

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

September 7, 2017

1. REPORT ON THE VOLUNTARY EMPLOYEES' BENEFIT ASSOCIATION (VEBA) TRUST FUND

Neil Heppler, Co-President with Fourth Street Performance Partners and the investment advisor for the VEBA Trust, will present a report on the VEBA Trust Fund. (Attachment A)

2. VEBA TRUST INVESTMENT POLICY STATEMENT REVIEW

Annual review of the Investment Policy Statement for the VEBA Trust (Attachment B).

Approval of the Investment Policy Statement for the VEBA Trust is recommended.

3. APPROVAL OF RECOMMENDATION FOR 2018-2019 HOUSING RATES

Approval of a recommendation to the Board of Trustees for approval of the following 2018-2019 housing rates is recommended.

<u>FALL OR SPRING SEMESTER</u>	<u>CURRENT RATE</u>	<u>PROPOSED RATE</u>	<u>EFFECTIVE DATE</u>
<u>McDONALD or O'DANIEL APARTMENT</u>			
Two Bedroom: Two students per bedroom	\$2,284	\$2,353	7-01-18
One student per bedroom	4,081	4,203	7-01-18
One Bedroom: Two students	2,755	2,838	7-01-18
One student	5,118	5,272	7-01-18
<u>GOVERNORS, NEWMAN, O'BANNON, or RUSTON HALL</u>			
One and Two Bedroom: Two students per bedroom	\$2,284	\$2,353	7-01-18

Students who live in housing will have \$50 in Munch Money added to the proposed housing rates above for use in any dining venue on campus.

SUMMER SESSIONS

Summer session rates are pro-rated to fall and spring semester rates.

4. APPROVAL OF RECOMMENDATION FOR 2018-2019 MEAL PLAN RATES

Students who live in the residence halls (Governors, Newman, O'Bannon, and Ruston) are required to purchase a resident meal plan. Three plans (Red, White, and Blue Eagle) offer different combinations of meals in The Loft and discretionary spending at other dining venues on campus. The proposed rate allows for normal increases in food and labor costs.

FALL OR SPRING SEMESTER	CURRENT RATE	PROPOSED RATE	EFFECTIVE DATE
Red, White, or Blue Eagle Meal Plan	\$2,085	\$2,148	7-01-18

Approval of a recommendation to the Board of Trustees for approval of the proposed meal plan rates for 2018-2019 is recommended.

5. REVIEW OF COMPLETED AUDITS AND ANNUAL AUDIT PLAN

A summary of audits and other activities conducted by the Internal Audit Department during 2017 (Attachment C) will be reviewed.

6. APPROVAL OF REQUEST FOR GENERAL REPAIR AND REHABILITATION FUNDS

The Indiana General Assembly appropriated \$931,336 for fiscal year 2017-2018 repair and rehabilitation of campus facilities in the 2017 legislative session. Board approval of the projects will allow the University to access and draw down the fiscal year 2017-2018 appropriation. Attachment D is a list of proposed projects totaling \$931,336.

Approval of request regarding funds for Repair and Rehabilitation of campus facilities is recommended.

7. CHANGE ORDERS APPROVED BY VICE PRESIDENT FOR FINANCE AND ADMINISTRATION

The construction change orders approved by the vice president for Finance and Administration (Attachment E) will be reviewed.



FOURTH STREET PERFORMANCE PARTNERS



USI VEBA Trust

Investment Performance Analysis

June 30, 2017

Neil Heppler

Co-President

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Global equity markets continued to rally during the second quarter as investors embraced a “risk on” theme as global growth began to accelerate, albeit modestly. The S&P 500 climbed to record highs and a +3.1% gain in the quarter despite increased uncertainty over the White House’s ability to enact proposed pro-growth reforms. Strong earnings reports domestically helped investors look past the Trump administration’s perceived woes.

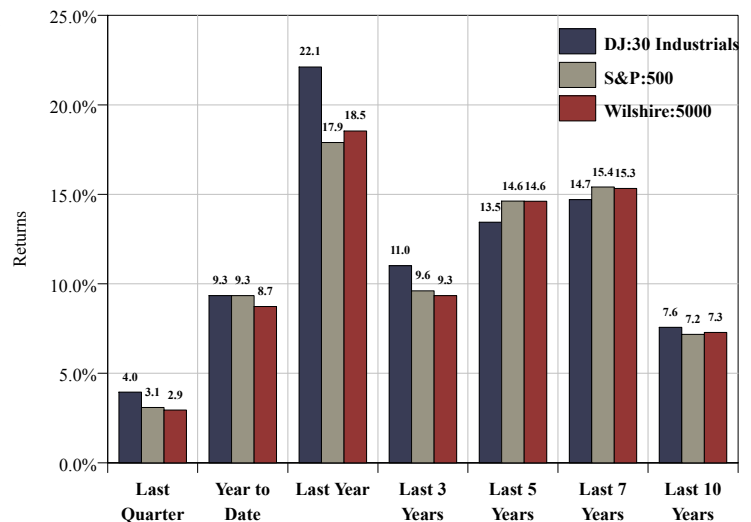
In the U.S., first quarter GDP showed growth of 1.4% year-over-year while the IMF revised lower their full year 2017 expectations for the U.S. to 2.1%. The 10-year U.S. treasury yield fell modestly, ending the quarter yielding 2.31%. U.S. investment grade bonds gained +1.4%. Higher yielding bonds and emerging market debt also performed well gaining 2.1% and 2.4%, respectively. The Federal Reserve raised the Fed Funds target rate for the second time in 2017, enacting a 25 basis point increase at their June meeting. The Federal Reserve anticipates one more rate hike later in 2017. In addition, the Fed also laid out a plan to reduce its \$4.5 trillion balance sheet of Treasury and mortgage securities over time. The Fed intends to gradually reduce its balance sheet by decreasing its reinvestment of the principal payments it receives.

Developed and emerging international equity markets also continued to rally and outperformed U.S. stocks for the second quarter in a row. The developed market MSCI EAFE Index gained +6.1%, while emerging markets gained +6.3%. In the Eurozone, first quarter GDP was +2.3% annualized, exceeding expectations. Also, a softer U.S. dollar was a notable tailwind for overseas equity markets.

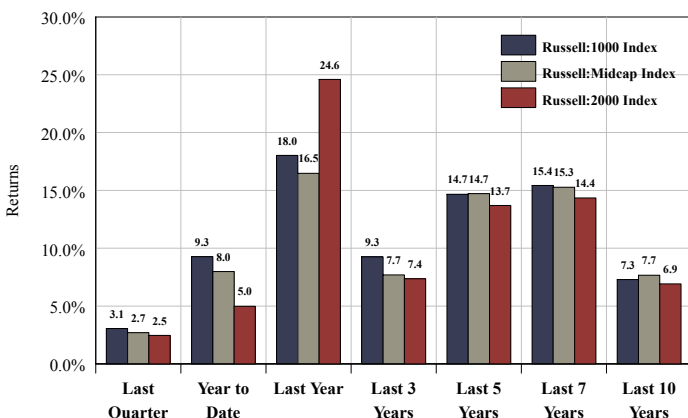
	<u>Last Quarter</u>	<u>Year to Date</u>
S&P 500	3.1	9.3
MSCI EAFE	6.1	13.8
BB Aggregate	1.4	2.3
3 Month T-Bill	0.2	0.3

Domestic Equity Market

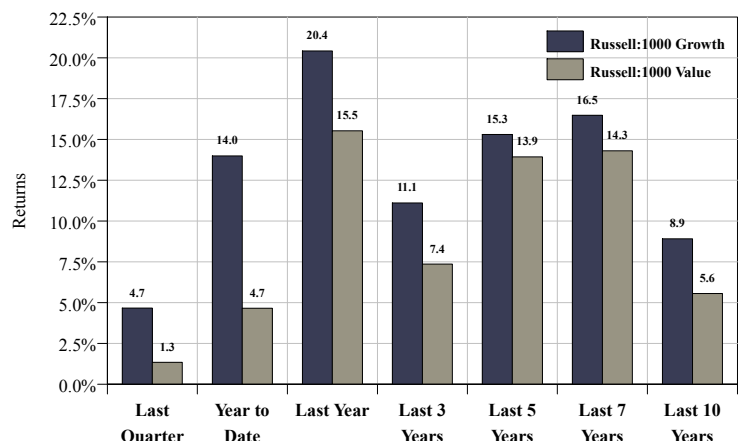
- Domestic equities continued the momentum from the first quarter as all market capitalizations experienced positive returns in the second quarter. Large-caps led the way returning +3.1%, followed by mid-caps (+2.7%) and small-caps (+2.5%).
- Growth equities were favored over their value counterparts across all capitalizations for the second consecutive quarter. The Russell 1000 Growth Index gained +4.7%, outperforming the Russell 1000 Value Index (+1.3%).
- The S&P 500 Index’s P/E ratio on forward earnings is now at 17.5x, which is above the Index’s 25-year average of 16.0x. The Shiller normalized P/E ratio rose to 30.1x, up from 29.0x. This is the third highest period ever for the Shiller P/E ratio (1929 and 2000).
- 1st quarter GDP was revised to 1.4% annualized growth. 2nd quarter GDP is projected between 2.0-2.5%.
- Headline inflation remains muted as Q2 inflation readings were less than anticipated (headline CPI +1.9%, core CPI +1.7%).
- Unemployment is now at 4.4%, while wages continue to slowly grind higher, growing 2.4%.



**Large-cap vs. Small-cap
Returns Ending June 30, 2017**



**Growth vs. Value
Returns Ending June 30, 2017**

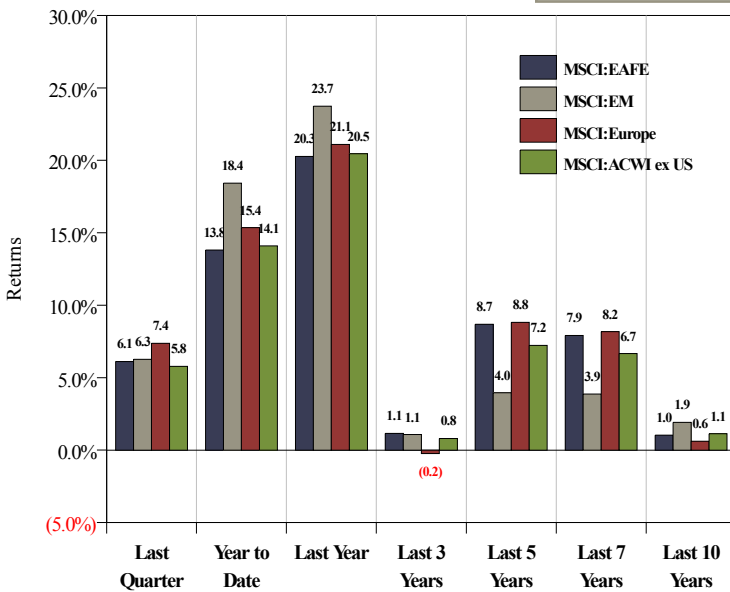


Sectors of the Market

	Financials	Technology	Health Care	Industrials	Energy	Cons. Discr.	Cons. Staples	Telecom	Utilities	Real Estate	Materials
S&P Weight	14.5%	22.3%	14.5%	10.3%	6.0%	12.3%	9.0%	2.1%	3.2%	2.9%	2.8%
Russell Growth Weight	3.4%	36.2%	13.7%	12.3%	0.8%	18.6%	7.6%	1.0%	0.0%	2.6%	3.9%
Russell Value Weight	25.5%	8.0%	14.2%	8.7%	10.5%	6.9%	9.2%	3.1%	6.1%	5.0%	2.7%
2nd Qtr. 2017 Return	4.2%	4.1%	7.1%	4.7%	(6.4%)	2.4%	1.6%	(7.0%)	2.2%	2.8%	3.2%
<i>Year to Date</i>	6.9%	17.2%	16.1%	9.5%	(12.6%)	11.0%	8.0%	(10.7%)	8.8%	6.4%	9.2%

- The S&P 500 returned +3.1%, marking the seventh consecutive quarterly gain. Health Care led the market higher with a +7.1% return for the quarter. Technology (+4.1%) was driven by some of the “FAANG” stocks: Facebook (+6.1%), Amazon (+8.6%), and Google (+8.4%). Additional outperformers include Industrials (+4.7%), Financials (+4.2%), and Materials (+3.2%).
- Corporate earnings in the first quarter of 2017 hit their highest growth level since the third quarter of 2011 with more than 75% of S&P 500 companies reporting earnings above expectations.
- Notable underperformers for the quarter include Energy (-6.4%) and Telecom (-7.0%). Energy stocks were negatively affected by a 10% decline in oil prices as the price of a barrel of oil finished the quarter at \$47, down from \$53. MLPs were down 6.4% and commodities decreased by 5.5%. REITs had a modest gain of +1.7%, while gold decreased 0.8% for the quarter.
- Extremely low volatility in equity markets continued in the second quarter and remains at multi-decade lows.

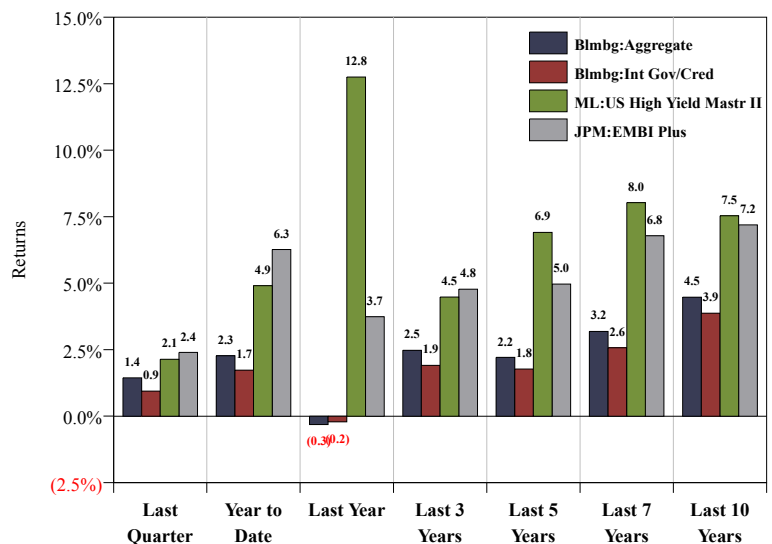
International Markets



- Developed international equity markets had another strong quarter, rising 6.1%. A weaker U.S. dollar was a tailwind for U.S. investor’s international market returns as the dollar fell 7% versus the euro and 4% against the pound.
- First quarter GDP growth in the Eurozone was 2.3% annualized, the best result in two years. Unemployment dropped to its lowest level since 2009. The European Central Bank President, Mario Draghi, implied a normalization/reduction of bond buying by the ECB during a June meeting, signaling some strength in the euro economy.
- The MSCI Emerging Markets Index was the best performing major equity index during the second quarter, increasing 6.3%. Emerging market countries with strong performance during the quarter included China (+10.6%), Greece (+33.8%), Korea (+10.2%), Turkey (+19.3%) and Poland (+13.6%).
- Conversely, Russia (-10.0%) suffered due to falling oil prices and questions about U.S./Russia relations, while political corruption in Brazil hindered markets during the quarter (-6.7%).
- Japan gained +5.2% in the second quarter, as their economy is in the midst of its longest expansion in a decade, albeit only 15 months.

Fixed Income Markets

- Intermediate and long U.S. Treasury yields fell modestly in the second quarter as inflation data released were persistently weak. The 10-year U.S. Treasury yield declined 9 bps to 2.31%, down from 2.40% at the end of March.
- U.S. investment grade bonds, as measured by the Bloomberg Barclays Aggregate Index, gained 1.4% and now yields 2.6%.
- There was further flattening of the U.S. Treasury yield curve during the quarter as the spread between the 2 and 30-year treasuries fell to 146 bps (from 175 bps as of 3/31/17).
- Corporates (+2.5%), high yield (+2.1%) and emerging market debt (+2.4%) were the strongest quarterly performers. Munis returned +2.0% in the second quarter and, generally, lower quality bonds outperformed.
- The Bloomberg Barclays TIPS Index lost -0.4% for the quarter due to lower inflation expectations.
- The Fed continued tightening rates in the second quarter, with the target range for the federal funds rate increasing to 1.00% -1.25%. The Fed projects one more hike this year, and has also mapped out plans to reduce its \$4.5 trillion balance sheet in the coming months.





Comparative Market Returns
Average Annual Compound Returns (%)
for Periods Ended June 30, 2017

	Last Quarter	Year to Date	Last Year	Last 2 Years	Last 3 Years	Last 4 Years	Last 5 Years	Last 6 Years	Last 7 Years	Last 8 Years	Last 9 Years	Last 10 Years	Last 15 Years
<u>U.S. Large Cap Equity</u>													
S&P:500	3.09	9.34	17.90	10.73	9.61	13.18	14.63	13.05	15.41	15.29	9.71	7.18	8.35
S&P:500 Growth	4.42	13.33	19.30	11.52	11.03	14.86	15.24	13.96	16.57	16.06	10.75	8.97	8.83
S&P:500 Value	1.51	4.85	15.86	9.44	7.79	11.18	13.82	11.94	14.09	14.38	8.54	5.25	7.72
DJ:30 Industrials	3.95	9.35	22.12	12.97	11.01	12.13	13.45	12.28	14.71	15.23	10.18	7.57	8.44
Russell:3000 Index	3.02	8.93	18.51	10.02	9.10	12.93	14.58	12.72	15.34	15.38	9.73	7.26	8.66
Russell:1000 Index	3.06	9.27	18.03	10.22	9.26	13.08	14.67	12.88	15.43	15.40	9.73	7.29	8.62
Russell:1000 Growth	4.67	13.99	20.42	11.38	11.11	14.87	15.30	13.65	16.48	16.12	10.70	8.91	9.03
Russell:1000 Value	1.34	4.66	15.53	9.01	7.36	11.26	13.94	12.04	14.31	14.63	8.69	5.57	8.09
<u>Mid Cap Equity</u>													
S&P:400 Mid Cap	1.97	5.99	18.57	9.61	8.53	12.48	14.92	11.84	15.42	16.56	10.49	8.56	10.40
Russell:2500 Index	2.13	5.97	19.84	7.44	6.93	11.32	14.04	11.14	14.78	15.90	10.14	7.42	9.98
Russell:2500 Growth	4.13	10.63	21.44	5.88	7.65	12.03	14.33	11.21	15.47	16.20	10.30	8.18	10.31
Russell:2500 Value	0.32	1.95	18.36	8.91	6.21	10.61	13.69	11.00	14.10	15.57	9.95	6.52	9.53
<u>Small Cap Equity</u>													
S&P:600 Small Cap	1.71	2.79	22.47	10.65	9.32	13.17	15.47	13.01	16.16	17.07	11.37	8.44	10.38
Russell:2000 Index	2.46	4.99	24.60	7.80	7.36	11.22	13.70	10.91	14.35	15.22	9.85	6.92	9.19
Russell:2000 Growth	4.39	9.97	24.40	5.37	7.64	11.68	13.98	11.01	15.16	15.51	10.12	7.82	9.55
Russell:2000 Value	0.67	0.54	24.86	10.29	7.02	10.71	13.39	10.77	13.50	14.88	9.53	5.92	8.75
<u>Global Equity</u>													
MSCI:ACWI	4.27	11.48	18.78	6.94	4.82	9.09	10.54	7.50	10.48	10.64	5.26	3.71	7.31
MSCI:ACWI ex US	5.78	14.10	20.45	3.98	0.80	5.68	7.22	3.24	6.66	7.13	2.03	1.13	6.90
MSCI EAFE USS (net)	6.12	13.81	20.27	3.94	1.15	6.34	8.69	4.56	7.91	7.66	2.41	1.03	6.31
MSCI EAFE Growth	7.52	16.68	15.70	4.95	2.81	6.94	9.19	5.22	8.60	8.60	2.81	2.06	6.32
MSCI EAFE Value	4.78	11.12	25.01	2.82	(0.59)	5.66	8.12	3.84	7.15	6.65	1.94	(0.08)	6.22
MSCI:Europe	7.37	15.36	21.11	3.69	(0.24)	6.44	8.82	4.12	8.17	7.86	2.04	0.62	6.32
MSCI:Pacific	3.92	11.11	19.26	4.64	3.99	6.19	8.54	5.53	7.60	7.45	3.31	2.01	6.35
MSCI:EM	6.27	18.43	23.75	4.32	1.07	4.23	3.96	0.34	3.87	6.10	1.62	1.92	10.60
<u>Fixed Income</u>													
Blmbg:Aggregate	1.45	2.27	(0.31)	2.79	2.48	2.95	2.21	3.07	3.19	3.96	4.19	4.48	4.48
Blmbg:Int Gov/Cred	0.94	1.73	(0.21)	2.03	1.92	2.15	1.77	2.37	2.57	3.27	3.49	3.87	3.96
Blmbg:Gov/Credit	1.69	2.66	(0.41)	3.08	2.62	3.03	2.29	3.34	3.39	4.15	4.28	4.57	4.61
Blmbg:Long Gov/Credit	4.39	6.03	(1.07)	7.00	5.28	6.63	4.26	7.40	6.79	7.96	7.66	7.58	7.23
Blmbg:Muni 10 Yr	2.35	4.18	(0.41)	3.85	3.56	4.25	3.40	4.52	4.52	5.14	5.19	5.13	4.88
ML:US High Yield Cash Pay	2.16	4.92	12.75	7.08	4.48	6.24	6.88	6.83	8.00	10.21	8.58	7.47	8.79
JPM:EMBI Plus	2.40	6.27	3.75	8.38	4.78	6.23	4.97	5.98	6.78	8.06	7.42	7.19	9.80
ML:US Treasuries 1-3 Yrs	0.17	0.44	(0.11)	0.60	0.69	0.71	0.63	0.66	0.76	1.00	1.37	1.95	2.22
3 Month T-Bill	0.20	0.31	0.49	0.34	0.23	0.19	0.17	0.15	0.15	0.16	0.24	0.58	1.30
CPI (All Urban Cons.)	0.47	1.46	1.63	1.31	0.92	1.20	1.31	1.37	1.68	1.60	1.26	1.63	2.08
<u>Alternatives</u>													
HFR Fund of Funds Index	0.74	3.14	6.43	0.34	1.53	3.02	3.86	2.42	3.01	3.22	1.00	0.89	3.45
Blmbg:Commodity Price Idx	(3.22)	(5.61)	(7.02)	(10.31)	(15.03)	(9.74)	(9.41)	(10.26)	(5.83)	(4.81)	(10.88)	(6.95)	(1.23)
GS Commodity Index	(5.46)	(10.24)	(9.01)	(17.99)	(24.82)	(17.24)	(13.70)	(13.21)	(8.45)	(8.08)	(16.12)	(9.67)	(2.64)
Wilshire:REIT	1.78	1.82	(1.71)	9.88	8.30	9.58	9.35	9.98	13.32	17.88	8.25	5.63	9.99

USI VEBA Trust
Performance Summary Table (Net of Fees)
for Periods Ending June 30, 2017
(Investment Returns are Shown Net of Fees)

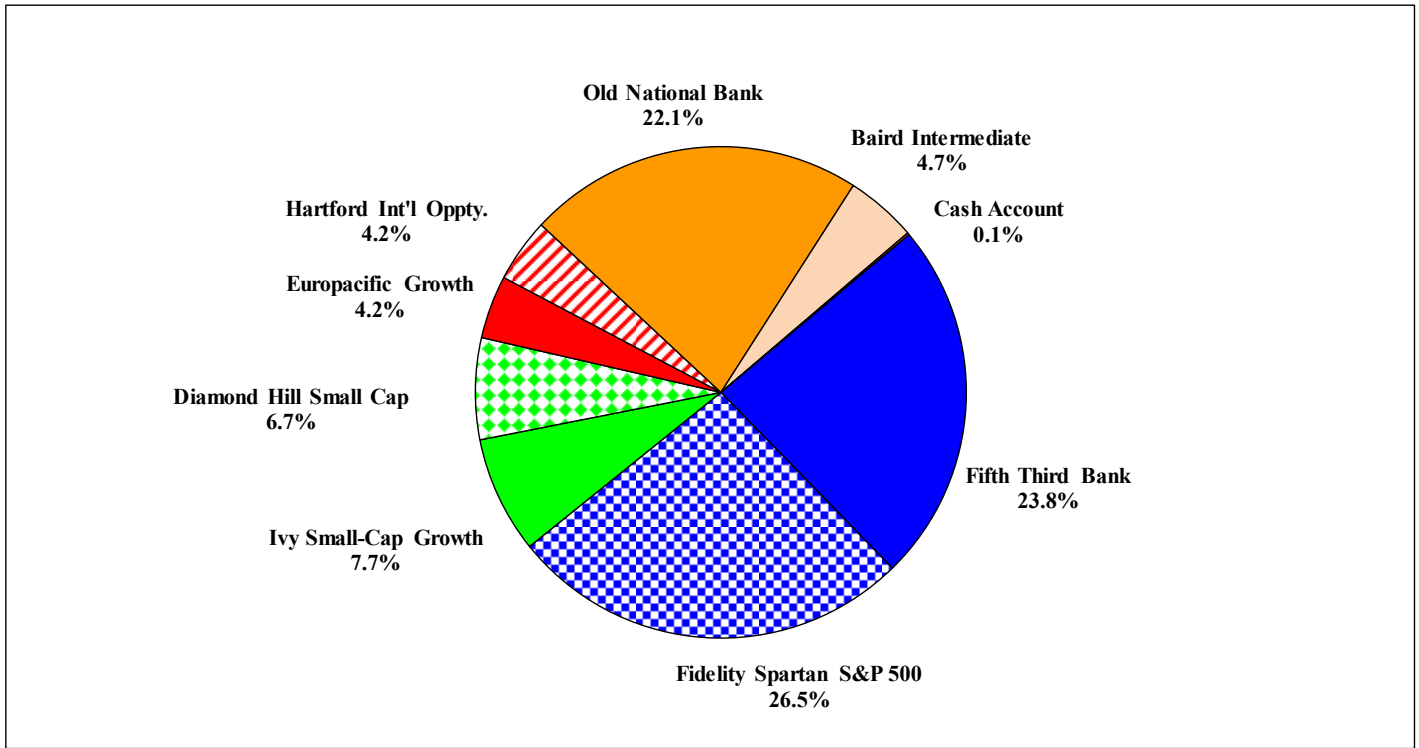
	<u>QTR</u>	<u>YTD</u>	<u>1 YR</u>	<u>3 YR</u>	<u>5 YR</u>	<u>10 YR</u>	<u>15 YR</u>	<u>Inception</u>	<u>Date</u>
USI VEBA Trust Composite	2.6	6.7	10.7	5.1	9.0	5.9	6.9	5.9	Dec-95
<i>Balanced Index¹</i>	2.4	7.0	12.2	7.4	10.7	6.4	7.3	5.8	Dec-95
<i>Diversified Balanced Index²</i>	2.7	6.9	13.0	6.1	9.9	5.5	7.2	5.8	Dec-95
<i>US DOL:CPI All Urban Cons</i>	0.5	1.5	1.6	0.9	1.3	1.6	2.1	2.2	Dec-95
<u>Domestic Equity</u>									
Fifth Third Bank	2.8	7.9	11.8	5.5	10.5	6.4	8.1	6.8	Dec-00
Fidelity Spartan S&P 500	3.1	9.3	17.9	9.6	14.6	7.2	--	7.6	Jun-07
<i>S&P:500</i>	3.1	9.3	17.9	9.6	14.6	7.2	8.3	5.8	Dec-00
Ivy Small Cap Growth	5.6	13.2	24.6	8.8	13.9	9.3	10.4	7.3	Dec-00
<i>Russell:2000 Index</i>	2.5	5.0	24.6	7.4	13.7	6.9	9.2	8.2	Dec-00
<i>Russell:2000 Growth</i>	4.4	10.0	24.4	7.6	14.0	7.8	9.5	6.8	Dec-00
Diamond Hill Small Cap	0.9	1.8	13.7	2.9	12.4	6.5	--	11.3	Nov-09
<i>Russell:2000 Index</i>	2.5	5.0	24.6	7.4	13.7	6.9	9.2	14.0	Nov-09
<i>Russell:2000 Value</i>	0.7	0.5	24.9	7.0	13.4	5.9	8.7	13.2	Nov-09
<u>International Equity</u>									
American Funds EuroPac	7.7	17.7	22.1	3.6	9.5	--	--	6.4	Mar-10
<i>MSCI:EAFE</i>	6.1	13.8	20.3	1.1	8.7	1.0	6.3	5.4	Mar-10
Hartford Int'l Oppty	6.3	14.4	19.3	3.0	8.8	3.6	7.4	10.0	Hgd-17
<i>MSCI:EAFE</i>	6.1	13.8	20.3	1.1	8.7	1.0	6.3	9.0	Hgd-17
<u>Fixed Income</u>									
Old National Bank	0.8	1.5	(0.8)	1.9	1.8	3.7	3.5	4.2	Dec-95
<i>Blmbg:Int Gov/Cred</i>	0.9	1.7	(0.2)	1.9	1.8	3.9	4.0	4.8	Dec-95
Baird Fixed Income	1.0	2.0	0.4	2.2	2.5	4.4	4.5	2.3	Sep-15
<i>Blmbg:Int Gov/Cred</i>	0.9	1.7	(0.2)	1.9	1.8	3.9	4.0	1.8	Sep-15

¹ The Balanced Index is comprised of 100% BC Intermediate Govt/Corp Index from 1/1/1996 through 12/31/2000 and 30% Bloomberg Barclays Intermediate Govt/Corp Index and 70% S&P 500 Stock Index from 1/1/2001 forward.

² The Diversified Balanced Index is comprised of 100% BC Intermediate Govt/Corp Index from 1/1/1996 through 12/31/2000 and 30% BC Intermediate Govt/Corp Index, 42% S&P 500 Stock Index, 18% MSCI EAFE Index, and 10% Russell 2000 Index from 1/1/2001 to 9/30/14. From September 30, 2014 to the present, the Diversified Balanced Index is comprised of 30% Bloomberg Barclays Intermediate Govt/Corp Index, 40% S&P 500 Stock Index, 10% MSCI EAFE Index, 10% Russell Midcap Index and 10% Russell 2000 Index .

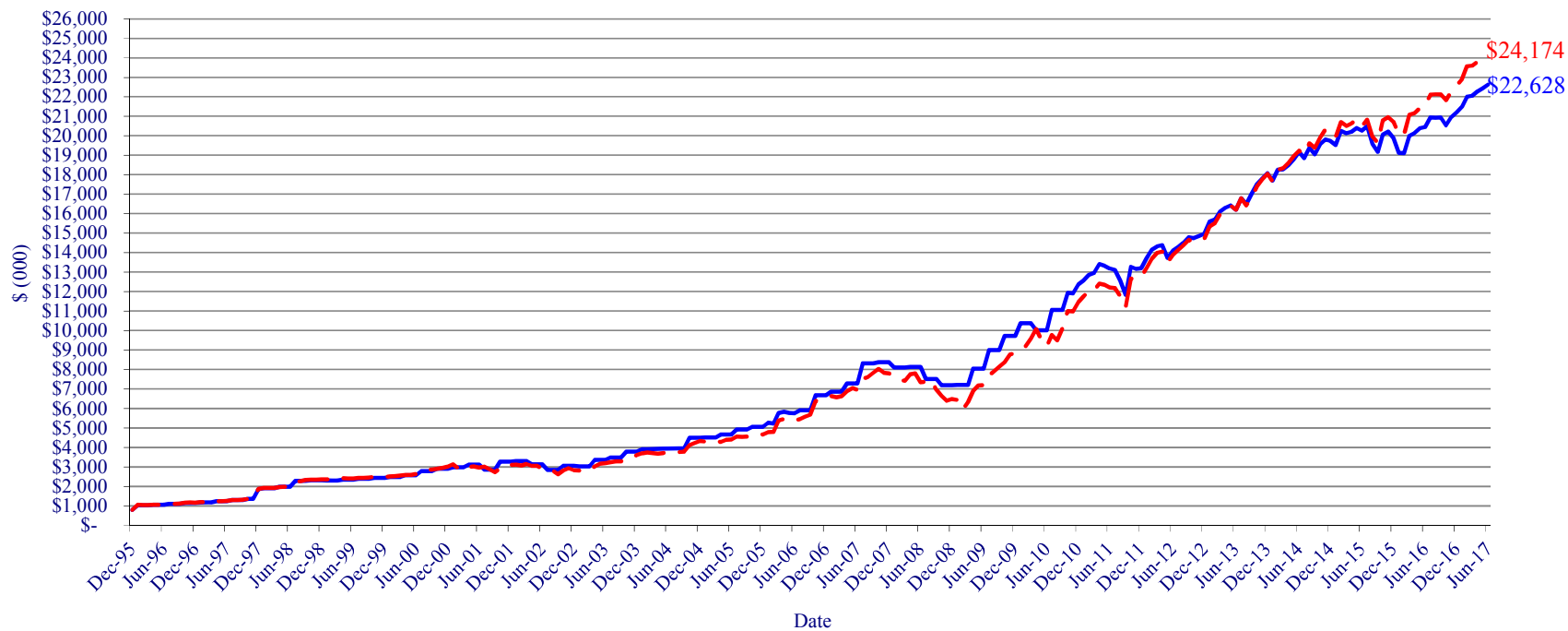
USI VEBA Trust
 Asset Mix
 Periods Ending June 30, 2017

Total Assets: \$22,628,385



	<u>Domestic Large-Cap</u>	<u>Domestic Mid-Cap</u>	<u>Domestic Small-Cap</u>	<u>International Equity</u>	<u>Fixed Income</u>	<u>Cash</u>	<u>Total</u>
Fifth Third Bank	\$3,414,388	\$851,847	-	\$680,078	-	\$438,308	\$5,384,621
Fidelity Spartan 500 Index	\$6,003,122	-	-	-	-	-	\$6,003,122
Ivy Small-Cap Growth	-	\$443,815	\$1,296,636	-	-	-	\$1,740,452
Diamond Hill Small Cap	\$9,971	\$567,114	\$933,608	-	-	-	\$1,510,693
Europacific Growth Fund	-	-	-	\$942,197	-	-	\$942,197
Hartford Int'l Oppty.	-	-	-	\$947,290	-	-	\$947,290
Old National Bank	-	-	-	-	\$5,008,640	-	\$5,008,640
Baird Intermediate	-	-	-	-	\$1,062,767	-	\$1,062,767
Cash Account	-	-	-	-	-	\$28,604	\$28,604
Total	\$9,427,481	\$1,862,776	\$2,230,245	\$2,569,565	\$6,071,407	\$466,912	\$22,628,385
% of Total	42%	8%	10%	11%	27%	2%	100%
Target	40%	10%	10%	10%	30%	0%	

USI VEBA Trust
 Sources of Growth
 Market Values from December 31, 1995 through June 30, 2017



— Composite

- - Balanced Index

	<u>Net Cash Flow</u>	<u>Gain/Loss</u>	Incremental Gain/Loss Relative to: <u>Balanced Index</u>
Past Quarter	\$0	\$571,331	(\$4,792)
Year-to-Date	\$0	\$1,423,064	(\$162,309)
Past Year	\$0	\$2,185,056	(\$446,462)
Past 3 Years	\$300,000	\$3,161,875	(\$1,476,169)
Past 5 Years	\$733,989	\$7,791,100	(\$1,759,971)
Since Inception	\$9,574,420	\$12,247,849	(\$1,545,517)

Statement of Disclosures and Disclaimer

Privacy Disclosure Notice

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UNIVERSITY OF SOUTHERN INDIANA VEBA TRUST INVESTMENT POLICY

INVESTMENT POLICY - GENERAL

The purpose of the investment policy (the "policy") is to define the attitudes, philosophy, and goals of the Finance/Audit Committee of the University of Southern Indiana Board of Trustees (the "Board of Trustees" or the "Board") for investing the VEBA (Voluntary Employees' Benefit Association) Trust Fund (the "Fund"). In addition, the policy defines the investment guidelines that will be provided to the investment managers. These guidelines address the structure necessary to achieve a diversified portfolio, including asset classes, allocation targets, and management styles. This portfolio should be capable of achieving significant long-term returns while maintaining acceptable levels of risk. The policy will further define the measurable industry standards that will be used to monitor and evaluate the performance attained by investment managers. While this policy defines the current guidelines for managing the ~~fund~~ Fund's investments, it is intended that it will be reviewed regularly and modified to meet the evolving financial environment.

INVESTMENT PHILOSOPHY

The VEBA Trust Fund was established with the intent of providing a revenue stream that will be utilized to partially fund future costs of the University of Southern Indiana's (the "University") post-retirement health benefit plan. Since inception, the assets in the VEBA Trust Fund have been allowed to grow through additional investments, reinvestment of current income from the asset base, and capital appreciation of the asset base. During this time no distributions were taken from the ~~VEBA Trust~~ Fund. Beginning in fiscal year ~~2014-15~~ 2017-2018, distributions are expected to begin to fund a portion of the University's post-retirement health benefits. The investment philosophy for this fund will be based upon the goal of maintaining the purchasing power of the ~~fund~~ Fund into the future by exceeding the rate of inflation by the amount of the distribution rate of the ~~fund~~ Fund.

Investment decisions for ~~this the fund~~ Fund will be based upon the continuing belief in a free enterprise society supported by publicly owned businesses; therefore, the ~~fund's~~ Fund's assets should be invested in high quality equity and debt securities of these businesses. It is also recognized that in any economy or over any appreciable time period there will probably be an inflationary loss of purchasing power of the ~~fund's~~ Fund's assets. Historically, over the extended periods of time, equity investments generally have grown through dividends and appreciation at a faster pace than inflation, and it is expected that such a trend will continue. Consequently, over the long run, equity investments generally provide the best hedge against inflation and a deterioration of the asset base.

The investment objectives of the ~~fund~~ Fund call for a disciplined and consistent management philosophy that accommodates the occurrence of those events that might be considered reasonable and probable. They do not call for a philosophy that represents extreme positions or opportunistic styles of investing.

The investment portfolio of the Fund will be diversified as to both fixed income and equity holdings. The purpose of diversification is to provide reasonable assurance that no single investment or class of investments will have a disproportionate or significant impact on the total portfolio. The purpose of fixed income investments is to provide a highly predictable and dependable source of income, to reduce the volatility of the total portfolio market value, and, when appropriate, to provide a source of funds for other investments. The purpose of equity investments is to provide current income, growth of income, and appreciation of principal with the recognition that this requires the assumption of greater market volatility and risk of loss.

The ~~fund~~ Fund will not be directly or internally managed by the Board of Trustees, the Finance/Audit Committee, or University officials. ~~One or more~~ An investment consultant will be utilized to act as a fiduciary in providing information, analysis, and recommendations to University management and the

Finance/Audit Committee on various aspects of the VEBA Trust Fund's investment program. Multiple investment managers will be retained by the fund to manage the assets to (1) provide greater diversification of investment judgment, investment opportunity, and risk exposure, and (2) create a positive influence on performance through independent monitoring of each manager.

Investment managers will be selected from strongly established and financially sound organizations that have a proven and demonstrable record in managing funds with characteristics similar to those of this-the fundFund. Selection will depend upon factors established by the Finance/Audit Committee from time to time. These factors will include the competitive structure of the investment manager's custodial and management fee schedules.

The Finance/Audit Committee has considered the financial implications of a wide range of asset allocation policies, and this policy describes the prudent investment process deemed appropriate. Further, in seeking to fulfill its obligations under this policy, the Finance/Audit Committee shall exercise prudence and appropriate care in accordance with the Uniform Prudent Management of Institutional Funds Act (hereinafter referred to as "UPMIFA" and added to Indiana Public Law as Indiana Code Sections 30-2-12-0.5 through 30-2-12-18).

As summarized for the purpose of this policy, UPMIFA requires that all investment actions and decisions must be based solely on what is in the best interest of the VEBA Trust Fund and conform to fundamental fiduciary duties of loyalty and impartiality. The Finance/Audit Committee is under a duty to the University to manage the Fund's investment assets as a prudent investor would, in light of the assets' purposes, scope, objectives and other relevant circumstances.

UPMIFA further requires the exercise of reasonable care, skill, and caution while being applied to investments not in isolation, but in the context of the portfolio as a whole and as part of an overall investment strategy having risk and return objectives reasonably suited to the Fund. In making and implementing investment decisions, the Finance/Audit Committee has a duty to diversify Fund investments unless, under special circumstances, the purposes of the Fund are better served without diversifying. The Finance/Audit Committee also must act with prudence in deciding whether and how to delegate authority, in the selection and supervision of agents, and incurring costs where reasonable and appropriate.

DISTRIBUTION RATE

Effective July 1, 2014, the University eliminated the post-retirement health care benefit for all new hires and for existing benefits-eligible employees whose age plus years of service as of July 1, 2014, is less than 57 points and whose benefits-eligible service as of July 1, 2014, is less than 10 years. Since the cost of the post-retirement health care benefit will cease to exist in the future, it is not the intent of the University to maintain the VEBA Trust Fund in perpetuity. As funding needs require, especially as the benefit ceases, the corpus of the ~~VEBA Trust~~-Fund may be completely spent on post-retirement health care benefits.

For the near-term, University management has determined that an annual target distribution rate of 4.5% from the ~~VEBA Trust~~-Fund is a reasonable and prudent use of the investment proceeds to partially fund the University's post-retirement health benefits costs. The distribution rate may vary from year to year depending on the University's funding need. Each year University management will review the funding need for the post-retirement health benefits cost and determine the amount of drawdown needed from the ~~VEBA Trust~~-Fund. Setting a target distribution rate of 4.5%, does not preclude University management from exceeding this rate if warranted. Management will report the distribution rate or distribution amount to the Finance/Audit Committee and will review the financial status of the ~~VEBA Trust~~-Fund annually with the Finance/Audit Committee.

FUND INVESTMENT OBJECTIVES

The long-term investment objectives of the VEBA Trust Fund are:

- (1) To exceed the general rate of inflation by the amount of the distribution rate;

- (2) To establish a diversified investment portfolio between fixed and equity securities;
- (3) To establish further diversification among various asset classes within the fixed and equity pools; and
- (4) To maximize total return utilizing prudent levels of risk.

ASSET ALLOCATION MIX

Historical performance results and future expectations suggest that equities will provide higher total investment returns than fixed-income securities over a long-term investment horizon. Investments in equities also carry with them increased exposure to market volatility and risk of loss of principal. Based upon the time horizon and current distribution rate for future distributions of the VEBA Trust Fund, the investment goals of the fundFund, and prudent risk tolerances, the following asset allocation guidelines are deemed appropriate for the investment of fund-Fund assets.

ALLOCATION

<u>Investment Type</u>	<u>Target</u>	<u>Range</u>
Equities	70%	65% - 75%
Fixed Income & Cash	30%	25% - 35%

Investments should not exceed the minimum and/or maximum levels for more than 30 days without the written authorization of the Finance/Audit Committee. University management, in consultation with the investment consultant, has discretion to move within the ranges as an expression of University management and the investment consultant’s confidence or concern for the securities markets.

EQUITY ASSET CLASS DIVERSIFICATION

Within the equity portion of the portfolio, the fund-Fund seeks to further diversify among different equity investment approaches based upon market capitalization, geographic domicile and investment style. These investment approaches and their target allocations are presented below.

<u>Asset Class/Style</u>	<u>Target</u>
<u>Equities</u>	
U.S. Large Capitalization	40 45%
International	10 13%
U.S. Small/Mid Capitalization	20 12%
Total Equities	70%

These target allocations are intended to be general guidelines. Movement among the various asset classes from time to time will be considered normal. The asset class target mix percentages are long-term in nature. The Finance/Audit Committee does not believe that short-term market timing will add value to the portfolio over the long run.

INVESTMENT RESTRICTIONS

Any investment manager is specifically prohibited from investing trust assets in the following securities and transactions:

- (1) Short sales or purchases on margin
- (2) Purchase of options
- (3) Direct investments in commodities or real estate
- (4) Letter stock or other unregistered securities

- (5) Private placements
- (6) Bonds rated less than "A"
- (7) Foreign debt issues
- (8) Derivatives for speculative purposes
- (9) Other investments which would appear to violate the fiduciary responsibility of the fund

PERFORMANCE OBJECTIVES

The Finance/Audit Committee will periodically review the performance of the investment managers based upon the performance objectives detailed below. It is generally expected that the performance objectives will be achieved over rolling five (5) year periods.

U.S. Large Capitalization Equity

The annualized total return of large capitalization domestic equity portfolios should equal or exceed the annualized total return generated by the Standard & Poor's 500 Stock Index, net of fees, and provide positive risk-adjusted returns. Investment managers' and mutual funds' returns in this category should exceed the median of a peer group of investment managers or funds utilizing a similar investment style.

International Equity

The annualized total return of international equity portfolios should equal or exceed the annualized total return generated by the Morgan Stanley Capital International Europe, Australia, Far East (EAFE) Index, net of fees, and provide positive risk-adjusted returns. Investment managers' and mutual funds' returns in this category should exceed the median of a peer group of international equity mutual funds utilizing a similar investment style.

U.S. Small/Mid Capitalization

The annualized total return of small/mid capitalization domestic equity portfolios should equal or exceed the annualized total return generated by the Russell 2000 Index, net of fees, and provide positive risk-adjusted returns. Investment managers' and mutual funds' returns in this category should exceed the median of a peer group of investment advisors or funds utilizing a similar investment style.

U.S. Intermediate Fixed Income

The annualized total return of domestic intermediate fixed income portfolios should equal or exceed the annualized total return generated by the ~~Barclays~~Bloomberg Barclays Intermediate Government/Credit Index, net of fees, and provide positive risk-adjusted returns. Investment managers' and mutual funds' returns in this category should exceed the median of a peer group of investment advisors or funds utilizing a similar investment style.

INVESTMENT CONSULTANT RESPONSIBILITIES

An investment consultant will be utilized to act as a fiduciary in providing information, analysis, and recommendations to University management and the Finance/Audit Committee on various aspects of the VEBA Trust Fund's investment program including the following:

- Strategic and tactical asset and sub-asset class allocation guidance to support the VEBA Trust Fund's investment portfolio objectives.
- Selection and monitoring of investment managers.
- Reporting of portfolio and investment manager performance relative to agreed upon benchmarks and timeframes. This includes preparation of performance evaluation reports for University management and the Finance/Audit Committee.
- Monitoring the investment managers relative to their organizational structure, investment style, and compliance with this investment policy.

INVESTMENT MANAGER RESPONSIBILITIES

It is expected that the investment managers will assume the following responsibilities in managing the VEBA Trust Fund assets:

- Comply with the provisions of the Investment Advisors Act of 1940.
- Invest the assets with the same care, skill, prudence, and due diligence under the circumstances then prevailing that experienced investment professionals, acting in a like capacity and fully familiar with such matters, would use in like activities.
- Communicate in writing with the Finance/Audit Committee the performance results and current holdings in the portfolio.
- Manage the assets under its care, custody, and/or control in accordance with the investment policy's performance objectives and guidelines set forth herein.

ROLE OF THE FINANCE/AUDIT COMMITTEE

The responsibility of the Finance/Audit Committee of the Board of Trustees is to provide direction for the investment of the financial assets of the University of Southern Indiana VEBA Trust Fund. The specific responsibilities are as follows:

- To establish and maintain policies and guidelines for the investments of the fund assets
- To determine the appropriate allocation ranges among classes of investments
- To engage and terminate the services of investment consultants and managers
- To monitor investment returns and review the performances of investment managers
- To report to the Board of Trustees

MONITORING OF INVESTMENT MANAGERS

The Finance/Audit Committee of the Board of Trustees is responsible for monitoring of the stewardship of the investment managers. From time to time, the Finance/Audit Committee may meet individually with the investment consultant and/or investment managers. During these meetings, the Finance/Audit Committee will focus on reports about:

- Managers' compliance with the investment policies developed by the Finance/Audit Committee
- The most recent economic environment and projected future changes in that environment
- Significant changes in the manager's organization, investment philosophy, and/or key personnel
- Comparisons of the investment manager's results with the appropriate benchmark standards as outlined in the investment policy



UNIVERSITY OF SOUTHERN INDIANA

Internal Audit Report

Prepared by

Bradley V. Will, CPA
Director of Internal Audit

Kendra Groeninger
Internal Audit Manager

Report No. USIA17-1
 February 22, 2017

Audit Report Athletics Business Operations Ticket Sales and Sponsorship Revenue

Results at a Glance

Audit Objectives:	RISK MITIGATION			
	Adequate Controls & Practices	Opportunity for Minor Improvement	Opportunity for Moderate Improvement	Opportunity for Significant Improvement
Evaluate the adequacy of controls over ticket sales and cash handling at athletic events				
Evaluate the adequacy of controls for documenting sponsorship terms, invoicing sponsors, and monitoring outstanding pledges				

Introduction

Our report of the internal audit of University Athletics ticket sales and sponsorship revenue is presented below. We would like to thank Angie Goebel, Mandi Fulton, Alexandra Eaton, Jon Mark Hall, and other athletics department personnel who contributed positively to our results.

Background Information

The University of Southern Indiana Athletics department is responsible for the fiscal operation and oversight of 17 varsity intercollegiate sports. The operations of the department are funded through a combination of support from the University's operating budget, gifts from the University of Southern Indiana Foundation, revenue generated from the solicitation of corporate sponsorships, and ticket sales for home athletic events. For the 2015-2016 fiscal year, the athletics department generated approximately \$132,000 and \$112,000 in revenue from ticket sales and sponsorships, respectively.

This report is based on a review of sponsors for the 2015-2016 fiscal year and athletic event ticket sales for the period beginning with the 2015-2016 men's and women's basketball season through the fall 2016 athletics season. The audit approach consisted of reviewing USI Athletics department procedures, interviewing athletics department personnel with responsibility for ticket sales, cash handling, and ticket reconciliation, interviewing personnel responsible for the solicitation, invoicing, and tracking of sponsors, reviewing ticket seller reports and reconciliations for a sample of athletic events, and reviewing contracts and documentation for super sponsors for the 2015-2016 fiscal year.

The **objectives** of the audit were to:

- Evaluate the adequacy of controls over ticket sales and cash handling at athletic events
- Evaluate the adequacy of controls for documenting sponsorship terms, invoicing sponsors, and monitoring outstanding pledges

Report No. USIA17-1
February 22, 2017

Conclusion

In general, the results of our audit procedures indicate **opportunities for minor improvement** with respect to **controls over ticket sales and cash handling** at athletic events and **opportunities for moderate improvement** with respect to controls related to documenting sponsorship terms, invoicing sponsors, and monitoring outstanding pledges.

Management will take or has taken the following actions:

- Recording and verifying the zip tie number used to seal cash deposit bags
- Making athletic game-day ticket sales cash setups available for retrieval at the Business Office
- Completing an athletics sponsor contract for all super sponsors
- Expanding the current sponsor tracking spreadsheet and providing it to the Business Office monthly
- Implementing a due date and minimum deposit amount to secure sponsorship benefits
- Evaluating ticketing systems for implementation in coordination with the completion of the Physical Activities Center (PAC) renovation and expansion

No additional action or response is required.

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Kendra Groeninger
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Distribution: Jon Mark Hall
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Report No. USIA17-1
February 22, 2017

**Athletics Business Operations
Ticket Sales and Sponsorship Revenue
Audit Report**

Control Issues and Responses

Recording and verifying the zip tie number used to seal cash deposit bags

Issue: During discussions with Internal Audit, USI Athletics personnel inquired about the effectiveness of using pre-numbered plastic zip ties to seal deposit bags while in-transit to the cashiers in the Business Office. Based on this discussion, it appears that current procedures do not require the person preparing the deposit to record the pre-numbered zip tie used to seal the deposit bag.

Risk: The lack of a requirement to record the number of the zip tie used to seal the deposit bags and have that number verified by the receipting cashier increases the risk that theft of a portion of the deposit goes undetected.

Response: Beginning with deposits made after February 22, 2017, USI Athletics personnel will record on the deposit slip the number of the zip tie used to seal the bag and the receipting cashier will verify that number to the zip tie removed from the bag.

Making athletic game-day ticket sales cash setups available for retrieval at the Business Office

Issue: Current procedures for obtaining cash setups for game-day ticket sales involves a cash advance deposit made to the game-day administrator's personal banking account.

Risk: Providing cash setups to the game-day administrators by processing them as cash advances which are direct deposited to the administrator's personal account results in a commingling of personal and University funds while also creating inefficiencies by requiring the administrator to go to his or her depository institution and make a withdrawal.

Response: Beginning with the cash setups for the 2017 baseball and softball game-day ticket sales, the Bursar's Office will create a revolving fund for athletics game-day ticket sales and make the cash setups available for pickup at the cashiers' window, similar to other cash setup arrangements at the University.

Completing an athletics sponsor contract for all super sponsors

Issue: USI Athletics has a sponsor contract for documenting the sponsorship level of each donor organization. However, the sponsor contract is not consistently completed by athletics personnel. Internal Audit noted that USI Athletics did not have a contract on file for 16 of 25 super sponsors for the 2015-2016 fiscal year.

Risk: Lack of adequate documentation regarding sponsorships increases the risk of sponsorship billing errors, increases the likelihood of misunderstandings between the University and the sponsor, and may be viewed negatively from an NCAA compliance perspective.

Report No. USIA17-1
February 22, 2017

Response: Effective for the 2017-2018 fiscal year, athletics department personnel will complete a sponsor contract for all super sponsors and document the following information (note that the existing sponsor contract already contains the following fields or has adequate white space to document these items):

1. The dollar amount of the sponsorship
2. The trade amount of the sponsorship (if goods or services are exchanged in addition to or in lieu of cash)
3. Amount of the sponsorship paid and balance due
4. If payment in full has not been made at the time the sponsorship contract is being completed, the signature of the sponsor representative. If the pledge is taken over the phone, the signature line may be populated with: "Per telephone conversation with _____(insert name of sponsor contact person) on mm/dd/yy."

Expanding the current sponsor tracking spreadsheet and providing it to the Business Office monthly

Issue: USI Athletics utilizes a sponsor tracking spreadsheet to monitor the status of sponsors and their payments. The current spreadsheet does not list both the cash and trade values of the sponsorship, nor does it clearly indicate the balance due from and the need to invoice the sponsor.

Risk: Inadequate tracking and communication of sponsor balances may lead to a failure to bill and collect sponsorship revenues timely.

Response: Athletics department personnel will add the following information to the existing tracking spreadsheet:

1. The dollar amount of the sponsorship pledge
2. The trade amount of the sponsorship (if goods or services are exchanged in addition to or in lieu of cash)
3. Amount of the sponsorship paid with the pledge
4. Remaining balance of sponsorship due at time of the pledge and after receipt of each payment

Athletics department personnel will work with the Business Office to develop a procedure to share the tracking spreadsheet on a monthly basis and will communicate regarding 2016-2017 sponsors by April 2017. Athletics department personnel expect to have the procedure for tracking and communicating sponsor information to the Business Office fully implemented for the beginning of the 2017-2018 fiscal year. The Athletics department will also continue to perform a monthly review of the list of invoiced, but uncollected sponsorships provided by the Business Office and compare that to the tracking sheet to identify any sponsors that may not have been invoiced.

Implementing a due date and minimum deposit amount to secure sponsorship benefits

Issue: USI Athletics does not require sponsors to submit a minimum deposit by a specific date to secure sponsorship benefits.

Risk: The lack of a requirement that sponsors make a minimum payment by a certain date prior to start of the sponsored season increases the risk that the University will confer sponsorship benefits without receiving sponsorship revenue.

Response: Effective for the 2017-2018 fiscal year, USI Athletics will implement a due date and a "minimum" deposit amount for sponsors to secure the benefits associated with sponsorship. This will help ensure some commitment from the sponsors before the University provides event passes or advertising, while still allowing the total sponsorship amount to be paid over several months if requested by the sponsor.

Report No. USIA17-1
February 22, 2017

Evaluating ticketing systems for implementation in coordination with the completion of the PAC renovation and expansion

Issue: During discussions with Internal Audit, both athletics department personnel and business office personnel cited, independent of one another, the need for an electronic ticketing system to improve the efficiency and effectiveness of ticket sales, delivery, tracking, and reconciliation.

Risk: The lack of an electronic ticketing system requires a significant amount of manual effort to track, manage, and reconcile tickets sold, comped, and unused. With the expansion of seating and potential to host a variety of different events in the renovated PAC, the effort requirement under existing processes will only increase.

Response: The USI Athletics department will set up a meeting with the Business Office and Procurement Office by July 1, 2017, to discuss the collection of information and estimates from various ticketing systems, including the Vendini system currently used by the University's theatre department. The objective will be to complete the evaluation and selection of a ticketing system in time to implement the system in conjunction with the opening of the renovated PAC.

Report No. USIA17-2
 May 17, 2017

Audit Report Child Protection Policy and Procedure Compliance

Results at a Glance

Audit Objectives:	RISK MITIGATION			
	Adequate Controls & Practices	Opportunity for Minor Improvement	Opportunity for Moderate Improvement	Opportunity for Significant Improvement
Evaluate the adequacy of the University's Child Protection Policy (CPP) and procedures				
Evaluate the efficiency and effectiveness of child protection procedures				
Evaluate compliance of University-sponsored child-related programs with published policy and procedures				

Introduction

Our report of the internal audit of Child Protection Policy (CPP) and procedure compliance is presented below. We would like to thank Dr. Thomas McDonald, Stephanie Brown, and the program administrators (PA) for child-related programs who contributed positively to our results.

Background Information

In September 2015, the University of Southern Indiana adopted a child protection policy to protect the safety and well-being of children who are on University owned or leased property, and/or who participate in University-related programs and activities, both on and off campus. The policy was developed in response to a risk assessment conducted by Internal Audit in the summer of 2012.

The CPP requirements were phased in between September 1, 2015 and October 1, 2015, such that all requirements became effective for University-sponsored programs involving children on or after January 1, 2016.

This report is based on a review of University-sponsored child-related programs during the 2016 calendar year. The audit approach consisted of reviewing the USI CPP and comparing it to the 2012 recommendations made by Internal Audit; reviewing forms, procedures, and PA training requirements; reviewing a sample of University-sponsored child-related programs for compliance with the policy, procedures, and background check recommendations made by the Child Protection Committee (CPC); and interviews with the PAs for the programs selected for compliance testing.

Report No. USIA17-2
May 17, 2017

The **objectives** of the audit were to:

- Evaluate the adequacy of the University's CPP and procedures
- Evaluate the efficiency and effectiveness of child protection procedures
- Evaluate compliance of University-sponsored child-related programs with published policy and procedures

Conclusion

In general, the results of our audit procedures indicate **adequate controls and practices** with respect to **CPP and procedures** and **opportunities for moderate improvement** with respect to the **efficiency and effectiveness of child protection procedures** and **compliance with policies and procedures**.

Management will take or has taken the following actions:

- Implementing third-party background checks or modifying policy and procedure for background checks
- Utilizing the Raptor system for sex offender registry checks and event check-in
- Monitoring compliance with training requirements
- Implementing a compliance review by the CPC
- Maintaining a master spreadsheet of programs reviewed and approved by the CPC

No additional action or response is required.

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Steve Bridges
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Dr. Linda L. M. Bennett

Report No. USIA17-2
May 17, 2017

Child Protection Policy and Procedure Compliance Audit Report

Control Issues and Responses

Implementing third-party background checks or modifying policy and procedure for background checks to facilitate compliance and effectiveness

Issue: Internal Audit reviewed 15 University-sponsored child-related events held during the 2016 calendar year for compliance with the University's CPP and procedures. We noted several issues with respect to the current process for completing background checks, particularly for volunteer checks which were to be performed by each PA or his/her designee. The following items were noted:

- Eight events did not use a Background Check Tracking Form
- Five programs were missing at least one volunteer's Program Participant Form
- Seven events were missing at least one volunteer's Authorization for Background and Sex Offender Registry Checks
- Seven programs did not conduct Background and Sex Offender Registry Checks as required by the CPP and/or CPC instructions on the Event Planning Form

Risk: The manual nature of the current background check process utilized for screening volunteers increases the risk of non-compliance with University policy and procedure, potentially resulting in an inadequate or inconsistent evaluation of some volunteers.

Response: Management will implement a third-party background check by October 31, 2017, to improve efficiency and compliance with policy. The University will utilize a tiered approach for screening individuals that work with children such as performing criminal background checks and sex offender registry checks through Human Resources on all employees participating in programs involving children, while only requiring sex offender registry checks utilizing the Raptor system for non-employee volunteers.

Utilizing the Raptor system for sex offender registry checks and event check-in

Issue: During our review of University-sponsored child-related events held during the 2016 calendar year, Internal Audit noted several issues with respect to the current process for completing sex offender registry checks and volunteer check-in. Specifically, the following items were noted:

- Three programs did not use a Participant Check-In Form or acceptable alternative
- Eight events did not use a Background Check/Sex Offender Registry Check Tracking Form
- Five programs were missing at least one volunteer's Program Participant Form
- Seven events were missing at least one volunteer's Authorization for Background and Sex Offender Registry Checks
- Seven programs did not conduct Background and Sex Offender Registry Checks as required by the CPP and/or CPC instructions on the Event Planning Form

Risk: The manual nature of the current volunteer sign-up process, sex offender check process, and event check-in process increases the risk of non-compliance with University policy and procedure, potentially resulting in an inadequate or inconsistent evaluation of some volunteers.

Response: By January 1, 2018, the University will begin utilizing the Raptor system for sex offender registry checks and event check-in for all employee, student, and community volunteers each day of a child-related event. Utilizing Raptor will streamline the process of completing sex offender registry checks and make retaining evidence of completion of those checks and check-in of volunteers more efficient. The transition to Raptor will require coordination among public safety, information technology, and the PAs for child-related programs.

Report No. USIA17-2
May 17, 2017

Monitoring compliance with training requirements

Issue: Internal Audit found 11 of 15 events reviewed did not fully comply with the training requirements required by the CPP and/or the CPC's instructions on the Event Planning Form.

Risk: Incomplete or inadequate training of employee, student, and community volunteers regarding their responsibilities under the CPP may compromise the safety and well-being of children who are participating in University-related programs and activities.

Response: Recently management transitioned responsibility for the CPP from the Office of the Provost to Finance and Administration. In conjunction with that transition, the Office of Public Safety will take ownership of administering the policy while the CPC will continue in an advisory capacity. Management will communicate by October 31, 2017, either through training sessions or direct communication to PAs, the importance of verifying that volunteers completed training before the event. For the online training, the PA should receive a copy of the volunteer's completion certificate or verify with Information Technology that the volunteer completed the training. A copy of the one-page Volunteer Child Protection Policy Training should be retained on the Child Protection network share.

Implementing a compliance review by the CPC

Issue: Internal Audit noted that none of the 15 events reviewed during the audit successfully complied with all elements of the CPP and procedures.

Risk: Non-compliance with the Policy and procedures may compromise the safety and well-being of children who are participating in University-related programs and activities and increase the University's liability if an incident were to occur.

Response: By October 31, 2017, the University will implement a compliance review of the most recent event coordinated by the PA prior to authorizing any subsequent events submitted by the PA. Following the transition of administrative responsibility for the CPP, management will evaluate whether the review will be conducted by the CPC in its advisory capacity or within the Office of Public Safety. The review will consist of verifying use and retention of appropriate forms on the child protection network share and verifying the background checks or sex offender registry checks were performed in accordance CPC instructions for a sample of participants. Issues noted during the review will be shared with the PA to help facilitate compliance for the next event that is in planning.

Maintaining a master spreadsheet of programs reviewed by the CPC

Issue: During our review, Internal Audit obtained a binder of Event Planning Forms submitted to the CPC for events reviewed in the fall of 2015, which were to take place in the spring of 2016. The binder included a spreadsheet listing events reviewed by the CPC and the CPC's decisions regarding background checks and training requirements. A similar list was not located for events reviewed in the spring of 2016.

Risk: The lack of a comprehensive list summarizing events reviewed by the committee may make it difficult to efficiently compare similar types of events and could increase the likelihood of the CPC providing inconsistent responses to PAs.

Response: Effective October 31, 2017, in conjunction with the transition of administrative responsibilities for the CPP, the University will begin maintaining a list of events submitted by PAs for review. It will include basic information about the event such as event name, date, PA, and number of volunteers. In addition, the recommendation regarding background and sex offender registry checks, as well as participant training requirements, will be documented on the list for reference in subsequent years and when reviewing similar events.

Report No. USIA17-3
 July 27, 2017

Audit Report Federal Grant and Contract Pre-award Policies and Procedures

Results at a Glance

Audit Objectives:	RISK MITIGATION			
	Adequate Controls & Practices	Opportunity for Minor Improvement	Opportunity for Moderate Improvement	Opportunity for Significant Improvement
Evaluate the adequacy of and compliance with pre-award policies and procedures				
Review progress addressing recommendations from 2016 consulting engagement regarding Outreach and Engagement business practices				

Introduction

Our report of the internal audit of federal grant and contract pre-award policies and procedures is presented below. We would like to thank Rebecca Deeg, Emily Lynn, Dr. Katherine Draughon, Dr. Mark Bernhard, Dawn Stoneking, Steven Stump, Daniella Vidal, and Jeff Sickman who contributed positively to our results.

Background Information

The University of Southern Indiana Office of Sponsored Projects and Research Administration (OSPRA) manages pre-award activities for federal grants and contracts. These activities include providing information and resources for University faculty and staff seeking external funding, reviewing proposals, obtaining institutionally required pre-submission approvals, and negotiating and authorizing agreements for awarded grants on behalf of the University.

The USI Division of Outreach and Engagement (O&E) provides and facilitates educational, research, and technical services for people, groups, and organizations in Indiana and the Tri-State area. In some cases, the organizations being served are federal entities or recipients of federal funds. As a result, the services provided by O&E or other University personnel and the funds sourced to pay for those services must be carefully evaluated to determine whether they are subject to the Office of Management and Budget (OMB) Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance).

An audit of federal grant administration and compliance was last reported on in December 2015, at which time Internal Audit noted adequate controls and practices with respect to both pre-award grant activities and post-award grant management.

This report is based on a review of pre-award policies, procedures, and proposal activities during the 2016-2017 fiscal year. The audit approach consisted of reviewing policies and procedures for administering federal awards, including the current version of the USI Grant Management Guide; reviewing the status of consultant

Report No. USIA17-3
July 27, 2017

recommendations made in 2016 regarding O&E business practices for contracting with federal and non-federal entities; interviewing OSPRA, Business Office, and O&E personnel; and reviewing a sample of federal award proposals processed in 2016-2017.

The **objectives** of the audit were to:

- Evaluate the adequacy of and compliance with pre-award policies and procedures
- Review progress addressing recommendations from the 2016 consulting engagement regarding O&E business practices

Conclusion

In general, the results of our audit procedures indicate **opportunities for minor improvement** with respect to the adequacy of and compliance with pre-award policies and procedures and **opportunities for moderate improvement** with respect to addressing recommendations from the 2016 consulting engagement regarding O&E business practices.

Management will take or has taken the following actions:

- Formalizing and communicating interim and annual objectives for opportunity development
- Documenting the waiver of the requirement to complete external grant and contract application pre-notification
- Updating the Grant Management Guide (GMG) to reflect regulatory changes
- Establishing a target date for completing detailed cost analyses on a selection of Lifelong Learning (LL) and Center for Applied Research (CAR) engagements

No additional action or response is required.

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Report No. USIA17-3
July 27, 2017

Federal Grant and Contract Pre-award Policies and Procedures Audit Report

Control Issues and Responses

Formalizing and communicating interim and annual objectives for opportunity development

Issue: Based on discussions with O&E personnel and review of information on its webpages, opportunity development is a primary focus for the department. Opportunity development by its very nature is an open-ended concept that requires additional definition to provide focus and direction for personnel responsible for its execution. While O&E holds internal meetings and discussions to communicate what they are working on within the department, there is no formal interdepartmental communication of the opportunities O&E is seeking to develop within the next several months.

Risk: The lack of formal documentation and communication regarding the type, number, and selection criteria of opportunities O&E seeks to develop may create uncertainty both within the department and in other areas of the University. This uncertainty can result in personnel spending time on activities that do not align well with University capabilities or which generate results inconsistent with the University's strategic objectives.

Response: O&E will hold meetings twice a year with OSPRA, Business Office and other relevant personnel to review opportunities, including the type, number, and general selection criteria of opportunities it seeks to develop. Since the general selection criteria includes financial information, we will tie this effort in with the completion of the detailed cost analyses targeted for March 31, 2018. In the interim, O&E will continue to provide weekly updates to OSPRA regarding opportunities involving grants and will communicate through email or through meetings regarding new opportunities.

Documenting the waiver of the requirement to complete external grant and contract application pre-notification

Issue: During the review of pre-award compliance, Internal Audit noted two grant applications in the audit sample where the External Grant and Contract Pre-Notification Form was not completed. According to the external grant application and federal contract procedures outlined on the OSPRA webpage, all individuals who are planning to apply for an external grant or submit a federal contract of any size are required to submit the Pre-Notification Form to OSPRA a minimum of 15 business days prior to the application submission date.

Risk: The absence of the form and documentation of the reason the form was not required may appear to be a control weakness in the University's pre-award process.

Response: Beginning August 1, 2017, OSPRA will require all principal investigators on grant proposals to have a completed pre-notification form on file in Cayuse before a proposal will be submitted to a funding agency. Standard procedure requires this document to be completed and submitted to OSPRA a minimum of 15 business days prior to the due date of the proposal.

Updating the Grant Management Guide (GMG) to reflect regulatory changes

Issue: The GMG was developed several years ago to help educate and provide a framework of knowledge for principal investigators and project directors to understand and execute their responsibilities on externally funded projects. Subsequent to the last GMG update in September 2014, the Office of Management and Budget (OMB) published the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), a comprehensive overhaul of federal grant administrative, cost accounting, and audit policies. The Uniform Guidance superseded and combined the requirements of eight OMB Circulars (A-21, A-50, A-87, A-89, A-102, A-110, A-122 and A-133). The GMG has not been updated to reflect the replacement of the various OMB circulars with the Uniform Guidance.

Report No. USIA17-3
July 27, 2017

Risk: Failure to update and publish the GMG with information reflecting the adoption of the Uniform Guidance may create the perception with outside agencies or external auditors that the University does not have appropriate controls for effective grant administration. References to the superseded OMB Circulars may also create confusion for USI personnel applying for or managing grant related activities.

Response: OSPRA staff will work with Business Office personnel to review and revise the GMG to reflect the replacement of the various OMB circulars with the Uniform Guidance. Revisions will be completed no later than October 1, 2017.

Establishing a target date for completing detailed cost analyses on a selection of Lifelong Learning (LL) and Center for Applied Research (CAR) engagements

Issue: In response to recommendations stemming from the January 2016 ML Weekes & Company review of O&E business practices with respect to federal and non-federal contracting relationships, O&E personnel have worked with finance and human resources personnel to evaluate and restructure how and where personnel costs are captured in the accounting system. The objective of these efforts was to improve the correlation between the job duties of the personnel and the cost centers to which their salaries and benefits are being charged. The revised structure for capturing costs went into effect on July 1, 2017 for fiscal year 2017-2018. O&E has indicated that the accumulation of costs in the revised cost centers will facilitate the future completion of detailed project cost analyses as recommended by ML Weekes. However, a formal plan including the projects to be analyzed and the timing have not been established.

Risk: The lack of a formal plan and timeline for completion of the cost analyses increases the risk that the project does not get completed timely.

Response: Mark Bernhard and Jeff Sickman will convene a small team from O&E and the Business Office to work on the cost analysis project. We anticipate the majority of our cost analysis being completed during January through March 2018 with an anticipated pricing model developed by March 31, 2018. This timeline will allow us to prepare our 2018-2019 budgets with the new pricing methodology.

**University of Southern Indiana
 Audit Recommendations Matrix
 Calendar Year 2012**

AUDIT NAME					
OBSERVATION	RISK	RECOMMENDATION	RESPONSE	TARGET	STATUS
Employment, Payroll, & Benefits 6. During the audit, payroll personnel indicated they have established as an objective to increase the use of technology through the selection and implementation of an electronic time-keeping/time-tracking system. The current payroll processing environment relies heavily on hard-copy documents for tracking and reporting hours worked and employee time off (both paid and unpaid time). The University uses paper time sheets for employees to record their hours. In addition, personnel within the various departments summarize the hours from employee timesheets by recording them on a hard-copy recap document.	Moderate	Utilize technology solutions to increase efficiency of payroll processing.	The Payroll Manager and HRISM are meeting weekly to explore options of implementing either a Banner-provided or a separate web time-entry system. The managers will make a recommendation and a final decision will be made by March 31, 2013.	Web time plan: Students - Fall 2013 Revised: December 2014 Bi-weekly - Spring 2014 Revised: June 2015 9-month faculty - Fall 2014 Revised: December 2015 Remaining monthly - Fall 2015 Revised: June 2016 On hold	Human Resources (HR) has determined that this effort will require outside assistance On hold due to budget constraints
7. The current payroll processing schedule includes a bi-weekly payroll for support staff and temporary workers, a bi-weekly payroll for student workers, and monthly payroll for full-time faculty, administrative staff members, and adjunct faculty. The bi-weekly payrolls are paid one week in arrears, while the monthly payrolls are paid current.	Low	Consider transitioning the monthly payroll schedule to a bi-weekly payroll schedule.	The HR administrator group will evaluate the web time-entry project and possible changes to the payroll processing schedule and the Payroll Manager and HRISM will recommend their priority order by March 31, 2013. At that time a project plan would be built for the top priority project and subsequent deadlines established.	Prioritization of web time-entry and payroll schedule projects: March 31, 2013 Evaluation of transition from monthly to bi-weekly processing: 9-month faculty - Fall 2014 Remaining monthly - Fall 2015 Revised: June 2016 On hold	Web time-entry prioritized first On hold due to budget constraints

**University of Southern Indiana
Audit Recommendations Matrix
Calendar Year 2013**

AUDIT NAME	RISK	RECOMMENDATION	RESPONSE	TARGET	STATUS
Contracting Authority Risk Assessment					
1. The University does not have a written policy outlining the positions that are authorized to execute contracts obligating the University to deliver goods or services to third parties.	High	Develop a written policy which clearly defines those positions with authority to execute contracts or delegate such execution authority. Centralize the review of all contracts to facilitate routing, both internally and to outside legal counsel, ensure that appropriate University personnel review the contracts, monitor the contracts for provisions or modifications that have been predetermined as potentially detrimental to the University's interests, and ensure legal counsel is consulted when appropriate.	The Division of Outreach and Engagement, under the direction of the Associate Provost, has established a contract committee to review the various types of service contracts that the department executes. The committee will complete a draft of the policy, make its determination of feasibility of centralized contract review, and submit the policy to the President's Council for review by September 30, 2013.	September 30, 2013 Revised: "Pilot" policy in Division of Outreach and Engagement: February 28, 2014 Rollout policy to entire campus: January 2015 Revised: July 1, 2015 Revised: March 1, 2017	Completed Completed Policy presented to President's Council on June 13, 2017
2. The University does not have a standard contract template that is required for all contracts and proposals for delivery of services. Consequently, these agreements generally lack provisions limiting the University's liability and protecting the University from claims associated with the performance of the services.	High	Develop a standard contract template, which includes the following provisions: a.) Limitation of liability b.) Indemnification clause c.) Force majeure clause d.) Confidentiality clause	The Division of Outreach and Engagement will work with legal counsel to develop standard contract templates containing the suggested provisions, as appropriate for the types of services routinely performed by University personnel.	September 30, 2013 Revised: March 31, 2014 September 30, 2014 April 30, 2015 November 1, 2016 March 1, 2017	Completed Contract templates in use within Outreach and Engagement effective August 1, 2017
Eagle Access Department Card					
2. Some card users indicated that they did not have a clear understanding of guidelines for usage of the cards, nor did they connect proper usage of the cards with the institutional hospitality policy.	Low	Develop a policy and procedures to govern the use of Eagle Access department cards that is consistent with the approved University hospitality policy. Training should be provided for all department users and users' acknowledgement of the policy should be documented.	The Business Office will develop a policy and procedures to govern the use of Eagle Access department cards that is consistent with the approved hospitality policy. The policy will be developed by September 30, 2013, and users will receive communication/training on the policy thereafter. See Revised Response below.	September 30, 2013 Revised: July 1, 2014 December 31, 2014 July 1, 2015 Implementation of procurement card for hospitality expenses- March 31, 2016 Revised: March 31, 2017	
3. Eagle Access department card transactions currently receive no independent (outside the department) review to confirm that card usage is in conformity with University policies and procedures. All other University financial transactions receive some level of review by finance or accounting personnel.	Moderate	Develop an independent review of Eagle Access department card transactions for conformity with established policies and procedures.	Business Office management is considering the possibility of transitioning the majority of departments currently using Eagle Access cards to the use of a procurement card for hospitality expenses. The Business Office will complete its evaluation of the feasibility of such a transition by June 30, 2014, and take subsequent actions as appropriate. Revised Response: Effective September 2017, transition to Accounts Payable the responsibility for allocating Eagle Access card expenses to appropriate cost centers Meet with Sodexo by October 31, 2017 to discuss: a. Ability to require formal authorization to load value on cards b. Reporting/data availability to analyze usage Complete usage analysis by December 31, 2017 and implement policy and procedure changes by July 1, 2018.	June 30, 2014 Revised: July 1, 2014 December 31, 2014 July 1, 2015 Implementation of procurement card for hospitality expenses- March 31, 2016 Revised: March 31, 2017 Transition expense allocation: September 2017 Meet with Sodexo: October 31, 2017 Usage analysis: December 31, 2017 Policy and procedure changes: July 1, 2018	

**University of Southern Indiana
 Audit Recommendations Matrix
 Calendar Year 2014**

AUDIT NAME	RISK RATING	RECOMMENDATION	RESPONSE	TARGET	STATUS
Information Security and Privacy Compliance					
3. There is no formal information security awareness training program for new or continuing employees, nor is there an established process for delivering periodic security reminders or updates as required by GLBA, HIPAA, and PCI DSS.	High	Develop a formal information security awareness and training program for new and continuing employees. Training should be required upon hire and periodically thereafter for continuing employees. Publish periodic (e.g. monthly) information security reminders to all University personnel.	IT will develop training modules, execute the training, and provide reporting on compliance. Once in place, the IT security role will establish the timeline to complete the training material.	TBD Revised: Recommendation for training solution by April 30, 2017	In progress Employee training will launch on September 1, 2017
4. There is currently no process or system in place to proactively monitor network activity logs and alert IT personnel of indications of attack or intrusion.	High	Evaluate intrusion detection and file integrity monitoring solutions and determine the appropriate placement and configuration across the network based upon a comprehensive risk assessment and input from information security auditors or consultants engaged to conduct the network architecture and data security review.	IT has begun the process of evaluation of additional tools to solve this need. Specifically, IT expects that the University needs the following systems: <ul style="list-style-type: none"> • Intrusion Prevention System (IPS) • Intrusion Detection System, including File Integrity Monitoring • Log File Aggregation System IT anticipates having these in place by end of the 2014 - 2015 fiscal year.	June 30, 2015 Revised: TBD	In progress ASA firewalls with FirePOWER (which includes IPS, advanced malware protection, and URL filtering) in place Implementation and ongoing refinement of FirePOWER and FireSight rules across the network have been prioritized subsequent to network segmentation activities currently underway
Fuel Pump Access and Accountability					
1. A true reconciliation of fuel inventories is not being performed.	Moderate	Facility Operations should reconcile fuel inventories on hand on a monthly basis using beginning and ending "totalizer" readings, stated delivered amounts per the vendor, and a physical measurement of the fuel tanks.	Beginning in December 2014, Facility Operations will begin reconciling fuel inventories on hand on a monthly basis using beginning and ending fuel pump readings, stated delivered amounts per the vendor, and a physical measurement of the fuel tanks.	December 2014 Revised: Begin three month trial of fuel reconciliation August 31, 2017	
2. The current process for accessing the pumps makes it difficult to precisely assign accountability for pump access and activity and the hand-written fuel logs used to record the amount of fuel dispensed increases the risk of missing, erroneous, or illegible entries.	Moderate	Facility Operations should investigate the feasibility of installing a card swipe reader (e.g. for employee Eagle Access Cards) for improved accountability of fuel pump access and electronic recording of fuel dispensed, vehicle number, and mileage (if possible).	Facility Operations is currently investigating the feasibility of installing a card swipe reader (e.g. for employee Eagle Access Cards) on the E87 fuel pump for improved accountability of fuel pump access and electronic recording of fuel dispensed, vehicle number, and mileage (if possible). Facility Operations anticipates having a card swipe reader installed in the spring of 2015.	Spring 2015 Revised: September 2015 March 2016 Fuel cards to be issued and in use by October 31, 2016 Revised: March 1, 2017	Card reader installed Completed: Fuel cards issued and in use

**University of Southern Indiana
 Audit Recommendations Matrix
 Calendar Year 2015**

AUDIT NAME	RISK RATING	RECOMMENDATION	RESPONSE	TARGET	STATUS
Community Health Centers Claims Processing and Cash Controls					
2. There is currently no independent reconciliation of payments posted in athenahealth to the bank deposits.	High	Health center management should provide the Business Office cashier and the health center accountant with a daily receipts report generated from the athenahealth system which can be used by cashier and accounting personnel to reconcile cash and checks posted in Athena to the deposit slips and data reflected on the Fifth Third Bank and U.S. Bank statements.	The operations manager is developing procedures to provide the Business Office cashier and the health center accountant with a daily receipts report generated from the athenahealth system which can be used to reconcile cash and checks posted in athenahealth to the deposit slips and data reflected on the bank statements.	6/30/2015 Revised: September 30, 2015 March 31, 2016 September 30, 2016 Update: USI's controller has committed to obtaining athenahealth system access and training for Business Office personnel by September 30, 2017, and having an independent reconciliation in place by November 30, 2017.	Deposit report created, but not reconciled to payments posted
4. The community health centers recently transitioned from the eClinicalWorks (eCW) health record system to the athenahealth record system. As a result of the conversion, access to historical patient data residing on the eCW system is limited and user support is minimal.	High	Migrate patient data from eCW to athenahealth. If a data conversion is cost-prohibitive, consider generating electronic images of patient history and scanning or attaching to patient records in athenahealth. Upon completion of the migration, patient data could be scrubbed from the eCW system and the server could be decommissioned.	The operations manager is currently interviewing student workers to assist with printing historical patient chart information from eCW, which can be scanned and attached to patient records in athenahealth. Management anticipates the project will begin by June 19, 2015. Upon completion of copying patient information to the athenahealth record system, management will determine historical patient and billing data retention requirements, work with EVSC personnel to scrub patient data from the eCW system (if no longer needed), and decommission the server by August 31, 2015.	August 31, 2015 Revised: September 30, 2015 April 30, 2016	Completed Some patient data copied to new system, but eCW system is still being utilized Evaluation of need to maintain the local eCW server complete Completed : USI Community Health Center and IT personnel worked with EVSC staff to coordinate deletion and disposal of the protected health information residing on EVSC servers
5. There is currently no review of patient account adjustments by personnel independent of the billing and collection functions.	High	Provide the health center accountant with a daily, weekly, or monthly adjustments and write-offs report generated from the athenahealth system which can be used to monitor adjustment and write-off activity.	The operations manager is planning to complete a review of month-end processes with Athena personnel by July 31, 2015, with the objective of identifying reports detailing adjustments and write-offs available from the athenahealth system for distribution to the health center accountant.	July 31, 2015 Revised: August 31, 2015 March 31, 2016 September 30, 2016 Update: USI's controller has committed to obtaining athenahealth system access and training for Business Office personnel by September 30, 2017, which will facilitate the review of patient account adjustments and write-offs by November 30, 2017.	
7. There may be some inconsistencies in the athenahealth system user roles and permissions granted to community health center personnel performing similar duties. Additionally, there may be users that have permissions allowing them access to perform functions in athenahealth beyond the scope of their responsibilities (e.g. encounter signoff, superuser, and supervising provider permissions).	High	Perform a review of athenahealth users and their access rights. The review should pay particular attention to users that have the ability to perform user administration, approve patient encounters, have superuser access rights, and perform other functions that should be limited to certain personnel.	The operations manager will perform a review of athenahealth users and their access rights for appropriateness with respect to each individual's role within the health clinics.	July 31, 2015 Revised: September 30, 2015 March 31, 2016 October 31, 2016 March 31, 2017	Completed

**University of Southern Indiana
Audit Recommendations Matrix
Calendar Year 2016**

AUDIT NAME	RISK RATING	RECOMMENDATION	RESPONSE	TARGET	STATUS
Student Billing, Accounts Receivable, and Collections					
2. The Bursar must enter and/or update numerous billing detail codes in the Banner system each semester based on information provided by each college on fee edit reports. There is currently no independent verification of each fee updated.	High	Perform an independent verification of fees in Banner to supporting documentation.	Beginning with fee edits for Spring and Summer 2017, the Bursar's Office will implement an independent verification of fees entered in Banner to the fee edit schedules reviewed and submitted by the colleges.	January 2017 Revised: July 2017 for Fall 2017 fee edits	Completed
3. According to a Banner vendor presentation, it is recommended that users reconcile the general ledger reconciliation report (TGRRCON) to the aged receivables report (TGRAGES).	Moderate	Reconcile the AR Balance for Total Open Charges plus the AR Balance for Total Unapplied Payments on the general ledger reconciliation report to the balance of all accounts on the aged receivables report.	The University controller, bursar, and staff accountant will review the vendor presentation and consider opportunities to automate the reconciliation of TGRRCON to TGRAGES.	Review of presentation: December 31, 2016 Reconciliation completed: June 30, 2017	Review completed Completed
7. Existing processes for collecting, monitoring, and managing delinquent accounts require a significant amount of manual effort.	High	Review current collection processes for potential efficiency improvements.	Collection processes will be evaluated following the review of the Banner Collection module. The capabilities and features of the collection module will help determine whether existing processes are replaced by the system or must be modified to improve efficiency.	TBD based on review of Banner Collection module Update: Management is planning a request for proposal (RFP) for outsourced collection services: May 31, 2017 Target for engagement of outsourced collection services: August 31, 2017	Completed Revised collections tracking and billing processes for fall 2017: 1. Adjusted due dates to align with timing of aid disbursing 2. Implemented late fee 3. Implementing immediate referral to collection agency for students past due and no longer enrolled
8. The current collection process does not begin until the end of the term for which the bills are due. The collection strategy involves issuance of a paper statement followed by a series of three to five collection letters issued by a letter writing agency over a 45-day period. Accounts which do not respond to the letters are forwarded to a "phase 1" collection agency for approximately 12 months. Accounts which cannot be collected in phase 1 are forwarded to a second collection agency, which attempts to collect for up to another 12 months. Furthermore, there does not appear to be service level requirements and reporting in place to allow University personnel to evaluate the intensity of agency collection efforts.	High	Review the collection strategy for effectiveness and evaluate the intensity of internal and external collection efforts.	Collection strategies will be evaluated following the review of the Banner collection module. The capabilities and features of the collection module will help determine the strategies the University might be able to perform with existing personnel and those for which outside collection agencies are needed. Once the capabilities are understood, the University can look at the timing and intensity of internal collection efforts and make informed decisions about how to adjust the strategies.	TBD based on review of Banner Collection module Update: Management is planning a request for proposal (RFP) for outsourced collection services: May 31, 2017 Target for engagement of outsourced collection services: August 31, 2017	Completed See status of preceding item regarding revisions to tracking and billing processes.

**University of Southern Indiana
Audit Recommendations Matrix
Calendar Year 2017**

AUDIT NAME	RISK RATING	RECOMMENDATION	RESPONSE	TARGET	STATUS
Athletics Ticket Sales and Sponsorship Revenue					
1. Current procedures do not require the person preparing deposits for delivery to the Business Office to record the pre-numbered zip tie used to seal the deposit bag. As a result, theft of a portion of the deposit may go undetected.	Moderate	Record the number of the zip tie used to seal the bag on the deposit slip during preparation and have cashiers verify the number on the deposit slip to the zip tie removed from the bag.	Beginning on February 2, 2017, and for all future home athletic event deposits, the USI Athletics department will record the zip tie number on the deposit slip and cashiers in the Business Office will verify the numbers when processing the deposit.	February 2, 2017	Completed
2. Current procedures for obtaining cash setups for game-day ticket sales involves a cash advance deposit made to the game-day administrator's personal banking account.	Moderate	Create a revolving fund for athletics game-day ticket sales and make the cash setups available for pickup at the cashiers' window, similar to other cash setup arrangements at the University.	Effective February 10, 2017, the Business Office will create a revolving fund for each sport's game day ticket sales and make the cash setup available for pickup at the cashiers' window.	February 10, 2017	Completed
3. The athletics sponsor contract is not consistently completed by athletics personnel. Internal Audit noted that athletics did not have a contract on file for 16 of 25 super sponsors for the 2015-2016 fiscal year.	Moderate	Complete a sponsor contract for all super sponsors and document the following: 1. The dollar amount of the sponsorship 2. The trade amount of the sponsorship 3. Amount of the sponsorship paid and balance due 4. If payment in full has not been made at the time the sponsorship contract is being completed, the signature of the sponsor representative. If the pledge is taken over the phone, the signature line may be populated with: "Per telephone on with _____ (sponsor contact person) on mm/dd/yy."	Effective for the 2017-2018 fiscal year, USI Athletics will complete a contract for all super sponsors which will document the items recommended by Internal Audit.	February 1, 2017 for 2017-2018 super sponsors	In progress
4. The athletics sponsor tracking spreadsheet used to monitor the status of sponsors and their payments does not list both the cash and trade values of the sponsorship, nor does it clearly indicate the balance due from and the need to invoice the sponsor.	Moderate	Add the following information to the existing tracking spreadsheet: 1. The dollar amount of the sponsorship pledge 2. The trade amount of the sponsorship (if goods or services are exchanged in addition to or in lieu of cash) 3. Amount of the sponsorship paid with the pledge 4. Remaining balance of sponsorship due at time of the pledge and after receipt of each payment Share the tracking spreadsheet with the Business Office on a monthly basis for review and verification that all sponsors with an outstanding balance have been invoiced.	Athletics department personnel will add the recommended information to the tracking spreadsheet, work with the Business Office to develop a procedure to share the spreadsheet on a monthly basis, and will communicate regarding 2016-2017 sponsors by April 2017. The procedure for tracking and communicating sponsor information to the Business Office will be fully implemented for the beginning of the 2017-2018 fiscal year.	Target for 2016-2017 sponsor tracking: April 2017 Target for 2017-2018 sponsor tracking: July 1, 2017	Completed In progress
5. Athletics does not require sponsors to submit a minimum deposit by a specific date to secure sponsorship benefits.	Moderate	Implement a due date and a "minimum" deposit amount for sponsors to secure the benefits associated with sponsorship.	Effective for the 2017-2018 fiscal year, USI Athletics will implement a due date and a "minimum" deposit amount for sponsors to secure the benefits associated with sponsorship.	July 1, 2017	In progress
6. During discussions with Internal Audit, both athletic department personnel and business office personnel cited, independent of one another, the need for an electronic ticketing system to improve the efficiency and effectiveness of ticket sales, delivery, tracking, and reconciliation.	High	Evaluate electronic ticketing systems for implementation in conjunction with the opening of the renovated PAC.	The USI Athletic Department will set up a meeting with the Business Office and Procurement Office by July 1, 2017 to discuss the collection of information and estimates from various ticketing systems.	July 1, 2017	In progress University Relations is leading the initiative to evaluate ticketing systems

**University of Southern Indiana
Audit Recommendations Matrix
Calendar Year 2017**

AUDIT NAME	RISK RATING	RECOMMENDATION	RESPONSE	TARGET	STATUS
Child Protection Policy (CPP) and Procedures					
<p>1. The following issues were noted during a review of 15 University-sponsored child-related events held during the 2016 calendar year:</p> <ul style="list-style-type: none"> • Eight events did not use a Background Check Tracking Form • Five programs were missing at least one volunteer's Program Participant Form • Seven events were missing at least one volunteer's Authorization for Background and Sex Offender Registry Checks • Seven programs did not conduct Background and Sex Offender Registry Checks as required by the CPP and/or Child Protection Committee (CPC) instructions on the Event Planning Form 	Moderate	Implement a third-party background check or modify policy and procedures to simplify the process. If third-party checks are cost-prohibitive, consider a tiered approach for screening individuals that work with children (e.g. performing criminal background checks and sex offender registry checks through Human Resources on all employees participating in programs involving children, while only requiring sex offender registry checks utilizing the Raptor system for non-employee volunteers).	Management will implement a third-party background check by October 31, 2017. The University will utilize a tiered approach for screening individuals that work with children such as performing criminal background checks and sex offender registry checks through Human Resources on all employees participating in programs involving children, while only requiring sex offender registry checks utilizing the Raptor system for non-employee volunteers.	October 31, 2017	
<p>2. The following issues related to sex offender registry checks and volunteer check-in were noted during a review of 15 University-sponsored child-related events held during the 2016 calendar year:</p> <ul style="list-style-type: none"> • Three programs did not use a Participant Check-In Form or acceptable alternative • Eight events did not use a Background Check/Sex Offender Registry Check Tracking Form • Five programs were missing at least one volunteer's Program Participant Form • Seven events were missing at least one volunteer's Authorization for Background and Sex Offender Registry Checks • Seven programs did not conduct Background and Sex Offender Registry Checks as required by the CPP and/or CPC instructions on the Event Planning Form 	Moderate	Utilize the Raptor system for sex offender registry checking and event check-in for all employee, student, and community volunteers each day of a child-related event and develop procedures for discreetly addressing potential sex offender "hits" the day of the event.	By January 1, 2018, the University will begin utilizing the Raptor system for sex offender registry checks and event check-in for all employee, student, and community volunteers each day of a child-related event. The transition to Raptor will require coordination among public safety, information technology, and the Program Administrators (PA) for child-related programs.	January 1, 2018	
<p>3. Of 15 events reviewed, 11 did not fully comply with the training requirements in the CPP and/or CPC committee instructions.</p>	Moderate	Reiterate the importance of PAs verifying that volunteers completed training before the event. For the online training, the PA should receive a copy of the volunteer's completion certificate or verify with Information Technology that the volunteer completed the training. A copy of the one-page Volunteer Child Protection Policy Training should be retained on the Child Protection network share.	Management will communicate by October 31, 2017, either through training sessions or direct communication to PAs, the importance of verifying that volunteers completed training before the event.	October 31, 2017	
<p>4. None of the 15 events reviewed during the audit successfully complied with all elements of the CPP and procedures.</p>	Moderate	Implement a compliance review of the most recent event coordinated by the PA prior to authorizing any subsequent events submitted by the PA.	By October 31, 2017, the University will implement a compliance review of the most recent event coordinated by the PA prior to authorizing any subsequent events submitted by the PA. Management will evaluate whether the review will be conducted by the CPC in its advisory capacity or within the Office of Public Safety. The review will consist of verifying use and retention of appropriate forms on the child protection network share and verifying the background checks or sex offender registry checks were performed as required.	October 31, 2017	
<p>5. A comprehensive list summarizing child-related events reviewed by the CPC has not been maintained.</p>	Moderate	Maintain a list of events reviewed by the Office of Public Safety and/or CPC. It should include basic information about the event such event name, date, PA, and number of volunteers. In addition, the CPC's decision regarding background and sex offender registry checks, as well as participant training requirements, should be documented on the list for reference in subsequent years and when reviewing similar events.	Effective October 31, 2017, the University will begin maintaining a list of events submitted by PAs for review, including the event name, date, PA, number of volunteers, background and sex offender check requirements, and training requirements.	October 31, 2017	

**University of Southern Indiana
 Audit Recommendations Matrix
 Calendar Year 2017**

AUDIT NAME	RISK RATING	RECOMMENDATION	RESPONSE	TARGET	STATUS
Federal Grant and Contract Pre-award Policies and Procedures					
1. While Outreach and Engagement (O&E) holds internal meetings and discussions to communicate what they are working on within the department, there is no formal interdepartmental communication of the opportunities O&E is seeking to develop within the next several months.	Moderate	Formalize and communicate, internally and with other impacted departments, both interim and annual objectives of the type and number of opportunities O&E seeks to develop. Include general selection criteria for pursuing an opportunity (e.g. dollar amount of profit relative to effort expended, public relations benefits, relationship development for future opportunities, etc.). When new or unique opportunities present themselves, engage the appropriate parties and management personnel to discuss and evaluate the new opportunities.	O&E will hold meetings twice a year with the Office of Sponsored Projects and Research Administration (OSPRA), Business Office and other relevant personnel to review opportunities, including the type, number, and general selection criteria of opportunities it seeks to develop. We will tie this effort in with the completion of the detailed cost analyses targeted for March 31, 2018. In the interim, O&E will continue to provide weekly updates to OSPRA regarding opportunities involving grants and will communicate through email or through meetings regarding new opportunities.	March 31, 2018	
2. Two grant applications in the audit sample did not have a completed External Grant and Contract Pre-Notification Form on file as required by USI procedures.	Low	Grant administrators in OSPRA should document any situations where they have elected to waive pre-award requirements that are outlined in policy and procedure.	Beginning August 1, 2017, OSPRA will require all principal investigators on grant proposals to have a completed pre-notification form on file in Cayuse before a proposal will be submitted to a funding agency. Standard procedure requires this document to be completed and submitted to OSPRA a minimum of 15 business days prior to the due date of the proposal.	August 1, 2017	Completed and ongoing
3. The Grant Management Guide (GMG) has not been updated to reflect the replacement of the eight OMB circulars (A-21, A-50, A-87, A-89, A-102, A-110, A-122 and A-133) with the Uniform Guidance.	Moderate	OSPRA personnel should work with Business Office personnel to review and revise the GMG to reflect the requirements of the Uniform Guidance.	OSPRA staff will work with Business Office personnel to review and revise the GMG to reflect the replacement of the various OMB circulars with the Uniform Guidance. Revisions will be completed no later than October 1, 2017.	October 1, 2017	
4. O&E personnel have worked with finance and human resources personnel to evaluate and restructure how and where personnel costs are captured in the accounting system. The revised structure for capturing costs went into effect on July 1, 2017 for fiscal year 2017-2018. The accumulation of costs in the revised cost centers will facilitate the future completion of detailed project cost analyses as recommended by ML Weekes. However, a formal plan including the projects to be analyzed and the timing have not been established.	Moderate	O&E and Business Office personnel should establish a target date for completion of detailed cost analyses on selected engagements in Lifelong Learning and the Center for Applied Research.	Mark Bernhard and Jeff Sickman will convene a small team from O&E and the Business Office to work on the cost analysis project. We anticipate the majority of our cost analysis being completed during January through March 2018 with an anticipated pricing model developed by March 31, 2018. This timeline will allow us to prepare our 2018-2019 budgets with the new pricing methodology.	March 31, 2018	

**University of Southern Indiana
 Annual Audit Plan
 Calendar Year 2017**

QUARTER BEGINNING	AUDIT AREA	DESCRIPTION	HOURS
January 2017	Athletics Business Operations	Review controls over cash, ticket sales, and other revenue	120
	University Risk Management Committee	Facilitation of University Risk Assessment Committee activities	220
	Internal Control Documents for Financial Statement Audit	Documentation of accounting and financial reporting controls for state auditors	100
	Campus Store	Physical inventory observation	40
April 2017	Federal Grant and Contract Proposals	Evaluate compliance with pre-application policies	230
	Child Protection Policy	Evaluate compliance with Child Protection Policy	220
	Residence Life	Review controls over billing and occupancy, card/key security, and residence contracts	250
	Facility Operations Storeroom	Physical inventory observation	50
July 2017	Federal Student Financial Aid	Grants and scholarships	250
	Utility Costs	Review process and procedure for utility rate negotiation	120
	IT Security Initiatives	Monitoring progress on security findings from prior IT security and privacy audits & coordinating follow-up to Protiviti review	220
October 2017	State Student Financial Aid	Review controls over state student financial assistance	250
	Undergraduate Admissions	Review controls over admission of prospective students	220
	Bonds Payable	Review controls over bond issuance, administration, and compliance	200

Total Hours	<u>2490</u>
Hours Available	2525
Hours available for unscheduled audits	35

**University of Southern Indiana
General Repair and Rehabilitation
2017 - 2019
Project List, Cost Estimates, and Priorities**

2017 - 2018 Fiscal Year

1. Replace Mechanical, Plumbing and Electrical Systems in the PAC	\$ 500,000
2. Campus HVAC Equipment and Systems Repair or Replacement	\$ 431,336
Total	\$ 931,336

Summary of Construction Change Orders Authorized by the Vice President for Finance and Administration

HEALTH PROFESSIONS CENTER: CLASSROOM RENOVATION/EXPANSION

Empire Construction

CO-003	Additional electrical floor box, removal/repair of additional pipe penetrations, and additional AHU3 sensor	\$13,886
CO-004	Additional data drops and other IT changes	\$10,939
CO-005	Remove and install additional flooring, demo existing chemical storage area and clean existing air ducts	\$10,914

PHYSICAL ACTIVITIES CENTER RENOVATION

Empire Contractors

CO-002	Changing location of new IT Closet, moving sprinklers, and additional wall construction	\$23,129
CO-003	Relocation of fire suppression and water fountains, additional door replacement	\$ 4,970