

MINUTES
FINANCE/AUDIT COMMITTEE
UNIVERSITY OF SOUTHERN INDIANA
BOARD OF TRUSTEES

March 4, 2010

The Finance/Audit Committee of the University of Southern Indiana Board of Trustees met on Thursday, March 4, 2010, in Carter Hall in the University Center. In attendance were Chair Jeffrey L. Knight and Trustees Ira G. Boots and Ted C. Ziemer Jr. Chair of the Board of Trustees John M. Dunn and Trustee Amy MacDonell were absent. Others in attendance were Vice President for Business Affairs and Treasurer Mark Rozewski and Vice President for Government and University Relations Cynthia S. Brinker.

Chair Jeff Knight called the meeting to order at 11 a.m.

1. APPROVAL OF REVISED INTERNAL AUDIT CHARTER

Mr. Knight called on Vice President Rozewski, who referred the Committee to Attachment A and the recommended changes to the Internal Audit Charter, which was originally approved by the Board of Trustees in 2003. He noted the changes to the Charter (Attachment A) are general housekeeping and nomenclature updates.

On a motion by Mr. Ziemer, seconded by Mr. Boots, the revised Internal Audit Charter (Attachment A) was approved.

2. REVIEW OF COMPLETED AUDITS AND APPROVAL OF THE ANNUAL AUDIT PLAN

Mr. Knight called on Vice President Rozewski, who announced that Diana Biggs, director of Internal Audit will retire effective December 2010. Mr. Rozewski reported that Mr. Knight will represent the Board of Trustees as a member of the search committee charged with selecting her successor.

Mr. Rozewski introduced Ms. Biggs for a review of completed audits and other activities conducted by the Internal Audit Department for 2009 (Attachment B) and a review of the proposed 2010 Annual Audit Plan (Attachment C). Ms. Biggs introduced Internal Audit Manager Robert Howell, who assisted with the audits.

Ms. Biggs referred the Trustees to reports of Internal Audit Report Summaries and Executive Summaries of audits in Attachment B. She reviewed reports of the Purchasing Card Audit, Student Financial Assistance Federal Compliance Audit, NCAA Eligibility Compliance Audit, Benefit Liability Reconciliations Audit, and Accounts Receivable Confirmation Audit. She referred the Trustees to page six in Attachment B and reviewed the summary of two outstanding actions items – Federal Grant Compliance and Banner Financial Aid Access Security.

In answer to Mr. Boots' question about how "sample size" is determined for an audit, Ms. Biggs replied she decides on the sample size depending on the nature of the audit and is confident the sample size is more than sufficient to make valid conclusions. Related to the Benefit Liability Reconciliations Audit, Mr. Boots asked if Human Resources (Benefits) performs on-going audits of dependent eligibility. Vice President Rozewski recommended the department be asked to do so.

Mr. Knight asked if audits scheduled for 2009 were carried over to the 2010 Audit Plan because demands on the Internal Department or lack of resources did not allow all scheduled audits to be performed. Ms. Biggs assured Mr. Knight that, overall, the audit plan could be met with available resources.

Mr. Knight asked Ms. Biggs about the makeup of her department. She replied that in addition to herself, it consists of Mr. Howell and an administrative assistant. He asked if the department has the full cooperation of the administration when audits are performed, and she replied that she has full cooperation.

Ms. Biggs reviewed the scheduled audits for calendar year 2010. On a motion by Mr. Ziemer, seconded by Mr. Boots, the Annual Audit Plan for Calendar Year 2010 (Attachment C) was approved.

Mr. Knight thanked Ms. Biggs for her report and for her many years of service to the University.

3. REPORT OF CHANGE ORDERS APPROVED BY THE VICE PRESIDENT FOR BUSINESS AFFAIRS

Mr. Knight called on Vice President Rozewski to review change orders. Mr. Rozewski referred the Trustees to the change orders he approved since the last meeting of the Finance/Audit Committee in Attachment D. There were no questions regarding these changes.

4. APPROVAL OF CONSTRUCTION CHANGE

Mr. Knight called on Vice President Rozewski to review the change orders requiring approval of the Committee. Mr. Rozewski referred to Attachment E and reviewed the first group of change orders for the Computer Aided Design Lab in the Business and Engineering Center.

He noted the second group of change orders in Attachment E was made necessary to better mate the western edge of the University Center (UC) project to an adjoining project done by another architect. The recently completed expansion of the University Center kitchen directly abuts the UC Expansion project and causes changes in the way the UC addition connects to the existing UC on the northwest corner. It is a change that was expected and is added to the Weddle Brothers UC contract (as opposed to part of the kitchen project) because the work is inside the limit of the Weddle Brothers UC contract.

He reported both the Business and Engineering Center and the University Center projects are well within budget, and changes orders, including those proposed in Attachment E, are less than one percent of the construction costs. The Committee commended Mr. Rozewski and his team on the record of change orders of less than one percent.

On a motion by Mr. Boots, seconded by Mr. Ziemer, the change orders listed in Attachment E were approved.

There being no further business, the meeting adjourned at 11:40 a.m.



INTERNAL AUDIT CHARTER

The University of Southern Indiana established the Internal Audit Department in 1985 as an independent appraisal function of the administration's established practices and system of internal controls. Many changes have since occurred, including the definition and purpose of internal auditing. This charter sets forth the mission, authority, responsibility, and professional proficiency of the USI Internal Audit Department.

MISSION

The Internal Audit Department mission is to provide independent and objective assurance and consulting services designed to add value and improve the University's operations. Internal Audit assists others in the effective discharge of their responsibilities by furnishing evaluations of departmental activities, recommendations for improvements in systems and procedures, and other information designed to promote effective controls. Internal Audit strives to help the University accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, controls, and governance processes.

AUTHORITY

The Internal Audit Department is authorized by the Finance/Audit Committee of the Board of Trustees and the vice president for Business Affairs to provide a comprehensive program of internal audits, consulting services, and assurance activities throughout the University. Internal Audit has full, free, and unrestricted access to all records (manual and electronic), physical properties, and personnel relevant to any subject under review. All documents and information given to Internal Audit will be handled in the same prudent manner that the University expects of the employees normally accountable for them.

The Internal Audit Department is under the supervision of the director of Internal Audit. The director of Internal Audit reports administratively to the vice president for Business Affairs and functionally to the Finance/Audit Committee of the Board of Trustees.

The Internal Audit Department has neither direct responsibility for, nor management authority over, any of the staff or operations that are, or may be, reviewed. Accordingly, Internal Audit does not develop or write policies or procedures that it may be called upon to evaluate. The staff may review draft materials developed by management for propriety and/or completeness and may provide advice and make recommendations about any issues identified as a result of a review or audit. However, Internal Audit cannot establish policy or require implementation of any of its recommendations. Implementation of action plans, or the risks of not doing so, remains at management's discretion.

RESPONSIBILITIES

University management is responsible for ensuring that systems of internal control are in place, good business practices are implemented and followed, and fraud risks are identified and mitigated. Internal Audit is responsible for examining and evaluating financial, managerial, and operating controls; determining compliance with internal and external policies, laws, and regulations; assisting management with special reviews as requested; and providing management with recommendations to improve University operations or internal controls.

The director of Internal Audit is responsible for developing an annual audit plan and applying risk assessment techniques to ensure that all subjects of material significance are accorded audit consideration on an appropriate basis. The annual audit plan will be approved by the vice president for Business Affairs and submitted to the Finance/Audit Committee of the Board of Trustees for review, discussion, and approval.

The scope of each audit shall be sufficient to express an informed opinion about the audit subject. A draft audit report shall be issued promptly by the director of Internal Audit for each examination and shall be directed to the appropriate level of management. All levels of management having an interest in findings and recommendations in the report shall be given an opportunity to comment, particularly on remedial actions planned or taken. Such views shall be incorporated into the final report to the extent practicable and will be redistributed to all interested persons. Audit reports also will be shared with the Indiana State Board of Accounts during the planning stages of the annual financial audit.

Executive summaries of all audit reports will be presented to the Finance/Audit Committee at least annually. These summaries will include the major findings, recommendations for improvements, and the status of management's response or action plan developed in response to the recommendation. The comprehensive audit reports will be made available to the Finance/Audit Committee upon request.

PROFESSIONAL PROFICIENCY

The University of Southern Indiana is committed to the professional practice of internal auditing. In all of its activities, Internal Audit will abide by *The International Standards for the Professional Practice of Internal Auditing* and the *Code of Ethics* adopted by the Institute of Internal Auditors.

Audit work will be conducted by a staff of recognized professional auditors who possess (1) a high level of technical knowledge or experience in auditing techniques; (2) relevant academic degrees; (3) certification as Certified Internal Auditors, Certified Information Systems Auditors, **Certified Internal Controls Auditors** or Certified Public Accountants ~~or are candidates seeking one or more of these certifications~~; and (4) possess skills necessary for the examination of internal controls.

The continuing professional development of all auditors is essential if a progressive and qualified staff is to be maintained. Professional development requires activities planned and carried out by both the University and the audit department. In addition to on-the-job guidance under the supervision of the director of Internal Audit, the University will encourage training through courses offered by outside sources in appropriate circumstances. Auditors have a responsibility to devote themselves to sufficient personal study and development to participate in and benefit from the total program.

RECOMMENDED:
Vice President for Business Affairs
Robert W. Ruble
Date: July 7, 2003

APPROVED:
Finance/Audit Committee Chair
G. Patrick Hoehn
Date: July 7, 2003

| | |
|--|--------------------------------------|
| REVISIONS RECOMMENDED: | REVISIONS APPROVED: |
| Vice President for Business Affairs | Finance/Audit Committee Chair |
| Mark Rozewski | Jeffrey L. Knight |
| _____ | _____ |
| Date: March 4, 2010 | Date: March 4, 2010 |



UNIVERSITY OF SOUTHERN INDIANA

Internal Audit Annual Report

Prepared by

Diana M. Biggs, CPA CIA, CICA
Director of Internal Audit

J. Robert Howell, CPA, CIA, CICA
Internal Audit Manager

**University of Southern Indiana
 Internal Audit Report Summaries
 Calendar Year 2009**

| AUDIT NAME | | | | |
|--|--|---|--|--|
| OBJECTIVE | OBSERVATIONS | RECOMMENDATIONS | MANAGEMENT RESPONSE | STATUS |
| Purchasing Card 1. Determine if charges are valid business expenditures and supported by proper documentation. | All purchases in our sample included proper documentation. Less than 5% lacked detail explanation of business purpose. Compromised cards/numbers were dealt with quickly resulting in minimal loss. | None | NA | NA |
| 2. Determine if expenditures are properly authorized and accurately recorded. | Expenditures were properly authorized, but half of the cardholders sampled were also financial managers and approvers. Compensating controls exist: Two AP staff review every purchase and a manager reviews selected purchases. | None | NA | NA |
| 3. Determine if purchases are in compliance with procurement policies and procedures. | One incident in sample of split purchasing to avoid card limits and evidence of card sharing within departments. AP staff satisfactorily deals with deviations from policy. Use of new report to track repetitive breaches allow administration to actively follow-up. | None | NA | NA |
| 4. Determine if policies, procedures, and controls that govern program are adequate and effective. | All are adequate and effective when applied as written. The manual references a prior card provider and is silent on fraud, gifts and rebates with purchase. | Update the manual, include references to the Fraud Policy Statement in the USI Handbook, and develop a policy statement addressing gifts and rebates. | Will update the manual to include current card provider, reference USI Handbook's Fraud Policy Statement, and develop a policy addressing gifts and rebates. | Target dates: July 1, 2010 Completed March 2010 |
| 5. Examine purchasing card data for possible indicators of fraudulent purchasing. | Using Benford's Law, we examined a set of data for unusual digit patterns. Some existed, but further investigation found the transactions to be proper. Preventing personal purchases controlled by proper supervisory approval as directed in policy. | None | NA | NA |
| Student Financial Assistance (SFA) Federal Compliance To evaluate compliance with the following Federal guidelines: 1. Federal Student Financial Aid Common Requirements. | USI is in compliance with the common requirements. We are certified by Department of Education to participate in Title IV programs. All students in sample were eligible to receive aid. Withdrawals and returns of funds conform to federal requirements. | None | NA | NA |
| 2. Federal PELL Grant requirements. | USI is in compliance. Funds were expended for allowable expenditures to eligible students. The amounts and timing of payment of awards conformed with federal regulations. | None | NA | NA |

**University of Southern Indiana
 Internal Audit Report Summaries
 Calendar Year 2009**

| AUDIT NAME | | | | |
|--|---|--|--|--|
| OBJECTIVE | OBSERVATIONS | RECOMMENDATIONS | MANAGEMENT RESPONSE | STATUS |
| 3. Federal Campus-Based Program requirements. | USI is in compliance. The campus-based programs include Federal Work Study (FWS) and the Federal Supplemental Educational Opportunity Grant. Funds were expended for allowable expenditures, the required institutional match was met, and the types of student employment provided were allowable. | None | NA | NA |
| 4. Federal Direct Loan and PLUS loan requirements. | USI is in compliance. Loans were provided to eligible students (parents if PLUS), awards were within allowable limits, returns were correctly calculated and returned in a timely manner. Entrance and exit counseling was completed as required. | None | NA | NA |
| 5. Evaluate policies, procedures, and other non-compliance issues. | The Student Financial Assistance office is working to automate the entry of FWS wages into the Financial Aid module by uploading information from the Human Resource module. Errors still existed which caused the data to be inaccurate and unreliable. | Manually correct data errors and discontinue the automated process until the data is accurate and has been thoroughly tested. | Agreed. The SFA office will continue to work toward the automation of accurate data feeds of Federal Work Study wage information from the Human Resource module to the Financial Aid module. | Target date: March 2010 |
| | There is no consistency in or single repository for written procedures for day-to-day operations that address local issues such as applying federal information into our own Banner Financial Aid module. | Create a complete, comprehensive electronic manual for daily operations. | Agreed. The Student Financial Assistance office acknowledges the need for a comprehensive electronic policies and procedures manual for the Banner Financial Aid module. | Completed |
| | Requests for information needed for the audit were not responded to in a timely manner. This could indicate inadequate staffing which increases the risk of non-compliance in this highly complex, federally regulated environment. | Staff the department with personnel who have the capability to accurately execute electronic processes as well as grasp and effectively communicate highly complex federal regulations to both students and staff. | Agreed. Training three staff members to use report writing software. Two staff members will attend Banner training. Upgrade an existing position to technical employee class. | Completed - additional training planned April 2010 Completed |
| NCAA Eligibility Compliance 1. Determine if the athletics department has established policies and procedures to determine and monitor student-athlete eligibility based on NCAA legislation. | The athletics department does not have a written manual or set of procedures specific to USI processes for determining or monitoring student-athlete eligibility. | Develop a procedures manual to provide continuity in the case of staff illness or turnover. | Agreed | August 2010 |
| | There is no job description on file for the faculty athletics' representative position. | Develop a job description for the FAC. | Agreed | April 2010 |

**University of Southern Indiana
 Internal Audit Report Summaries
 Calendar Year 2009**

| AUDIT NAME | OBJECTIVE | OBSERVATIONS | RECOMMENDATIONS | MANAGEMENT RESPONSE | STATUS |
|--|--|---|--|--|--|
| | 2. Determine if the policies and procedures are effective in verifying eligibility or ineligibility of student athletes. | Policies and procedures are effective. A few instances when internal form used to track satisfactory academic progress was not completed. | Stengthen procedures governing the use of the satisfactory academic progress form. | Agreed. The form is an invaluable tool to help ensure compliance with NCAA eligibility requirements, and we will more closely monitor the use of the forms and those filling them out. | Immediate |
| | | One instance of missing 2007-2008 paperwork required by NCAA - signed student-athlete statement regarding eligibility, recruitment, amateurism, etc., and a drug-testing consent form. | Determine our obligations regarding the reporting of possible secondary violation per NCAA regulations. | The compliance officer will confer with the NCAA to determine if a secondary violation should be filed in this circumstance. | Completed - No violation to be reported. NCAA records show that the paperwork was properly completed for this athlete. |
| Benefit Liability Reconciliations | 1. Determine if vendor payments are accurate and correctly recorded in the financial records. | Two vendor participant's lists had not been compared to our membership listing in many months. The vendors' lists included individuals who had terminated, retired, or died several months previously. No attempt had been made on our part to remove these persons from the enrollment. | Resolutions: <ul style="list-style-type: none"> • Payroll and benefits staff worked together to get all the vendor membership lists and the employee/employer deductions/contributions corrected and up to date. Both areas are continuing to monitor the changes each month. • A new spreadsheet was designed which reconciles the vendor invoice with the University's payment and reconciles the University's payment with the liability account balance in the financial records. All differences are identified, which allows the preparer to monitor if the differences are resolved from one month to the next. The accounts payable staff are able to understand the new format, which improves their ability to verify the accuracy of the documentation. • After all corrections were made to the benefit liability accounts, all remaining excess amounts are to be moved to a medical premium holding account. • A new spreadsheet was designed to record the Medicare Part D subsidy expense for the Welborn HMO retiree plan on a monthly basis. The expense was calculated for the fiscal year end entry for the Anthem BCBS plan, but monthly posting has not yet been implemented. | Completed and ongoing | Completed and ongoing |
| | 2. Reconcile vendor payments to the liability balance in the financial accounting records. | There were several instances where we had remitted more than we had collected from employees or, conversely, collected more than we remitted. | | | Completed and ongoing |
| | 3. Identify methods to improve the reconciliation process. | The retiree plans include a Medicare Part D prescription plan. USI receives a subsidy from Medicare which allows us to reduce the premium cost to the retiree. We remit the full payment to the vendor but collect \$29 less per person per month from each of our retirees and spouses age 65 or over. This subsidy is an expense to the University but it was not being accounted for as such. | | | Welborn complete; Anthem target date March 2010 |
| | | An excess liability balance in one of the retirement plans was caused by a report pulled from the computer system which excluded several individuals. As a result, no dollars were remitted to the retirement plan even though the University had funded the liability account. This, and similar occurrences in later periods, contributed to the buildup of excess funds in that liability account. | • Payroll staff contacted the retirement plan administrators for guidance on reporting and funding the accounts of those employees omitted from earlier reports. In compliance with the instructions received, remittance and reporting for those employees occurred in February, 2010. | | Completed |

**University of Southern Indiana
 Internal Audit Report Summaries
 Calendar Year 2009**

| AUDIT NAME | | | | |
|--|--|--|-----------------------------|----------------------|
| OBJECTIVE | OBSERVATIONS | RECOMMENDATIONS | MANAGEMENT RESPONSE | STATUS |
| <u>Accounts Receivable Confirmation</u> 1. To perform a positive confirmation response requested of a sample of AR balances older than 30 days. | 5391 names represented nearly \$6 million net receivables at 6/30/09; \$3.6 million were 91+ days old; 5230 individual balances < \$5K. Negative receivables totaled \$75K, most of which represented prepaid accounts. Response to confirmation requests were satisfactory. | Repeat confirmations at least one time per year. Investigate negative balances > 60 days and others identified by IA. | On the audit plan Agreed | Ongoing Completed |

**University of Southern Indiana
 Outstanding Action Items**

| AUDIT NAME | | | | |
|--|---|--|---|--|
| OBJECTIVE | OBSERVATIONS | RECOMMENDATIONS | MANAGEMENT RESPONSE | STATUS |
| <p>Federal Grant Compliance (non-financial aid) 1. Compliance with OMB Circular and agency guideline requirements.</p> | <p>The current process to document employee effort is not functioning in an efficient or satisfactory manner. A well-functioning system requires inter-departmental coordination.</p> | <p>Involve relevant departments in devising a process that resolves the major problems of the current process and results in an accurate certification of effort while minimizing payroll reallocations.</p> | <p>Revise effort certification policy with input from payroll, sponsored research, internal auditing, and all departments with active federal grants.</p> | <p>Department representatives continue to meet to define problem issues and pursue a "best process" solution. Target date: July 1, 2010</p> |
| <p>BANNER Financial Aid Access Security 1. Appropriate access granted to non-Financial Aid departmental users.</p> | <p>One user class has no members and will be evaluated by Student Financial Assistance for future need.</p> | <p>Remove inappropriate update capability.</p> | <p>Plan to populate the null member classes for the automation of Federal Work Study wages.</p> | <p>Pending target date: August 2010</p> |

Audit Report Purchasing Card Audit FY 08-09

RESULTS AT A GLANCE

| AREAS | <i>RISK MITIGATION</i> | | |
|---|------------------------------|-----------------------------------|---|
| | Adequate Controls & Practice | Opportunity for Minor Improvement | Opportunity for Significant Improvement |
| Audit Objectives: | | | |
| Business purpose and documentary support of expenditures | | | |
| Authorization and recording of expenditures | | | |
| Compliance with procurement policies and procedures | | | |
| Adequacy and efficiency of policies, procedures, and controls that govern the purchase card program | | | |
| Possible indicators of fraudulent purchasing | | | |

EXECUTIVE SUMMARY

BACKGROUND

Internal Audit has completed an audit of the University Purchasing Card program. Purchasing cards permit authorized employees to purchase products or services directly from vendors without having to go through the traditional paper-based purchase-to-payment process. Purchasing card programs reduce overhead costs by eliminating the need for individual purchase orders or contracts for each transaction, particularly for low-value purchases.

Card purchases are restricted by Merchant Category Code (MCC). For example, if a card has MCC codes for travel disallowed, travel expenditures will be denied at the point of sale. A record of all card transactions is available on the JP Morgan Chase Smart Data Online (SDOL) web site and can be downloaded for reporting and analysis. MCC code controls are not tailored for each card, but cards are assigned to one of a number of unique USI MCC code groups. Each code group has restrictions in some merchant categories. Cardholders are then assigned to a group that most closely reflects their purchasing needs. This may result in some purchases being charged to unallowable codes for the individual.

Single transaction and monthly maximum limits apply to both transaction amounts and number of transactions. Single transaction and monthly maximum limits are set according to the need of the individual cardholder. Cardholders are required to reconcile their purchases with their monthly statements when the monthly cycle has closed. They are then required to forward their statement and supporting documentation to the Business Office after obtaining the approving signature of the financial manager for the account. Each transaction is required to have a stated business purpose written on the purchase documentation, the card statement, or SDOL.

AUDIT OBJECTIVES

The objectives of the audit are as follows:

1. To determine if purchase card charges are valid business expenditures and supported by proper documentation.
2. To determine if expenditures are properly authorized and accurately recorded.
3. To determine if purchase card purchases are in compliance with procurement policies and procedures.
4. To determine if policies, procedures, and controls that govern the purchase card program are adequate and effective.
5. To examine purchasing card data for possible indicators of fraudulent purchasing.

AUDIT SCOPE

We performed the following regarding the purchasing card program:

- Reviewed USI policies and procedures for the purchasing card program
- Interviewed the accounts payable senior accounting assistant and the manager of accounting services
- Reviewed an internal control questionnaire for procurement cards completed in May 2008 and confirmed continuing validity
- Examined all transaction data, using data analysis software, for the five month period from July 16 – Dec 15, 2008
- Examined the data set of transactions from Dec 2006 - Dec 2008 for fraud indicators using Benford's law
- Selected a sample of transactions from the July 16 – Dec 15 data set for detailed review of specific audit procedure steps

AUDIT SUMMARY

Accounts payable purchasing card operations have improved since our prior review in 2005. All transactions in our sample had adequate supporting documentation and cardholder's identification of the business purpose of the purchases has improved. All purchases were properly authorized and accurately recorded. There were some instances of splitting purchases to avoid single transaction dollar limits, but no repeat offenses. Some cardholders share card information with non-cardholders within the department. The Business Office has been satisfied that the risk of abuse through card sharing is low and has been comfortable assuming this risk. Policies and procedures themselves are adequate and effective when applied as formulated, though the "USI Commercial Credit Card" user manual could use some minor updating and policy does not address rebates or gifts. We uncovered no instances of fraudulent purchasing during our audit. Overall, the purchase card program is functioning well.

Our procedures were designed to detect indicators of fraud. According to the Institute of Internal Auditors, an auditor should recognize indicators of fraud, but is not expected to have the expertise of a fraud-detection professional. The exercise of due professional care in the application of audit procedures does not guarantee that fraud will be detected. We did not discover any instances of fraud in the transactions chosen for our sample. This does not, however, guarantee the absence of fraud.

Adequate controls and practice exist for the following audit objectives:

- Charges are valid business expenditures and supported by proper documentation.
- Expenditures have proper authorization and accurate recording.
- Purchases are in compliance with procurement policies & procedures.
- Find indicators of fraudulent purchasing in purchasing card data.

Opportunities for minor improvement exist for the following audit objective:

- Adequacy and effectiveness of policies, procedures, and controls that govern the purchase card program.
 - Action Plan Task: Update the USI Commercial Credit Card manual.
 - Status: Target date June 30, 2010.
 - Action Plan Task: Include a reference to section F.39, Fraud Policy Statement, of the University Handbook in the cardholder guide and the cardholder agreement.
 - Status: Completed.
 - Action Plan Task: Develop a policy statement addressing the issue of rebates and gifts with purchase.
 - Status: March 2010.

CONCLUSION

The purchase card program is well managed. Transactions are examined for accuracy and compliance. Violations of policy are dealt with, card misuse is corrected, and questionable transactions are challenged.

Audit Report Student Financial Assistance Federal Compliance

RESULTS AT A GLANCE

| AREAS | RISK MITIGATION | | | |
|---|------------------------------|-----------------------------------|--------------------------------------|---|
| | Adequate Controls & Practice | Opportunity for Minor Improvement | Opportunity for Moderate Improvement | Opportunity for Significant Improvement |
| Audit Objectives: | | | | |
| Compliance with Federal SFA Common Requirements. | | | | |
| Compliance with Federal PELL Grant Requirements. | | | | |
| Compliance with Federal Campus-Based Programs Requirements. | | | | |
| Compliance with Federal Direct Loan and PLUS Loan Requirements. | | | | |
| Policies, Procedures and other Non-Compliance Issues. | | | | |

EXECUTIVE SUMMARY

OVERVIEW

The USI Student Financial Assistance (SFA) Office operates in a complex and rapidly changing regulatory environment. Prospective financial aid recipients must meet numerous eligibility criteria and must maintain satisfactory academic progress (SAP) to remain eligible. Financial aid award types and amounts are based at least partially on grade level and enrollment status and may change based on the enrolled hours or withdrawal of the student. Awards may be reduced and funds partially or totally refunded to the U.S. Department of Education (ED).

Students apply for financial aid directly to the federal government by completing a *Free Application for Federal Student Aid* (FAFSA). Aid may take the form of gifts (grants and scholarships) or self-help (work study and loans). Federal Student Aid (FSA) programs are sometimes referred to as the Title IV programs because they originated with Title IV of the Higher Education Act of 1965.

Financial aid may involve both need-based and non need-based aid. A student's need is determined by taking the educational institution's calculated cost of attendance (COA) of the student less the expected family contribution (EFC). The COA is a standard value for various categories of students, i.e. in-state vs. out-of-state; dependent vs. independent, etc. ED calculates the EFC for postsecondary education for each student based on a need-analysis formula prescribed by law. The USI SFA office must ensure that a student's need-based aid does not exceed the student's calculated need while taking into account all sources of aid awarded to the student. A student's aid package, including aid from all sources, should not exceed the institution's cost of attendance.

ED produces an *Institutional Student Information Record (ISIR)*, which is sent to each school that the student listed on his FAFSA. Data regarding the student's eligibility and EFC is directly uploaded into the BANNER Financial Aid module. ISIRs also contain information about Title IV aid that a student has received previously. Schools must review this information to make sure the student is eligible for more aid.

AUDIT OBJECTIVES

The objectives of the audit are as follows:

1. To evaluate compliance with the Federal Student Financial Aid Common Requirements.
2. To evaluate compliance with Federal PELL Grant requirements.
3. To evaluate compliance with Federal Campus-Based Program requirements.
4. To evaluate compliance with Federal Direct Loan & PLUS loan requirements.
5. To evaluate policies, procedures, and other non-compliance issues.

RISK

Non-compliance with federal student aid regulations may jeopardize the institution's participation or reduce the institution's authorized level of participation in federal student aid funding.

AUDIT SCOPE

We performed the following in regard to USI Student Financial Assistance:

- Reviewed USI Student Financial Assistance procedures and controls
- Reviewed federal student aid regulations
- Analyzed a sample of USI student records and financial aid transactions for the 2008 fall and 2009 spring semesters
- Conducted interviews of USI SFA management and staff

AUDIT SUMMARY

We did not discover any compliance violations in the course of our audit. The USI SFA staff is knowledgeable and has procedures in place to ensure compliance with federal regulations. The BANNER Financial Aid module provides automated controls for many elements of students' aid eligibility, award levels and limits, withdrawals and return of funds when required.

Our procedures were designed to detect indicators of fraud. According to the Institute of Internal Auditors, an auditor should recognize indicators of fraud, but is not expected to have the expertise of a fraud-detection professional. The exercise of due professional care in the application of audit procedures does not guarantee that fraud will be detected. We did not discover any instances of fraud in the transactions chosen for our sample. This does not, however, guarantee the absence of fraud.

Adequate controls and practice exist for the following audit objectives:

- Compliance with the Federal Student Financial Aid Common Requirements
- Compliance with Federal PELL Grant requirements
- Compliance with Federal Campus-Based Program requirements
- Compliance with Federal Direct Loan & PLUS loan requirements

Opportunity for moderate improvement exists for the following audit objective:

- Policies, Procedures, and Issues Not Impacting Compliance
 - Action Plan Task: The USI Student Financial Assistance office will continue to work toward the automation of the Federal Work Study module
 - Status: Target date March 2010
 - Action Plan Task: Creating a complete comprehensive electronic policies and procedures manual for the BANNER Financial Aid module

- Status: Completed
- Action Plan Task: Staffing the department with personnel who have the capability to accurately execute electronic processes as well as grasp and effectively communicate highly complex, federal regulations to both students and staff by:
 - Training three staff members on the COGNOS report writing software
 - Status: Completed; additional training planned
 - Two staff members will attend SunGard BANNER training
 - Status: Target date April 2010
 - An existing position will be upgraded to a technical employee class
 - Status: Completed

CONCLUSION

The USI SFA management and staff are to be commended for their compliance with federal requirements for Title IV funds administration. The planned actions will further strengthen the department's efforts.

Audit Report NCAA Eligibility Compliance

RESULTS AT A GLANCE

| AREAS | RISK MITIGATION | | | |
|--|------------------------------|-----------------------------------|--------------------------------------|---|
| | Adequate Controls & Practice | Opportunity for Minor Improvement | Opportunity for Moderate Improvement | Opportunity for Significant Improvement |
| Audit Objectives: | | | | |
| Policies and procedures to determine and monitor student-athlete eligibility based on NCAA legislation. | | | | |
| Effectiveness of policies and procedures for verifying eligibility or ineligibility of student-athletes. | | | | |

EXECUTIVE SUMMARY

OVERVIEW

NCAA regulations governing student-athlete eligibility are detailed and complex with numerous exceptions and waivers available depending on an individual athlete's facts and circumstances. "An institution shall not permit a student-athlete to represent the university in athletics competition unless the student-athlete meets all applicable eligibility requirements established by the NCAA, the member institution's conference, and the institution. Generally, to be eligible to compete, an athlete must:

- Have been admitted as a regularly enrolled, degree-seeking student according to the published entrance requirements of the institution;
- Be in good academic standing according to the standards of the institution; and
- Be enrolled in at least a minimum full-time baccalaureate degree program (not less than 12 semester or quarter hours) and maintain satisfactory progress toward that degree.

While the majority of the eligibility rules relate to competition, some rules must be met prior to a student-athlete receiving institutionally administered financial aid or practicing. The majority of the eligibility rules are classified as either: (i) initial-eligibility requirements; or (ii) continuing-eligibility requirements. Also, if a student-athlete transfers from a two- or four-year institution to a NCAA Division II institution, certain other eligibility requirements may apply."¹

AUDIT OBJECTIVES

The objectives of the audit are as follows:

1. To determine whether the athletics department has established policies and procedures to determine and monitor student-athlete eligibility based on NCAA legislation.

¹ ACUA NCAA Division II Compliance Audit Guide, p.35

2. To determine whether the policies and procedures are effective in verifying eligibility or ineligibility of student-athletes.

RISK

Depending on the severity of violation(s), non-compliance with NCAA legislation may result in a variety of penalties including, but not limited to, student-athlete ineligibility, institutional probation, forfeited victories, monetary fines, recruiting restrictions, and post-season bans.

AUDIT SCOPE

We examined eligibility criteria for a sample of student-athletes as of fall semester 2009 including general eligibility, initial eligibility, continuing eligibility, transfer eligibility, and completed eligibility. We interviewed USI athletics department compliance staff, and reviewed the relevant sections of the NCAA Division II Manual and the ACUA NCAA Division II Audit Guide. We reviewed USI athletics department eligibility policies and procedures and relevant job descriptions.

AUDIT SUMMARY

We did not find any instances of violations of NCAA eligibility requirements during our audit. Adequate and effective policies and procedures have been established by the athletics department, but procedures outlining USI specific processes have not been recorded in written form. We discovered some minor issues of misplaced or incomplete forms and the lack of a job description for one compliance position. The athletics compliance staff is knowledgeable, competent, and diligent.

AUDIT RESULTS

Adequate controls and practice exist for the following audit objectives:

- Policies and procedures exist to determine and monitor student-athlete eligibility based on NCAA legislation.
 - Action task: Develop a written manual of eligibility compliance procedures.
 - Status: Target date August 2010
 - Action task: Develop a job description for the faculty athletics representative.
 - Status: Target date April 2010

Opportunities for minor improvement exist for each of the following audit objectives:

- Policies and procedures are effective in verifying eligibility or ineligibility of student-athletes.
 - Action Task: More closely monitor usage and users of "satisfactory progress" toward degree forms.
 - Status: Target date Immediate
 - Action Task: Confer with the NCAA to determine if a secondary violation should be filed in the case of misplaced or misfiled documentation.
 - Status: Target date February 2010

CONCLUSIONS

The compliance staff views proper completion and documentation of compliance requirements as a serious responsibility. They approach the task systematically and thoroughly. Eligibility compliance is functioning as designed.

Audit Report Benefit Liability Reconciliations

Background: Employee benefits comprise the second largest operating expense of the University, and paying our vendors involves a considerable amount of manual processing. These factors cause this area to fall in a high risk category. In addition, the accounting office requested Internal Audit's assistance in reconciling the benefit liability accounts in response to the State Boards observation that, in general, there was insufficient evidence of reconciliations with the accounting records in several operating areas.

Objective: The objectives of this review are as follows:

- To determine if vendor payments are accurate and are correctly recorded in the financial records
- To reconcile the vendor payments to the liability balance in the financial accounting records
- To identify methods to improve the reconciliation process

Scope: We worked closely with benefits and payroll administration to understand the processes they used to set up employee deductions and employer contributions, to invoice retirees and those on COBRA, and to reconcile and pay vendor invoices. We reviewed vendor invoices and vendor membership lists, Banner system reports of employee deductions and employer contributions, copies of USI-prepared invoices to retirees and COBRA participants for insurance coverages, and reconciliation worksheets prepared by those processing vendor payments. We focused our review on calendar years 2008 and 2009 because the benefit plans operate on a calendar year rather than a fiscal year. This period also enabled us to identify adjusting entries that were needed to correct the liability accounts for the 2009 fiscal year end close.

Observations: The process of paying vendors for benefit coverage is highly labor intensive. Two payroll staff are responsible for this activity each month. Every month, the roster of employees for each insurance coverage or retirement plan is reviewed for additions, deletions, or changes. In addition, numerous pages of data change sheets are reviewed to be sure all additions, deletions, or changes made it to the rosters and to the vendor invoices. Vendor invoices are then reviewed for prior month changes and updated for current month changes.

For every benefit, an Excel spreadsheet is maintained that reconciles the vendor's invoice amount with our payment amount after all the editions are factored in for the month. The format worked for the payroll staff who were used to it, but it made little sense to the business office accounts payable staff who verify payment documentation and post the transaction in the financial records. Further, the spreadsheet did not reconcile the payment to the liability balances in the financial records. Most often there was a balance remaining after the payment that was unexplained. Sometimes the payment was larger than the balance in the liability account, which was also unexplained.

Other issues involving enrollment, employee deductions, employer contributions, and incorrect posting surfaced. Some specific findings for each of the benefits are described below:

Spectera Vision - Employees pay the full premium cost. The vendor participant's list had not been compared to our membership listing in many months. The vendor list included individuals who had terminated, retired, or died several months previously. No attempt had been made on our part to remove these individuals from the enrollment. There were several instances where we had remitted more than we had collected from employees or, conversely, collected more than we remitted.

HRI Dental – The vendor participant's list had not been compared to our membership listing for many months. The vendor's list included individuals who had terminated or changed coverage type (single, employee-spouse, employee-child, or family) in our records but had not been updated with the vendor. There were also issues regarding the start date of coverage – our records showing one date and the vendor's records reflecting another.

Welborn HMO – The retiree plan includes a Medicare Part D prescription plan. USI receives a subsidy from Medicare which allows us to reduce the premium cost to the retiree. We remit the full payment to the vendor but collect \$29 less per person per month from each of our retirees and spouses age 65 or over. This subsidy

is an expense to the University at the time of payment. The reimbursement received from Medicare is recorded as income. Our review found that the subsidy expense was not being accounted for separately.

Anthem BCBS – The retiree plan includes a Medicare Part D prescription plan and, like the Welborn retiree plan, the subsidy expense was not being accounted for separately. In addition, there were several retirees over age 65 that were not classified as Medicare eligible because we had not communicated the age change to the vendor. There were other retirees who had turned 65 in the current year that had not been classified as such in our own Banner system.

PERF Retirement – An unidentified excess liability balance began for this benefit after the University switched to the Banner system in 2005. A report pulled from the system excluded several individuals who had terminated, switched to ineligible positions, or retired during the quarter being reported on. As a result, no dollars were remitted to the retirement plan even though the University had funded the liability account. This, and similar occurrences in later years, contributed to the buildup of excess funds in the liability account.

Resolutions:

- Payroll and benefits staff worked together to get all the vendor membership lists and the employee/employer deductions/contributions corrected and up to date. Both areas are continuing to monitor the changes each month.
- A new spreadsheet was designed which reconciles the vendor invoice with the University's payment and reconciles the University's payment with the liability account balance in the financial records. All differences are identified, which allows the preparer to monitor if the differences are resolved from one month to the next. The accounts payable staff are able to understand the new format, which improves their ability to verify the accuracy of the documentation.
- The new spreadsheet was designed to record the Medicare Part D subsidy expense for the Welborn HMO retiree plan on a monthly basis. The expense was calculated for the fiscal year end entry for the Anthem BCBS plan, but monthly posting has not yet been implemented.
- Payroll staff contacted PERF for guidance on reporting and funding the accounts of those employees omitted from earlier reports. In compliance with PERF's instructions, remittance and reporting for those employees occurred in February, 2010.
- After all corrections were made to the benefit liability accounts, all remaining excess amounts were moved to a medical premium holding account.

Audit Report Accounts Receivable Confirmation

Background: In its five-year report on internal controls presented to the Finance/Audit Committee of the Board of Trustees in March 2009, Internal Audit reported that an independent review of accounts receivable balances had never been performed. To remedy that internal control weakness, this review was added to the audit plan for 2009.

Objective: To perform a positive confirmation (response requested) of a selected sample of accounts receivable balances older than 30 days.

Scope: An aged accounts receivable report was run on June 30, 2009. The report contained 5,391 names of people or business that had balances – both negative and positive. We selected a universe of accounts with positive balances older than 30 days, excluding any 91+ days old that had already been turned over to collections. Their balances would not be the same as in our records because of added collection fees, and a letter from USI would be confusing to the account holder at this point.

As for the accounts with negative balances, we learned that most of the balances represented prepayments, or ‘unapplied cash’ as it is labeled in our chart of accounts, rather than negative accounts receivable. Per the Bursar, this is the classification for nearly all of the (\$71,362.36) that are 0 – 30 days old. We reviewed each account that fell into the 31+ days old category to determine its status. Verifying prepayments was outside the scope this review.

Accounts Receivable Statistics:

| Accounts Receivable Aged Accounts | | Accounts Receivable Range of Balances | | |
|-----------------------------------|-----------------------|---------------------------------------|-------------------------|-----------------------|
| 0 to 30 days: | \$552,752.27 | 171 | (\$0.60) – (\$2,509.50) | (\$74,827.81) |
| 31 to 60 days: | 1,787,996.60 | 5059 | \$0.01 - \$4,999.99 | 4,501,883.17 |
| 61 to 90 days: | 19,659.23 | 151 | \$5,000 - \$19,999.99 | 1,146,949.19 |
| 91+ days: | 3,632,532.42 | 10 | \$20,000 - \$91,351.35 | 418,935.97 |
| Total AR: | \$5,992,940.52 | 5391 | Total AR: | \$5,992,940.52 |

Observations: In the final selection, 46 confirmation letters were sent out. These letters represented \$126,192.49, or 2.11% of the total receivable balance. After one month, 13 (28.26 percent) responses representing \$33,460.66 (26.52 percent) were received. Ten responses indicated agreement with the stated account balances; two responses were unaware they had a balance at all until receiving our letter; and one disagreed with one charge on her account. The two who were unaware of any charges have since paid their balances in full. We turned the one disputed charge over to the Bursar and requested that office research the charge and contact the student directly.

Three negative account balances had no charge against which the payment applied. The Bursar investigated further and found that in one instance the payment was applied to the wrong account. In the other two, an invoice had not been posted. The wrongly applied payment was moved to the correct account, and in early July, appropriate charges were posted to the other two accounts.

Two additional negative account balances belonged to former employees for overpayment of medical insurance premiums. These balances were refunded to these individuals in August.

Conclusions: This review was reasonably productive. There were plenty of accounts from which to draw a good sample, and the response rate was satisfactory. The exercise resulted in two accounts being paid that would not have been otherwise and five negative accounts being corrected or otherwise completed. An accounts receivable confirmation audit will be included on the audit plan every year.

**University of Southern Indiana
 Annual Audit Plan
 Calendar Year 2010**

| QUARTER BEGINNING | AUDIT AREA | DESCRIPTION | HOURS |
|--------------------------|---------------------------------|---|--------------|
| January 2010 | Bookstore | Cash handling internal control review | 8 |
| | Bursar | Cash handling operations review | 25 |
| | Auxiliary enterprises | Physical inventory test count | 10 |
| | HR/Payroll | Employee Data Analysis - monitoring fraud indicators using computer assisted audit techniques | 200 |
| | Employee benefit liabilities | Anthem BCBS enrollment | 40 |
| April 2010 | Residence Life | Risk assessment, financial or operational audit | 200 |
| | Cell phone usage | Compliance with USI policy and IRS regulations | 200 |
| | Purchase Card follow up | Review card issuance and user training | 80 |
| July 2010 | Student Financial Aid | Grants and scholarships | 120 |
| | Professional Practice Unit | Contract compliance | 160 |
| | Eagle Card Office | Operations, financial, and IT review | 160 |
| October 2010 | Athletics Recruiting | NCAA Division II compliance review | 120 |
| | Non-financial aid grant fund(s) | Compliance with grantor regulations | 160 |
| | TBD | TBD | 200 |

| | |
|--|-------------|
| Total Hours | 1683 |
| Hours needed | 2104 |
| Hours available for unscheduled audits | 421 |

**Summary of Construction Change Orders
Authorized by the Vice President for Business Affairs**

1. BUSINESS AND ENGINEERING CENTER PROJECT

Weddle Brothers Building Group, LLC- General Contractor

| | | |
|--------|---|-------------|
| GC-012 | Paint ceilings in classroom entrance coves to provide a more attractive appearance, install water proofing on below grade wall surfaces of Mechanical 0009, provide fire rated plywood in all Communication Rooms, modify the north retaining wall configuration to cover water proofing on the Liberal Arts Center, replace unsuitable soil with No. 53 stone fill for concrete floor installation | \$17,868.00 |
| GC-013 | Install IdeaPaint dry erase wall coating on all wall surfaces in Laboratory 205 and modify Rooms 3028 and 3029 to serve as Distance Learning Classrooms | \$10,081.00 |
| GC-014 | Add display surface and modify projector installation in Computer Laboratory 0006, Classroom 1013, and General Physics Laboratory 1014 | \$10,027.00 |

Ray Haase Heating and Air Conditioning, Inc.- Mechanical Contractor

| | | |
|--------|---|-------------|
| MC-004 | Provide diffuser clips for fine-line grid system and repair the existing dust collector | \$10,211.00 |
|--------|---|-------------|

Alva Electrical, Inc.- Electrical Contractor

| | | |
|--------|---|-------------|
| EC-005 | Modify light fixture F17 for Board Room 3023 to improve ability to maintain the fixture | \$2,850.00 |
| EC-006 | Perform electrical work necessary to modify Rooms 3028 and 3029 to serve as Distance Learning Classrooms | \$11,126.00 |
| EC-007 | Perform electrical work necessary to add display surface and modify projector installation in Computer Laboratory 0006, Classroom 1013, and General Physics Laboratory 1014 | \$8,680.00 |

2. UNIVERSITY CENTER EXPANSION PROJECT

Weddle Brothers Building Group, LLC- General Contractor

| | | |
|--------|--|--------------|
| GC-023 | Make changes at east entry to accommodate future theatre project | (\$8,797.00) |
| GC-024 | Use 45-mil in lieu of 60-mil TPO roof membrane | (\$4,000.00) |
| GC-025 | Perform additional work due to clarifications to thermal break at glass and glazing system | \$2,465.00 |
| GC-026 | Provide structural modifications at existing stair openings to allow for ductwork | \$18,262.00 |
| GC-027 | Delete fireproofing at concrete slab areas where not required | (\$5,146.00) |
| GC-028 | Install steel lintel at cased opening of Room 0240 | \$2,465.00 |
| GC-029 | Provide and install structure for new floor landing in Room 1242 | \$7,127.00 |
| GC-030 | Delete Change Order GC-014 to change conduit locations for future theater project | (\$312.00) |

Capital Electric Co. - Electrical Contractor

| | | |
|--------|--|------------|
| EC-014 | Make changes to electrical work at Level 0 East Entry for future theatre project | (\$144.00) |
| EC-015 | Delete Change Order EC-010 to change conduit stub-up and hand hole location for future theatre project | (\$905.00) |

Deig Brothers Lumber and Construction Co.- Mechanical Contractor

| | | |
|--------|---|------------|
| MC-008 | Make revisions to HVAC equipment at existing stair openings to allow for ductwork to traverse through opening | \$4,342.00 |
| MC-009 | Make revisions to ductwork at Level 1 vestibule | \$3,052.50 |

**Summary of Construction Change Orders
Recommended for Authorization**

1. BUSINESS AND ENGINEERING CENTER PROJECT

Weddle Brothers Building Group, LLC- General Contractor

GC-015 General construction materials and labor to expand the Computer Aided Design Laboratory and relocate Housekeeping Room to space below the lower Common Stair \$24,677.00

Ray Haase Heating and Air Conditioning, Inc.- Mechanical Contractor

MC-005 Mechanical and plumbing construction materials and labor to expand the Computer Aided Design Laboratory and relocate Housekeeping Room to space below the lower Common Stair \$21,732.00

Alva Electrical, Inc.- Electrical Contractor

EC-008 Electrical construction materials and labor to expand the Computer Aided Design Laboratory and to relocate Housekeeping Room to space below the lower Common Stair \$25,347.00

Mel-Kay Electric Co.- Data and Communications Contractor

CC-004 Data and communications materials and labor to expand the Computer Aided Design Laboratory and to relocate Housekeeping Room to space below the lower Common Stair \$11,834.42

2. UNIVERSITY CENTER EXPANSION PROJECT

Weddle Brothers Building Group, LLC- General Contractor

GC-031 Provide and install all general construction materials and work to make connection between University Center Expansion Project and University Center Kitchen Expansion Project \$151,978.00

Capital Electric Co.- Electrical Contractor

EC-016 Provide and install all electrical construction materials and work to make connection between University Center Expansion Project and University Center Kitchen Expansion Project \$9,960.00

Deig Brothers Lumber and Construction Co.- Mechanical Contractor

MC-010 Provide and install all mechanical construction materials and work to make connection between University Center Expansion Project and University Center Kitchen Expansion Project \$31,899.00