CAATs and key performance indicators.

The Internal Audit minutes were approved.

E. IT Sub-Council

Mr. Young highlighted the following issues from the July 16, 2013 IT Sub-Council meeting.

- Banner Enterprise Information System (BEIS) Direction

  It was decided that multiple implementations of BEIS would be too complex. Most institutions want the full install. Those not wanting the full install will have to be moved to the end of the line for support, as the full install takes precedence.

- Ellucian

  When negotiating the D2L licenses, there was a two year moratorium on license fee increases. There is a contractual agreement for a 25% discount on D2L products. Therefore, Degree Compass should be available at this discount. We have filed a formal request with Ellucian to get an opinion as to whether Degree Compass violates our Oracle license; however, Ellucian has not been responsive to our request.

2. <u>IRS Notice 972 CG</u>

Many institutions have received penalty notices (Notice 972CG) from the IRS proposing to levy fines for 2011 Form 1098-T's that were submitted with missing or mismatched taxpayer identification numbers. Mr. Pugh has developed a template for institutions who decide to pursue a request for waiver of the proposed penalties. If you have already submitted a response to the IRS, there is no need to submit again.

3. **Athletic Insurance**

The current athletic insurance policy covers up to $75,000 before it moves up to the NCAA catastrophic coverage. Mr. Sims recommended that institutions (mainly the community colleges) look at increasing their excess coverage.

4. **Budgeting – OPEB and Compensated Absences**

UT does not include the OPEB or compensated absences allocations in their budgets. They only make the entries at year-end. A recommendation was made that beginning with the July 1, 2014 budget we eliminate the OPEB and compensated absences allocation to free up the funds for other purposes.

Guideline Area

Business and Finance Guidelines

Applicable Divisions

TCATs, community Colleges, Universities

Purpose

The purpose of this guideline is to establish the process for low dollar payments to research participants through petty cash or gift card at the institutions governed by the Tennessee Board of Regents.

Definitions

Guideline

I. General

a. Payments to research participants for participation in studies should be made through the Institution's accounts payable system via check or direct deposit. The payment is considered compensation by the Internal Revenue Service and a name, SSN and home address must be provided for each payment.

b. Some research studies use low dollar payments to compensate participants for time, inconvenience, or as an incentive to increase participation. When such payments are no more than $50 per payment per participant, and individual participant payments aggregate to less than $600 per study, it may be appropriate to make payments utilizing petty cash or gift cards as long as the following procedures are followed.

II. Prohibition from use of petty cash or gift cards in research studies

a. No payment from petty cash or gift cards may be made to an institution employee or non-resident alien.

b. Petty cash may not be used to purchase gift cards.

III. Procedures for safeguarding and accounting for petty cash and gift cards in research studies

a. Petty cash or gift cards for research studies must be assigned to a custodian responsible for safeguarding the cash or gift cards.

b. Petty cash or gift cards for research studies must be maintained under lock and key by the custodian of the funds.

c. Access to the petty cash or gift cards for research studies must be controlled by the custodian of the funds.

d. The balance of petty cash gift cards on hand plus participant receipts must equal the petty cash and gift cards authorized and obtained. If a shortage of petty cash or gift cards on hand is determined, the shortage must be reported to the institution's Bursar's Office immediately.

e. Petty cash or gift cards must be used for research participant payment only and may not be used for departmental or other research expenses.

f. Petty cash and gift cards for research participants are subject to audit at any time by the institution, State Audit, or funding agency.

g. Petty cash and gift cards for research participants are required to be closed out at the end of the research study and any excess cash or cards must be returned to the Bursar's Office.

IV. Distribution of petty cash or gift cards to research participants

a. Petty cash or gift cards must be hand delivered to research participants. These funds cannot be sent to participants through the mail. If participant payments must be mailed, petty cash or gift cards cannot be used and the payments need to be in the form or a check or direct deposit processed through the Institution's Accounts Payable department.

b. Payments to research participants, regardless of delivery method (check, direct deposit, petty cash, or gift card) are considered compensation by the Internal Revenue Service. Research participants must provide name, SSN, and address at the time of the receipt of petty cash or gift card payments. Personally identifiable information should be gathered in a manner which prevents disclosure of personal information to other research participants. Signatures must be obtained from research participants indicating receipt of the petty cash or gift card payment.

c. Payments to individual research participants are limited to $50 per payment and aggregate to less than $600 per participant for the study.

Moving Allowance

Newly hired full-time employees who relocate from their former residence to a new residence within the first 12 months of employment may be issued a one-time moving allowance, if deemed appropriate by the **President or designee.** If the institution recruits and hires more than one person from the same family, only one moving allowance is permitted. To be eligible to receive a moving allowance and to comply with the current guidelines published by the Internal Revenue Service (IRS), the move must meet the minimum IRS distance test of 50 miles from the location of the former residence. For example, if the location of the former workplace was 3 miles from the employee's former home, the location of the employee's new workplace must be at least 53 miles from the employee's former home. If the employee did not have a former workplace, the new workplace must be at least 50 miles from the employee's former home. The distance between the two points is the shortest of the more commonly traveled routes between them.

Arranging for Moving and Payment

The moving allowance is paid directly to the employee, reported as taxable income, and is subject to all tax liability at the time of payment. The amount of the moving allowance will be included in boxes 1, 3, and 5 of the employee's W-2. The employee will make all arrangements for the move without the involvement of the institution.

The employee does not submit moving expense receipts to the institution but is advised to keep them for personal tax return purposes. The employee may be able to recover the income tax withheld by filing the appropriate IRS forms with their tax return – IRS Form 3903 Moving Expenses. This recovery is dependent on the IRS regulation in force at the time of payment. The employee receiving the moving allowance will be responsible for documenting expenses on their federal tax return as required by IRS Publication 521 Moving Expenses.

~~Moving allowances exceeding $__________ require advanced approval from the Chancellor or his designee.~~

All moving allowances require advanced approval from the President or designee. For persons hired that require the Chancellor's approval, approval of the moving allowance will be included in the hiring approval.

Other Provisions

A. Moving allowances will be paid only after a contract is executed between the employee and the institution. See Attachment A

B All payments must be made within twelve (12) months of the date employment begins for new employees or relocation occurs for relocated employees.

C. The agreement on the amount of the moving allowance to be paid should be clearly understood in writing between the employee and the institution.

D. The institution shall assume no liability whatsoever for personal injuries, property damages, or other losses which may be sustained in connection with any moves undertaken pursuant to these regulations.

Tennessee Board of Regents
Audit Committee
September 4, 2013
Review of Comptroller's Office Audit Reports
Financial and Compliance Audits—Findings Reported

Institution	For the Year Ended	Fairness of Financial Statement Presentation	Report on Internal Control	Report on Compliance	Findings
Tennessee State University	June 30, 2012	Unqualified Opinion	Two findings identified as material weaknesses*	No instances of noncompliance required to be reported	5

Finding 1 – Management failed to provide adequate program change management over the Banner computer system which increased the risk of fraud or error.*

Management of the university's Communication and Information Technology (CIT) group has not established and implemented effective policies and procedures over program changes to the Banner system. We observed significant conditions that were in violation of industry-accepted best practices, including insufficient program change documentation and a lack of separation of duties. Failure to consistently apply proper change management controls across the university's computing environment increases the risk of fraud and error.

Management's Comment – Management concurred and stated procedures were in place to provide program change management, but the procedures lacked sufficient documentation. The Vice President for Administration will ensure that the Management Information Systems (MIS) group in CIT and Banner functional security officers document procedures adequately for requesting and approving changes to Banner.

Finding 2 – The university failed to provide access controls over Banner computer system, which increase the risk of fraud or error.*

Management of the university's CIT group did not provide for adequate internal controls over access to its Banner computer system as required by university policy and recommended as an industry-accepted best practice. This finding does not identify specific vulnerabilities for security purposes.

Management's Comment – Management concurred and stated the Vice President for Administration will ensure CIT management and the CIT Systems Support group refine the university's access control policy to follow industry accepted best practices.

Finding 3 – The university did not assess and mitigate the risks associated with inappropriate user access to information systems, increasing the risk of fraudulent activity.

Management of the university's CIT group did not always take proper steps to ensure user access to information systems was appropriate, resulting in an increased risk of fraudulent activity. This finding does not identify specific vulnerabilities for security purposes.

Management's Comment - Management concurred and stated procedures were in place to ensure appropriate access to information systems, but the procedures lacked sufficient documentation. The Vice President for Administration will ensure that the CIT MIS group and the CIT Systems Support group document procedures adequately for managing access to the Banner system.

Tennessee State University – continued

Finding 4 – Management has not assessed and mitigated the risks associated with its failure to develop written policies and procedures over information systems.

Management has not established information system policies and procedures to direct operations. Documented information systems policies and procedures are necessary to ensure that functions are accomplished consistently and that change to programs and databases, physical and logical security, back-up and recovery, review and supervision of staff and other information systems related activities are in accordance with management's intentions.

Management's Comment – Management concurred and stated the Vice President for Administration will ensure that CIT management documents and promulgates policies and procedures for key areas of the CIT's information systems operations, including physical and environmental security, back and recovery for systems supporting the Banner application, and information security.

Finding 5 – Both the employee and employer portions of insurance premiums charged in the payroll system have conflicted with actual remittances to the state's Division of Benefits Administration.

Management made the auditors aware that periodic reconciliations were not being properly performed to agree the employee and employer portions of the insurance premiums recorded in the payroll system to the remittances to the state's Division of Benefits Administration. Performing such reconciliation would ensure the university is only paying insurance premiums for eligible persons. Additionally, this reconciliation would determine all withholding from eligible persons checks to properly remit to the state ensuring employees who seek medical or dental care can provide proof of insurance to service providers.

Management's Comment - Management has implemented several changes to the new-hire process to ensure that new hires enroll in benefits in a timely manner. Additionally management has implemented changes to the benefits reconciliation process to ensure discrepancies are identified and corrected in a timelier manner and to ensure corrective measures taken are adequately documented.

Internal Audit Follow-Up: An internal audit follow-up report on this finding will be presented to the Audit Committee at a subsequent meeting.

Tennessee Board of Regents
Audit Committee
September 4, 2013
Review of Comptroller's Office Audit Reports
Financial and Compliance Audits—Findings Reported

Institution	For the Year Ended	Fairness of Financial Statement Presentation	Report on Internal Control	Report on Compliance	Findings
Columbia State Community College	June 30, 2012 and June 30, 2011	Unqualified Opinion	The finding was identified as a material weakness	No instances of noncompliance required to be reported	1

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

The college did not have established procedures for recording gifts to the foundation in the appropriate category of net assets. As a result, the college's financial statements and notes, including its foundation, contained reporting errors related to endowments. Also, the foundation was unable to provide gift instruments or other records indicating donor intent for some of the funds classified as endowments.

The audited review 30 endowment funds and found that eleven (37%) were not recorded properly. Management reviewed the remaining 67 endowment funds classified as endowments and noted additional 24 errors (36%). These errors resulted in significant misclassifications in the college's unaudited component unit note to the financial statements and the Statement of Net Assets for the component unit.

Management's Comment – Management concurred and stated many of the endowments in question were established ten or more years ago. Written agreements explicitly stating donor intent have been obtained for all new endowments in recent years. The current written agreement format explicitly state donor intent and will be obtained for all future endowments. Written procedures are being established to help ensure that foundation gifts are recorded in the appropriate category of net assets.

Internal Audit Follow-Up: An internal audit follow-up report on this finding will be presented to the Audit Committee at a subsequent meeting.

Tennessee Board of Regents
Audit Committee
September 4, 2013
Review of Comptroller's Office Audit Reports
Financial and Compliance Audits—Findings Reported

Institution	For the Year Ended	Fairness of Financial Statement Presentation	Report on Internal Control	Report on Compliance	Findings
Motlow State Community College	June 30, 2012 and June 30, 2011	Unqualified Opinion	The finding was identified as a material weakness	No instances of noncompliance required to be reported	1

Finding – As reported in the previous two audits, the college needs improved preparation and review procedures to prevent errors in its financial statements.

Although management concurred with the previous findings, management's corrective action did not ensure the financial statements were accurately prepared.

Financial Statements and Notes to the Financial Statements

- On the college's June 30, 2012 and June 30, 2011, statement of net assets, $1,186,300 and $586,300, respectively, of expendable net assets restricted for capital projects were misclassified as unrestricted net assets.
- For 2012 and 2011, budgeted capital appropriation revenue and matching budgeted utilities, supplies, and other services expenses of $268,543 and $46,031, respectively were reported on the statements of revenues, expenses, and changes in net assets, resulting in revenue and expense to be overstated.
- In note 10 in the college's 2012 financial report, contributions to the Tennessee Consolidated Retirement System were misstated for the year ended June 30, 2012, as $1,111,405, rather than $1,137,307, an error of 25,901.
- On the college's 2011 statement of revenues, expenses and changes in net assets, in the component unit column, $27,885 of utilities, supplies, and other services expense was misclassified as scholarships expense.

Management's Comment – Management concurred and stated they would take the following corrective actions:

- The capital projects noted by the audit have been reclassified in Banner from unrestricted to restricted.
- Capital appropriations will be reviewed closely at year-end to ensure that actual reportable transactions are reported in the financial statements.
- Contributions to the Tennessee Consolidated Retirement System will be verified by reviewing Banner at year end.
- Classifications of expenses for the component unit will be verified by generating spreadsheet budgeting to ensure proper classification at year end.

Additionally, the Vice President for Business Affairs and the Assistant Vice President for Fiscal Services will conduct thorough reviews of the financial statements and in the notes.

Internal Audit Follow-Up: An internal audit follow-up report on this finding will be presented to the Audit Committee at a subsequent meeting.

Findings and Recommendations

1. Tennessee State University management failed to provide adequate program change management over the Banner computer system, which increased the risk of fraud or error

Finding

Management of the university's Communications and Information Technology (CIT) group has not established and implemented effective policies and procedures over program changes to the Banner system. We observed significant conditions that were in violation of industry-accepted best practices, including insufficient program change documentation and a lack of separation of duties. Failure to consistently apply proper change management controls across the university's computing environment increases the risk of fraud and error.

Program changes to the Banner system at TSU consist of updates received by the Tennessee Board of Regents (TBR) and university-specific changes. The updates received by TBR include both vendor patches and modifications created by TBR. University-specific changes are those that address specific needs unique to the university. According to management, no university-specific changes were made to Banner during the audit period.

We reviewed supporting documentation for eight TBR-provided program changes made during the audit period. Because there are only limited procedures relating to program changes, CIT personnel were unable to provide adequate documentation for these changes. For example, management could not provide evidence that these changes had been tested by either the CIT department or the functional users. Additionally, management's final approval to make these changes was not documented.

Good program change controls require that all changes be made first in a test environment, and that the changes be made to the production environment by someone other than the one who made the change in the test environment. Management of the CIT group told us, however, that there are no controls in place to segregate these duties. We found that those authorized to make changes, including changes from TBR, have access to both the test and production environments, and that it is management's practice for the same person to make both changes. Furthermore, CIT management reported to us that the Banner system does not have the technical capability to require that changes be made with unique user accounts. Instead, system accounts are used to make changes, and these accounts are shared by multiple programmers. As a result, changes cannot be traced back to one person. CIT management has not implemented mitigating controls to reduce the risks of this apparent limitation inherent in the Banner system.

Without adequate program change controls in place, there is a high risk that unauthorized or untested changes could occur without detection, potentially resulting in either fraud or error. In addition, the conditions noted in this finding create the possibility that multiple programmers could simultaneously change the same source code. It appears that CIT management was aware of these inadequate controls and has been relying on the trustworthiness of its staff instead of implementing industry-accepted program change controls.

We also reviewed management's risk assessment and found that management has not appropriately identified and mitigated risks of failure to properly document and control Banner program changes.

Recommendation

The Vice President for Administration should immediately direct senior management over the Communications and Information Technology group to establish and implement effective program change policies and procedures. When developing these policies and procedures, management should consider the documentation required for all program changes. At a minimum, the documentation should include the requesting user's identification, the date the change was requested, a description of the requested change, management's approval, the programmer's identification, the testing performed and results, the date completed, the user's acceptance of the completed change, and when and by whom the change was made in production.

Also, management over the CIT group should review controls over the program change process. As part of this review, management should consider a library control solution that will provide better access and version control. Ideally, programmer duties should be separated in that the same person should not be authorized to make a change in both the test and production environments. In addition, management should implement controls to mitigate the risks associated with the use of shared accounts to make program changes.

The Vice President for Administration must require that risks associated with this finding are adequately identified and assessed in the university's documented risk assessment and must also implement effective controls to ensure compliance with applicable requirements, assign staff to be responsible for ongoing monitoring of the risks and mitigating controls, and take action if deficiencies occur. The Vice President for Administration should also take all other steps available to establish or improve any compensating controls until these conditions are remedied.

Management's Comment

We concur. Procedures were in place to provide adequate program change management, but the procedures lacked sufficient documentation. The Vice President for Administration will ensure that the Management Information Systems (MIS) group in Communications and Information Technology (CIT) and Banner functional security officers document procedures adequately for requesting and approving changes to the Banner System. The procedures will include the steps to process updates for the Tennessee Board of Regents.

Procedures will also be documented on processing university-specific changes and these procedures will be promulgated to the Vice President for Administration, the MIS group, and Banner functional security officers. They will also be posted on the MIS website.

The Vice President for Administration will ensure that the MIS group implements mitigating controls to reduce the risks associated with an inherent limitation in the Banner System, which requires updates to the database and programming changes be made using a specified system account. Each staff member will be required to use his/her unique account to log into the system and use the *switch users* command to access the appropriate Banner system account. This procedure will allow session activity on the system to be stored in a log file for each user. In addition, the Vice President for Administration will ensure that information security risks related to this finding are addressed in the university's risk assessment.

The procedures for program change controls have already been implemented. The documented versions of the procedures will be completed by March 1, 2013.

2. <u>The university failed to provide adequate access controls over the Banner computer system, which increased the risk of fraud or error</u>

Finding

Management of the university's Communications and Information Technology (CIT) group did not provide for adequate internal controls over access to its Banner computer system. We observed conditions that were in violation of university policy and industry-accepted best practices. Failure to consistently apply proper access controls across the university's computing environment increases the risk of fraud, error, and inappropriate access to sensitive data and equipment.

The wording of this finding does not identify specific vulnerabilities that could allow someone to exploit the university's systems. Disclosing those vulnerabilities could present a potential security risk by providing readers with information that might be confidential pursuant to Section 10-7-504(i), *Tennessee Code Annotated*. We provided the university with detailed information regarding the specific vulnerabilities we identified as well as our recommendations for improvement.

Recommendation

The Vice President for Administration should ensure that these conditions are remedied by the prompt development and implementation of effective access controls. In addition, the Vice President for Administration should ensure that risks associated with this finding are adequately identified and assessed in the university's documented risk assessment. The Vice President for Administration should implement effective controls to ensure compliance with applicable requirements, assign staff to be responsible for ongoing monitoring of the risks and mitigating controls, and take action if deficiencies occur.

Management's Comment

We concur. The Vice President for Administration will ensure that CIT management and the CIT Systems Support group refine the university's access control policy to follow industry-accepted best practices. The access control policy will apply to all systems in the computing environment. The access control policy will be documented and promulgated to the Vice President for Administration, the CIT Department, and an electronic version will be included on the CIT website. The university access control policy will be completed and promulgated to the university by March 1, 2013.

The Vice President for Administration will ensure that information security risks related to this finding are identified and addressed in the university's risk assessment.

3. The university did not assess and mitigate the risks associated with inappropriate user access to information systems, increasing the risk of fraudulent activity

Finding

The Communications and Information Technology (CIT) group at Tennessee State University did not always take proper steps to ensure user access to information systems was appropriate, resulting in an increased risk of fraudulent activity. The wording of this finding does not identify specific vulnerabilities that could allow someone to exploit the university's systems. Disclosing those vulnerabilities could present a potential security risk by providing readers with information that might be confidential pursuant to Section 10-7-504(i), *Tennessee Code Annotated*. We provided university management with detailed information regarding the specific vulnerabilities we identified as well as our recommendations for improvement.

Recommendation

The Vice President for Administration should ensure that these conditions are remedied through procedures that encompass all aspects of effective access controls. In addition, the Vice President for Administration should ensure that risks associated with this finding are adequately identified and assessed in the university's documented risk assessment. The Vice President for Administration should implement effective controls to ensure compliance with applicable requirements, assign staff to be responsible for ongoing monitoring of the risks and mitigating controls, and take action if deficiencies occur.

Management's Comment

We concur. Procedures were in place to ensure appropriate access to information systems at the university, but the procedures lacked sufficient documentation. The Vice President for Administration will ensure that the CIT MIS group and the CIT Systems Support group document procedures adequately for managing access to the Banner system. These procedures will be implemented immediately. The documented versions of the procedures will be completed by March 1, 2013.

The university will continue to review current policies to ensure that the relevant risks are adequately addressed. In addition, the Vice President for Administration will ensure that these risks are addressed in the university's risk assessment.

4. Tennessee State University management has not assessed and mitigated the risks associated with its failure to develop written policies and procedures over information systems

Finding

Tennessee State University has not established information systems policies and procedures to direct its operations. Documented information systems policies and procedures are necessary to ensure that functions are accomplished consistently and that change to programs and databases, physical and logical security, backup and recovery, review and supervision of staff, and other information systems related activities are in accordance with management's intentions.

Without these policies and procedures, the university does not have sufficient guidance to effectively direct, control, operate, and maintain any of its systems. In addition, the absence of policies and procedures influences many aspects of information systems operations, including issues identified in this report such as the lack of controls over Banner program changes and Banner system access.

We also reviewed management's risk assessment and found that management had not appropriately identified or mitigated the risks related to not having information systems policies and procedures.

Recommendation

The Vice President for Administration should ensure that these conditions are remedied by the prompt development and implementation of effective policies and procedures over its information systems operations. These policies and procedures should be designed to provide guidance for the execution of effective daily operations.

In addition, the Vice President for Administration must require that risks associated with this finding are adequately identified and assessed in the university's documented risk assessment and must also implement effective controls to ensure compliance with applicable requirements, assign staff to be responsible for ongoing monitoring of the risks and mitigating controls, and take action if deficiencies occur. The Vice President for Administration should also take all other steps available to establish or improve any compensating controls until these conditions are remedied.

Management's Comment

We concur. The Vice President for Administration will ensure that CIT management documents and promulgates policies and procedures for key areas of CIT's information systems operations, including physical and environmental security, backup and recovery for systems supporting the Banner application, and information security. The policies and procedures for program changes, access controls, and Banner user authorization will be completed by March 1, 2013. All other policies and procedures will be reviewed and updated by April 30, 2013.

The Vice President for Administration will ensure that information security risks related to this finding are identified and addressed in the university's risk assessment.

5. <u>Both the employee and employer portions of insurance premiums charged in the payroll system have conflicted with actual remittances to the state's Division of Benefits Administration</u>

Finding

As part of our audit, we asked business office staff if they were aware of any problems that might have a significant impact on financial reporting. Staff informed us of continuing differences between insurance premiums per the payroll records and insurance premiums remitted to the State of Tennessee, Department of Finance and Administration, Division of Benefits Administration. Our review of the records confirmed that significant problems existed. These erroneous insurance premiums occurred and went uncorrected because a proper reconciliation between information in the university's information system (Banner) and information in the state's information system (Edison) was not being performed.

Staff from the Department of Finance and Accounting had been attempting to reconcile the deduction premiums charged in the TSU payroll register with the benefits premiums paid to the State of Tennessee. The individual who performed this reconciliation would not have access to the Human Resources benefit files and was not able to substantiate reasons for any differences noted. In July of 2012, the former Associate Director in Human Resources reconciled the total deduction premiums charged in the TSU payroll register in May 2012 with the benefit premiums paid during May 2012. Based on our review of the reconciliation performed, several individuals were identified with insurance premium differences. Several individuals' benefit premiums were corrected; however, we examined June data and determined that many of the individual problems with premiums still existed. Human Resources completed the reconciliation for June 2012 at some point in August 2012; however, it was not provided to us until late October 2012.

For the year ended June 30, 2012, there were 587 individuals with differences greater than $1. Fifty-four of these 587 individuals had differences of more than $1,000. We reviewed the records of all of these 54 individuals as well as the 39 other individuals who appeared in one system but not the other. Our results were as follows:

- Differences greater than $1,000 – (1) the university erroneously paid $85,359.93 for terminated employees, employees on FMLA leave or leave without pay, or other discrepancies and (2) employees were overcharged $7,734.80 for insurance.

- Differences for other individuals in one system but not the other – (1) the university erroneously paid $2,903.98 for terminated employees, employees on FMLA leave or leave without pay, or other discrepancies and (2) employees were overcharged $685.13 for insurance.

- Total incorrect payments for the individuals examined – (1) the university erroneously paid $88,263.91 for terminated employees, employees on FMLA leave or leave without pay, or other discrepancies and (2) employees were overcharged $8,419.93 for insurance. These totals do not include amounts for employees appearing in both systems with differences below $1,000.

When we discussed these issues with the Associate Vice President of Human Resources, she stated that she was not aware of the extent of the problem until recently. Within the current system, TSU must use two information systems for processing its benefits for employees. The nature of this system lends itself to discrepancies, although the Associate Vice President stated that every attempt is made to minimize the errors. According to the Associate Vice President, some form of reconciliation had been done, but not to the extent of reconciling each employee by name and benefits for each billing cycle. As a result, the different deadline dates within the two systems would create variances. The Associate Vice President gave additional reasons for the errors as follows: TSU must collect premiums a month in advance regardless of the date on which the employee starts, employees may not submit required forms timely, changes may not be made by Benefits Administration timely, notification of changes in insurance premium rates may be late, and salary updates within the Edison information system are infrequent.

Although some of these issues may be because of untimely changes at Benefits Administration with the state or untimely receipt of changes from employees, it is the responsibility of TSU's Human Resources to ensure that changes are made. Also, because Benefits Administration with the state does not have any access to TSU records, any errors made by Benefits Administration must still be followed up on by university staff regardless of the origination of the error.

Errors involving employee benefits are detrimental to the university. If the university is paying for insurance premiums for terminated employees or other ineligible persons, these payments constitute waste and should be remedied immediately. If the university is withholding insurance premiums from current employees' payroll checks, but not remitting those funds with any applicable employer portion of the premiums through the proper channels at Benefits Administration, employees who seek medical or dental care may have difficulty providing proof of insurance to service providers.

Recommendation

The Vice President of Business and Finance should ensure that a monthly reconciliation of benefit premium charges in Banner is reconciled timely to benefit premiums remitted to Benefits Administration. Although the Benefits Specialist may prepare this reconciliation, someone other than the Benefits Specialist needs to review to ensure that it is adequate. Without a monthly reconciliation, discrepancies with premiums paid through the state cannot be discovered in a timely manner. The Vice President of Business and Finance should also ensure that differences with the monthly reconciliation are followed up and corrected in a timely manner.

The Vice President of Business and Finance should ensure that prior differences are thoroughly researched to determine if TSU owes employees refunds for premiums deducted from employees' paychecks when no coverage existed or if TSU should collect funds from employees.

Management's Comment

We concur. Prior to the audit by the State of Tennessee, the university identified during one of its routine systems reviews that there were discrepancies between insurance premiums collected from employees and amounts remitted to the State of Tennessee. The university brought this to the auditors' attention as an area of current focus. Discrepancies occur for various reasons, including those listed in the finding.

The university has implemented several changes to the new-hire process to ensure that new hires enroll in benefits in a timely manner. Employees are encouraged to periodically review their benefits information in Edison.

The university has implemented changes to the benefits reconciliation process to ensure that discrepancies are identified and corrected in a more timely manner, and to ensure that corrective measures taken are adequately documented.

In addition, the following changes will be instituted to ensure future discrepancies are identified in a timely manner:

- The Director or Associate Director of Human Resources will review the Edison report and approve the monthly reconciliations no later than three days after the billing is received. The Vice President for Business and Finance will also review and approve the reconciliations for a minimum period of six months, beginning March 2013.
- Life insurance remittances will be adjusted no later than March 31, 2013, to base premiums on the state's static salary file for that calendar year.
- Additional staff in Human Resources, Finance and Accounting, and/or other units will be identified and utilized in the reconciliation process no later than February 28, 2013.

- Prior differences will be thoroughly researched and refunds due to either the university or employees will be completed by April 30, 2013.

Finding and Recommendation

The college did not ensure that endowment amounts were adequately supported or that amounts were properly reported in the foundation's financial statements and accompanying notes to the financial statements

Finding

The college did not have established procedures for recording gifts to the foundation in the appropriate category of net assets. As a result, the financial statements and notes of Columbia State Community College, including its foundation, which is a discretely presented component unit of the college, contained reporting errors related to endowments. Also, the foundation was unable to provide gift instruments or other records indicating donor intent for some of the funds classified as endowments.

We tested the largest 30 funds classified as endowments to determine if the net assets were properly recorded as restricted nonexpendable, restricted expendable, or unrestricted. Eleven of the 30 funds tested (37%) were not recorded correctly based on the gift instruments or other records provided.

- For nine of the gifts classified as restricted nonexpendable, the original gift instruments provided did not support the classification as an endowment. Four of these gifts resulted in an overstatement of restricted nonexpendable net assets of $401,023; an understatement of restricted expendable net assets of $340,458; and an understatement of unrestricted net assets of $60,565 at June 30, 2012, and June 30, 2011. The board voted after our testwork to create board-designated endowments from these gifts. After our testwork, the Executive Director obtained additional support for the remaining five gifts from the donor indicating the gift was correctly classified as restricted nonexpendable.

- For one of the gifts classified as restricted nonexpendable, board minutes existed stating that the board had moved restricted funds to create the endowment. However, endowments created internally cannot be classified as nonexpendable. As a result, restricted nonexpendable net assets were overstated and restricted expendable net assets were understated by $378,100 at June 30, 2012, and June 30, 2011.

- For one of the gifts classified as restricted nonexpendable, board minutes existed stating that the board had moved unrestricted funds to create the endowment. Therefore, restricted nonexpendable net assets were overstated and unrestricted net assets were understated by $178,000 at June 30, 2012, and June 30, 2011.

The errors noted above in the foundation reporting caused similar errors in the college's 2012 and 2011 note disclosure of changes in endowment net assets for the foundation.

Because of the errors noted in our testwork, management reviewed the remaining 67 funds classified as endowments. Management noted additional errors for 24 of the 67 funds

(36%). For some of these funds, management was unable to provide gift instruments or other records indicating donor intent. Also, some of the gift instruments provided stated the purpose of the gift but did not state that the donor intended the gift to be an endowment. In addition, several items classified as restricted nonexpendable endowments did not meet the necessary criteria to be classified as an endowment. Corrective action, which consisted primarily of obtaining subsequent documentation from the donor or the board voting to classify the gift as a board-designated endowment or to remove it from the endowment fund, was taken by management for each of these funds. The additional errors resulted in restricted nonexpendable net assets being overstated by $333,575; restricted expendable net assets being understated by $318,575; and unrestricted net assets being understated by $15,000 at June 30, 2012. In addition, gifts of $52,588 were removed from the endowment fund at June 30, 2012. Restricted nonexpendable net assets were also overstated by $332,115; restricted expendable net assets were understated by $317,115; and unrestricted net assets were understated by $15,000 at June 30, 2011. The amount of gifts removed from the endowment fund at June 30, 2011, was $51,972.

These reporting errors resulted in significant misclassifications in the college's unaudited component unit note and the Statement of Net Assets for the component unit. These errors were corrected in the audited financial statements and notes. Management is responsible for the fair presentation of the financial statements. Not obtaining gift instruments or other written agreements or not interpreting the gift instrument correctly could result in unreliable information as to whether funds are or are not available for expenditure and in spending donations in violation of the donor's intent.

Recommendation

The Executive Director of the foundation should ensure that written agreements explicitly stating donor intent are obtained for all future endowments. The Executive Director and accounting management staff should also read all gift instruments carefully to ensure the gift is recorded and spent in compliance with the donor's intent. Also, the Executive Director and accounting management staff should establish procedures for recording gifts to the foundation in the appropriate category of net assets.

Management's Comment

We concur with the finding and the recommendation. The issues identified concerning questions of donor intent pre-dated the employment of the current Executive Director of the foundation, and many of the endowments in question were established ten or more years ago. Written agreements explicitly stating donor intent have been obtained for all new endowments in recent years. As noted in the finding, when the issue of endowment classification was identified by our auditors, we undertook an immediate and extensive review of documentation to determine where errors in classification or lack of appropriate documentation existed. While gifts may have been classified in accordance with donor intent when received, there was sometimes insufficient documentation in files to verify the intent of donors, and it was often impossible this far after the fact to obtain documentation supporting the classification as endowments.

The current written agreement format explicitly states donor intent and will be obtained for all future endowment gifts. The agreement document includes fund type and name, background, purpose, guidelines for implementation in concert with Board policies, criteria for use of funds, and signature of the donor, Executive Director, and President of the College. The Executive Director forwards a copy of the executed agreement to the accounting staff for classification validation and assignment of fund number. Written procedures are being established to help ensure that foundation gifts are recorded in the appropriate category of net assets.

Key accounting staff also attended financial reporting training in May 2013 that included significant sessions on endowment accounting.

FINDING AND RECOMMENDATION

<u>As reported in the previous two audits, the college needs improved preparation and review procedures to prevent errors in its financial statements</u>

Finding

Motlow State Community College's procedures for financial statement preparation should be improved to ensure the accuracy and proper classification of information presented in its financial statements. Similar findings were reported in the previous two audits. Though the specific errors noted in the prior findings were not repeated, other errors in financial reporting occurred. Control deficiencies resulted in the following significant reporting errors:

- On the college's June 30, 2012, and June 30, 2011, statements of net assets, $1,186,300 and $586,300, respectively, of expendable net assets restricted for capital projects were misclassified as unrestricted net assets. These amounts were restricted by external donors for the Rutherford County campus expansion project. In note 8 in the college's 2012 and 2011 financial reports, these amounts were reported as unrestricted net assets designated for plant construction. The audited statements and note were corrected.

- For 2012 and 2011, budgeted capital appropriation revenues and matching budgeted utilities, supplies, and other services expenses of $268,543.67 and $46,031.13, respectively, were reported on the statements of revenues, expenses, and changes in net assets. The statements were adjusted to reduce the overstated revenue and expense amounts.

- In note 10 in the college's 2012 financial report, contributions to the Tennessee Consolidated Retirement System (TCRS) were misstated for the year ended June 30, 2012, as $1,111,405.45, rather than $1,137,307.06, an error of $25,901.61. The audited note was corrected.

- On the college's 2011 statement of revenues, expenses, and changes in net assets, in the component unit column, $27,885.15 of utilities, supplies, and other services expense was misclassified as scholarships expense. The audited statement was corrected.

In the first instance, due to an oversight, the Vice President for Business Affairs reported net assets restricted by external donors for use in a capital project as unrestricted. Historically, amounts in the college's unexpended plant funds have been unrestricted net assets designated for capital projects. The Vice President overlooked the fact that these amounts were obtained from external restricted gifts. None of the funds were spent inappropriately; however, they were misclassified.

In the second instance, the Assistant Vice President for Fiscal Services entered anticipated capital appropriations into the Banner accounting system in order to have ready access to the information for planning purposes. The budgeted appropriations and related expenses were not removed by adjustment at year-end, as is usually the case. These amounts should not have been reported on the statements of revenues, expenses, and changes in net assets since they did not represent transactions that actually occurred. Review procedures should be designed to ensure that all reported capital appropriation amounts represent actual reportable transactions.

In the third case, a staff accountant mistakenly entered the incorrect amount of $1,111,401.45 as contributions to TCRS for 2012. The correct amount of $1,137,307.06 was in the Banner accounting system on form FGIBDSR. A detailed review to compare or reconcile the amount reported in the note with the final general ledger would have uncovered this error.

Finally, the college's Vice President for Business Affairs incorrectly reported $27,828.15 of utilities, supplies, and other services expense as scholarships in the component unit column of the statement of revenues, expenses, and changes in net assets for 2011. The three items comprising this amount should not have been classified as scholarships since their fund and account numbers indicated that they should be classified otherwise. Again, a detailed review comparing financial statement amounts with the final general ledger would have prevented this error.

These reporting errors resulted in significant misstatements in the college's unaudited financial statements and the note reporting retirement contributions. Management is responsible for the fair presentation of the financial statements, including the notes. Not preventing or detecting and correcting material misstatements in the financial statements could adversely affect the users of the financial statements.

Recommendation

The college's accounting and supervisory personnel should exercise additional care in preparing and reviewing the college's financial statements and notes. Specifically, the Vice President for Business Affairs and the Assistant Vice President for Fiscal Services should conduct thorough reviews of the composition of reported amounts on the financial statements and in the notes, conduct thorough reviews of subordinates' work, and ensure that preparers correct any errors detected.

Management's Comment

We concur with the finding and recommendation. To address the items in the finding, the accounting staff will take the following corrective actions.

- On the unexpended plant fund schedule, the Rutherford County campus expansion project was broken out separately and has its own fund number in Banner. These funds have been earmarked solely for this purpose. They have been reclassified from unrestricted to restricted.

- Capital appropriations will be reviewed closely at year-end to ensure that actual reportable transactions are reported in the financial statements.

- Contributions to the Tennessee Consolidated Retirement System will be verified by reviewing FGIBDSR at year-end.

- Classifications of expenses for the component unit will be verified by generating spreadsheet budgeting to ensure the proper classification at year-end.

The Vice President for Business Affairs and the Assistant Vice President for Fiscal Services will conduct thorough reviews of the reported amounts on the financial statements and in the notes. The accounting staff has been instructed to discuss any items that are questionable as to how they should be recorded and classified.

Additionally, our goal is to have the financial statements prepared in time for a week long supervisory review. In the review process, the Vice President for Business Affairs and the Assistant Vice President for Fiscal Services will ensure that any errors detected are corrected prior to submission to the Tennessee Board of Regents.

Tennessee Board of Regents
Audit Committee
September 4, 2013
Review of Comptroller's Office Audit Reports
Financial and Compliance Audits—No Findings Reported

Institution	For the Years Ended	Fairness of Financial Statement Presentation	Report on Internal Control	Report on Compliance	Findings
Austin Peay State University	June 30, 2011	Unqualified Opinion	No material weaknesses identified	No instances of noncompliance required to be reported	0
Chattanooga State Community College	June 30, 2012 and June 30, 2011	Unqualified Opinion	No material weaknesses identified	No instances of noncompliance required to be reported	0
Cleveland State Community College	June 30, 2012 and June 30, 2011	Unqualified Opinion	No material weaknesses identified	No instances of noncompliance required to be reported	0
Tennessee State University Foundation - Endowment for Educational Excellence	June 30, 2012	Unqualified Opinion	No material weaknesses identified	No instances of noncompliance required to be reported	0

AUSTIN PEAY STATE UNIVERSITY
ITEMS DISCUSSED AT FIELD EXIT CONFERENCE
NOT ADDRESSED IN THE AUDIT REPORT
FOR YEAR ENDED JUNE 30, 2011

1. The investment of endowment and similar funds chart in the investment note did not foot. The investment of endowments chart consists of: certificates of deposit, an investment account, and the Common Fund. The certificates of deposit amount was stated as \$29,477.73, the investment account as \$2,477,258.87, and the Common Fund as \$3,994,199.62 for a total of \$6,500,936.22. However, the total reported in the chart was \$5,549,127.76, an understatement of \$951,808.46. The Director of Accounting Services stated that the formula Austin Peay State University uses on the university's Excel spreadsheet was deleted by mistake and fiscal year 2010's total was carried over to fiscal year 2011. Investments were correctly reported in the financial statements and other notes. The amounts reported for the certificates of deposit, investment account, and the Common Fund agrees to applicable investment statements. To mitigate the risk of this occurring in the future, the Assistant Vice President for Finance stated that prior to fiscal year 2012 reporting, protected Excel worksheets will be imported into Word and the formulas will be locked. The sheets will also be password protected.

2. The installation costs, totaling \$434,594, associated with donated equipment were erroneously included in the cost of the Chemical Engineering Building. The error had the following effects on buildings and equipment:

   - Buildings was overstated by \$434,594, and related depreciation expense and accumulated depreciation for buildings were overstated by \$10,864.85, and
   - Equipment was understated by \$434,594, and related depreciation expense and accumulated depreciation for equipment were understated by \$21,729.70, and
   - Total depreciation expense and accumulated depreciation were understated by \$10,864.85.

   As a result, an adjustment was proposed for the \$10,864.85 understatement of total depreciation and accumulated depreciation, and the capital assets note was revised.

3. In the insurance-related activities note (note 14), the insurance coverage building value was overstated by \$30,586,400, and the contents value was overstated by \$877,900. Ten of the building and contents values from the previous fiscal year were included at the bottom of the extract used for the calculations and a content amount of \$2,500 appeared in the contents column when there was no content value. According to staff, this was caused by a corrupted extract file. As a result, the insurance-related activities note stated

that the scheduled coverage for the university was $448,219,800 for buildings and $68,558,700 for contents; however, only $417,633,400 for buildings and $67,680,800 for contents was covered. The note has been corrected.

4. The Chairs of Excellence note was overstated by $971,887.63. The Tennessee Board of Regents' general account statement for the Chair of Excellence fund was mistakenly included in the statements that were sent to the Director of Accounting Services by the Tennessee Department of Treasury. The general account is not allocated to a specific university or chair; therefore, the $971,887.63 should not have been included in the university's Chairs of Excellence note. As a result, the Chairs of Excellence note stated that the university had $11,072,215.56 on deposit at June 30, 2011; however, only $10,100,327.93 was on deposit. The note has been corrected to exclude the general account amount.

5. The university's Human Resources Department could not provide conflict of interest disclosure forms for 2 of 46 (4.35%) required individuals. Also, 3 of 46 (6.52%) conflict of interest disclosure forms were not completed prior to the January 31 deadline. The forms were completed 15 to 27 days late.

   According to Tennessee Board of Regent's Policy 1:02:03:10 - Subject: Conflicts of Interest, "Members of the Board of Regents, the Chancellor of the TBR, members of the senior staff of the TBR Central Office (all Vice Chancellors and the General Counsel), the Presidents of all TBR Universities and Community Colleges, the Directors of the Tennessee Technology Centers, coaches, assistant coaches and employees of athletic departments who are exempt from the provisions of the Fair Labor Standards Act are required to file a financial disclosure form within one month of their initial appointment and annually thereafter in January."

CHATTANOOGA STATE COMMUNITY COLLEGE
LIST OF ITEMS DISCUSSED AT THE FIELD EXIT CONFERENCE
NOT ADDRESSED IN THE AUDIT REPORT
FOR THE YEARS ENDED JUNE 30, 2012, AND JUNE 30, 2011

Reporting Errors – Statements of Revenues, Expenses, and Changes in Net Assets

1. On the college's 2012 and 2011 statements of revenues, expenses, and changes in net assets, scholarship allowances were understated by $67,113.85 and $68,303.21, respectively, and scholarship and fellowship expenses were overstated by the same amounts. The Systems Accountant made an error in the supporting calculation worksheet. The audited statements were not corrected as the amounts were considered immaterial by the college's Assistant Vice President for Business and Finance.

Reporting Errors – Statements of Net Assets

2. On the college's 2012 and 2011 statements of net assets, the Assistant Vice President for Business and Finance did not separately report $28,675.01 due from its component unit at June 30, 2012, and $18,078.21 due from its component unit at June 30, 2011. According to *GASB Codification* 2600.117, "amounts payable and receivable between the primary government and its discretely presented component units ... should be reported on a separate line." The audited statements were not corrected as the amounts were considered immaterial by the college's Assistant Vice President for Business and Finance.

Internal Control Weakness

3. Of the new foundation endowments tested for 2012, a $1000 endowment gift did not have adequate supporting documentation. According to the Associate Vice President for Leadership and Fund Development, this donation was verbally discussed with the donor who approved the donation being used to start a general scholarship endowment. The foundation should always use and retain written endowment agreements to properly document donor intent.

Reporting Errors – Notes to the Financial Statements

4. In Note 5 in the college's 2011 financial report, the entire purchase price for property purchased from Olan Mills was capitalized as a building. Land valued at $1,300,000 comprised part of the asset. As a result, depreciation expense was overstated by $32,500.00 for the year ended June 30, 2011, and $31,687.50 for the year ended June 30, 2012, and note disclosures for both years were incorrect. Per the Assistant Vice President for Business and Finance, this was an oversight because the college so infrequently acquires new property. The college's 2012 and 2011 audited financial statements and related note were corrected.

CLEVELAND STATE COMMUNITY COLLEGE
LIST OF ITEMS DISCUSSED AT THE FIELD EXIT CONFERENCE
NOT ADDRESSED IN THE AUDIT REPORT
FOR THE YEARS ENDED JUNE 30, 2012, AND JUNE 30, 2011

Reporting Error – Statement of Net Assets

1. On the college's 2011 statement of net assets, the Business Manager misclassified $1,320,991.52 of unrestricted net assets as restricted net assets, expendable for capital projects. The net assets were designated for use in capital projects, but not restricted as to use by an outside donor. The audited statement was corrected.

Reporting Errors – Statements of Cash Flows

2. In the college's 2011 statement of cash flows, payments to employees were understated by $52,316.15 and payments for benefits were overstated by $52,316.15. The change in compensated absences liability adjustment was made on the wrong line. The audited statement was corrected.

3. In the college's 2012 statement of cash flows, payments to employees were understated by $91,187.00 and payments for benefits were overstated by $97,187.00. The change in net OPEB obligation adjustment was made on the wrong line. The audited statement was corrected.

4. On the college's 2012 statement of cash flows, capital grants and gifts (a cash inflow) and purchases of capital assets and construction (a cash outflow) were each overstated by $300,000.00. The college was given a capital asset and no cash transactions were involved. The audited statement was corrected.

Reporting Errors – Notes to the Financial Statements

5. In note 9 in the college's 2012 financial report, total pledged revenues to cover debt were understated by $219,125.38. The audited note was corrected.

6. In note 13 in the college's 2012 financial report, the dollar amount of unused sick leave was understated by $68,181.77. The audited note was corrected.

Tennessee State University
Items Discussed at Field Exit Conference
Not Included in the Audit Report
For the Year Ended June 30, 2012

GENERAL

Cash

1. **The Payroll Department did not void a direct deposit overpayment in a timely manner. A June 15, 2012, overpayment was not corrected in Banner Finance until September 5, 2012. The Financial Analyst III stated that the overpayment was because the university paid a teacher for Maymester classes that the teacher did not teach. The teacher returned the funds on June 21, 2012; however, the Financial Analyst III did not void the transaction until August 1, 2012. In addition, the Payroll Manager did not manually feed the voided transaction to Banner Finance until September 2012. As a result, the voided transaction caused cash to increase, causing the June 30, 2012, bank reconciliation to not reconcile by $3,696.10.**

   We concur. This process has been discussed with the Financial Analyst III and the Payroll Manager. The amount was reflected as a reconciling item on the bank reconciliation at June 30, 2012. In the future, these transactions will be voided and updated in Banner-HR no later than thirty (30) days after receipt.

Other Assets/Other Liabilities

2. **The Manager of Financial Reporting did not provide sufficient support for the $1,084,785.27 shown as a Due to University/Due from Foundation on the Foundation and University Statement of Net Assets, respectively. This amount represents funds owed by the Foundation to the University for its payment of Foundation expenses. Due to the co-mingling of University and Foundation funds during the fiscal year and the combining of the two bank accounts into one bank reconciliation, management was unable to fully substantiate the amount. However, we were able to determine that the amounts were materially accurate.**

   We concur. The auditors requested a listing of the transactions that would result in the $1,084,785.27 amount. As this would have required a review of thousands of transactions, we provided a reconciliation from the University records and a separate reconciliation from the Foundation records. Each reconciliation provided the same amount. We also provided an explanation of the types of transactions that would have caused the due to/due from. Effective March 1, 2013, Foundation checks have been written against the Foundation bank account. As bank reconciliations are completed, any "due to/due froms" are transferred between the bank accounts.

Capital Assets

3. **The Financial Analyst III did not record the McCord Hall piping replacement expenses of $47,506.13 in the university's accounting records. As a result, expenses and capital appropriations revenue are both understated by $47,506.13. The financial statements were corrected in the audit report.**

   We concur. The capital expenditures made by the state are now reconciled and recorded monthly by the Assistant Director for General Accounting/Accounts Payable upon receipt of the expenditure listing from the Tennessee Board of Regents.

Non-Current Liabilities

4. **The Manager of Financial Reporting did not include $575,534.85 in lump sum payments paid out in fiscal year 2012 when calculating the compensated absences reduction amount on the long-term**

liability note. Compensated absences are multiplied by a benefit rate of 1.18%. As a result, the compensated absences reduction amount on the long-term liability note is understated by $679,131.12, while the additions amount is overstated by that amount. Amounts in the audited notes to the financial statements were corrected.

We concur. The report used to generate these amounts has been modified to include lump-sum payments.

Journal Entries Approval

5. **We reviewed a sample of journal entries. Certain journal entries prepared by the Associate Vice President for Business and Finance were not approved by another individual. However, all of the ones we reviewed appeared to be appropriate entries. All journal entries should be approved by a separate individual and edit checks should be in place in the information system to ensure that this is not allowed within the information system.**

   We concur. Rule codes have been established in Banner so that entries completed by the Associate Vice President are properly routed for approval.

NCAA

6. **As noted in the prior year audit, the Manager of Financial Reporting incorrectly classified the $3,200,000.00 in commercial paper debt on the Intercollegiate Athletics Department Notes to the Statement of Revenues and Expenses as costs related to improvements to Hale Stadium instead of costs related to construction in progress for the Indoor Football Practice Facility. The NCAA Notes to the Statement of Revenues and Expenses were corrected.**

   We concur. The Tennessee State School Bond Authority (TSSBA) issued the bonds with the incorrect description of Hale Stadium. This error has been noted in the year-end file and every effort will be made to ensure it is properly described in future NCAA reports.

INFORMATION SYSTEMS

Disaster Recovery

1. **The University Emergency Response Plan (UERP) and the disaster recovery plan are both integral parts of the university's disaster recovery planning process. We noted that the UERP had not been updated since April 2007. Many of the key staff noted in the UERP were no longer employed at TSU. In addition, we found that a document referenced in the disaster recovery plan, the operational handbook, could not be located by Communications and Information Technology (CIT) staff. According to the disaster recovery plan, the CIT operational handbook is the document that will be followed if a disaster is declared.**

   We concur. The CIT Disaster Recovery Plan has been modified to reflect current staffing, remove references to the CIT operational handbook, and provide additional procedures and details related to recovery of critical systems in the event of a disaster.

COLUMBIA STATE COMMUNITY COLLEGE
ITEMS DISCUSSED AT THE FIELD EXIT CONFERENCE
NOT ADDRESSED IN AUDIT FINDINGS
FOR THE YEARS ENDED JUNE 30, 2012, AND JUNE 30, 2011

Cash/Investments

One certificate of deposit for the foundation was incorrectly classified as a noncurrent cash equivalent, causing an overstatement in noncurrent cash and cash equivalents and an understatement in noncurrent investments of $50,000 at June 30, 2011. The certificate of deposit had a maturity date of February 4, 2013, which was greater than 3 months from the purchase date; thus, it should have been reported as a noncurrent investment. The error was corrected in the audited financial statements.

Pledges Receivable

At June 30, 2011, current pledges receivable of $156,963 were incorrectly reported as noncurrent for the foundation. The error was corrected in the audited financial statements.

Management incorrectly recorded promises to give for endowments of $15,737 and $7,454 as pledges receivable at June 30, 2012, and June 30, 2011, respectively.

Deferred Revenue

Deferred revenue for the summer 2011 session was incorrectly calculated causing deferred revenue to be overstated at June 30, 2011, and student tuition and fees to be understated for the year ended June 30, 2011, by $110,550.16. This error was corrected in the audited financial statements.

Revenues

The auditor discovered during contract review that the food services contract with Cambridge Inn Caterers expired on June 30, 2005. Per discussions with staff at the college, there have been no subsequent attempts to obtain a contract with Cambridge Inn Caterers or any other food services vendor.

Revenues and expenses for food services are determined based on the terms of the contract that expired more than seven years ago. The contract states that Cambridge must pay commissions to the college of 5% of cafeteria sales, 10% of catering sales, and 5% of non-college catering sales. The contract also states that the college must pay Cambridge Inn Caterers a management fee of $150 per day. During the year ended June 30, 2012, the expenses paid to Cambridge Inn Caterers of $37,350 exceeded revenues to the college of $10,619. Expenses of $36,750 for the year ended June 30, 2011, also exceeded revenues of $9,808.

TBR guideline G-30, General Instructions on Form and Execution of Contracts, section I. L. Food and Vending Services Contracts, states, "...bidding requirements should be followed, as applicable, for food and vending services contracts."

TBR policy 4:02:10:00, Purchasing Policy and Procedures, section IV. A. states, "If the estimated amount of the purchase (or revenue) is $25,000 or more, written sealed bids must be solicited from fifteen (15) vendors or the number of vendors on the Vendors List--whichever is less and to all that request the specific RFQ/RFP [requests for quotation/requests for proposals]."