

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

**September 6, 2018**

**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 2019-2020 HOUSING RATES**

Approval of a recommendation to the Board of Trustees for approval of the following 2019-2020 housing rates is recommended.

<b><u>FALL OR SPRING SEMESTER</u></b>	<b><u>CURRENT RATE</u></b>	<b><u>PROPOSED RATE</u></b>	<b><u>EFFECTIVE DATE</u></b>
<b><u>McDONALD or O'DANIEL APARTMENT</u></b>			
Two Bedroom: Two students per bedroom	\$2,353	\$2,424	7-01-19
One student per bedroom	4,203	4,329	7-01-19
One Bedroom: Two students	2,838	2,923	7-01-19
One student	5,272	5,430	7-01-19
<b><u>GOVERNORS, NEWMAN, O'BANNON, or RUSTON HALL</u></b>			
One and Two Bedroom: Two students per bedroom	\$2,353	\$2,424	7-01-19

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 2019-2020 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.

<u>FALL OR SPRING SEMESTER</u>	<u>CURRENT RATE</u>	<u>PROPOSED RATE</u>	<u>EFFECTIVE DATE</u>
Red, White, or Blue Eagle Meal Plan	\$2,148	\$2,213	7-01-19

Approval of a recommendation to the Board of Trustees for approval of the proposed meal plan rates for 2019-2020 is recommended.

**5. APPROVAL TO ISSUE BOND SERIES M**

It is recommended the University issue Bond Series M. Bond Series M will be used to finance classrooms and expansion of the second phase of the Physical Activities Center (PAC). A tabulation of responses to a recent Request for Proposal (RFP) for investment banking services will be reviewed at the meeting. A staff recommendation will be presented to the Committee and approval is recommended.

**6. REVIEW OF COMPLETED AUDITS AND ANNUAL AUDIT PLAN**

A summary of audits and other activities conducted by the Internal Audit Department during 2018 (Attachment C) will be reviewed.

**7. APPROVAL OF REQUEST FOR GENERAL REPAIR AND REHABILITATION FUNDS**

The Indiana General Assembly appropriated \$931,336 for fiscal year 2018-2019 repair and rehabilitation of campus facilities in it the 2017 session. Board approval of the projects will allow the University to access and draw down the fiscal year 2018-2019 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.



# FOURTH STREET PERFORMANCE PARTNERS



USI VEBA Trust

Investment Performance Summary

June 30, 2018

**Neil Heppler**

**Co-President**

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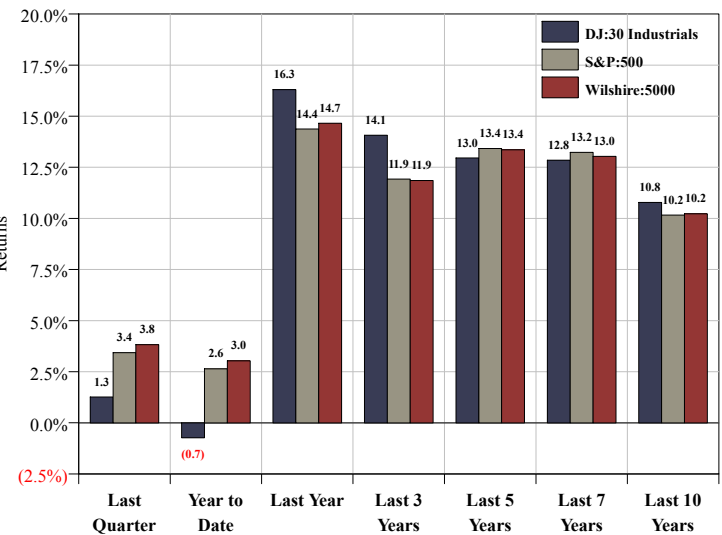
Global equity markets posted mixed results in the second quarter, as concerns over a potential trade war and a stronger U.S. dollar were balanced by a strengthening U.S. economy and solid corporate earnings. Domestic equities rebounded from the first quarter's negative returns, with the S&P 500 returning +3.4% in the second quarter, driven largely by significant gains in prominent tech companies. Small cap stocks surged nearly +8.0% as they are more insulated from global tariffs. International equity markets ended in negative territory (MSCI EAFE -1.2%) as a strengthening U.S. dollar, trade disputes, and slower economic growth relative to the U.S. served as headwinds to developed international equity returns. These factors also wreaked havoc on emerging markets, particularly the stronger dollar, as the MSCI Emerging Markets index fell -8.0% for the quarter.

Rising interest rates and a flattening yield curve persisted in the second quarter, leading to a -0.2% loss in U.S. investment grade fixed income. The 10-year U.S. Treasury yield ended the quarter at 2.85%, up from March's close of 2.74%. Corporate bonds struggled relative to treasuries, yet high yield bonds outperformed during the quarter, posting gains of +1.0%. In June, the Federal Reserve raised the Federal Funds target rate range to 1.75 - 2.0% and signaled two more hikes in 2018. An additional three rate raises are expected in 2019. The Fed also raised their inflation expectations for the next few years.

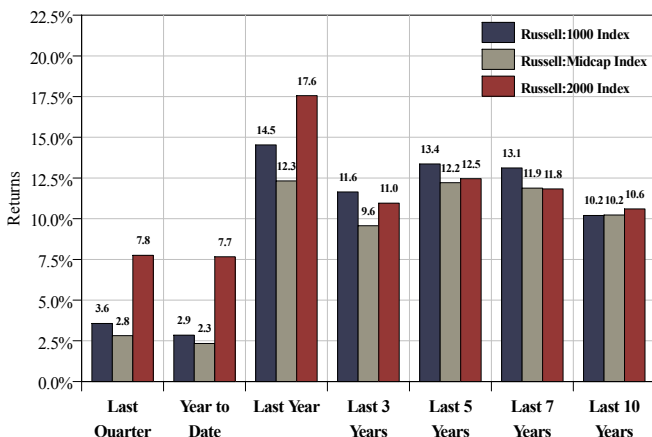
	<u>Last Quarter</u>	<u>Year to Date</u>
<b>S&amp;P 500</b>	<b>3.4%</b>	<b>2.6%</b>
<b>MSCI EAFE</b>	<b>(1.2%)</b>	<b>(2.7%)</b>
<b>BB Aggregate</b>	<b>(0.2%)</b>	<b>(1.6%)</b>
<b>3 Month T-Bill</b>	<b>0.5%</b>	<b>0.8%</b>

### Domestic Equity Market

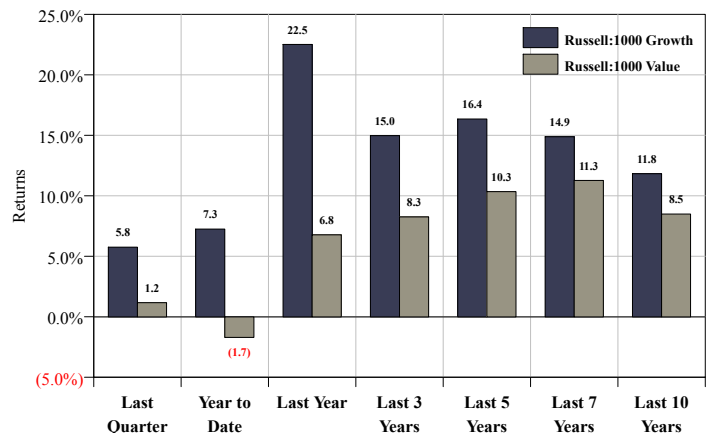
- Domestic equities bounced back in the second quarter as all market capitalizations experienced positive results. Small-cap stocks were the strongest performers, up +7.8%, followed by large-cap and mid-cap equities (+3.6% and +2.8%, respectively).
- Growth equities continued to outperform value equities across large- and mid-cap stocks, but small-cap value equities rallied against their growth counterparts in the quarter. The Russell 1000 Growth Index was up +5.8% while the Russell 1000 Value Index rose by +1.2%. Year-to-date, large cap growth has outperformed value by 900 basis points.
- The S&P 500 forward P/E ratio fell to 16.1x, in line with its 25-year average. The Shiller normalized P/E ratio rose modestly to 32.1x, up from 32.0x at the end of the first quarter.
- Headline inflation readings rose slightly during the quarter, with an annualized rate of +2.8% through May. Wages saw slightly higher growth in May, increasing by +2.7% year-over-year. Unemployment fell to +3.8%, the lowest level since 2000. The final reading of first quarter GDP was revised down to +2.0% annualized growth. Second quarter GDP growth is expected to be stronger, between 3.5 - 4.0%.



Large-Cap vs. Small-Cap  
Returns Ending June 30, 2018



Growth vs. Value  
Returns Ending June 30, 2018



## Sectors of the Market

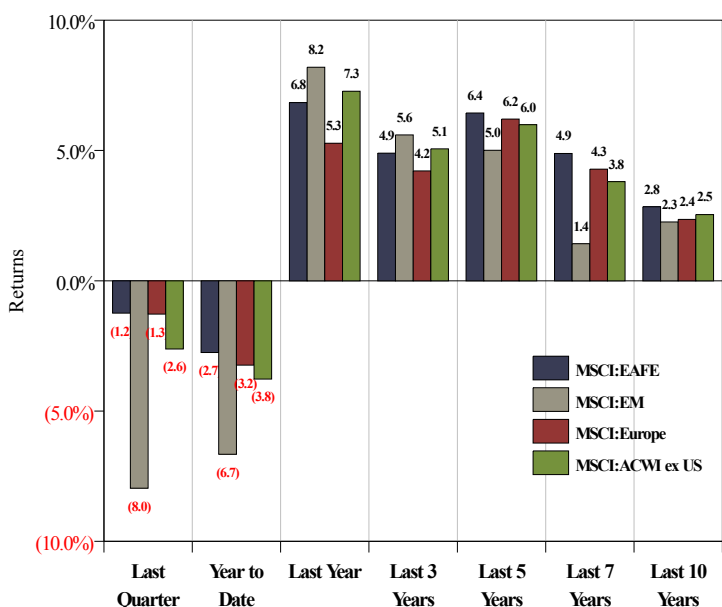
	Financials	Technology	Health Care	Industrials	Energy	Cons. Discr.	Cons. Staples	Telecom	Utilities	Real Estate	Materials
<b>S&amp;P Weight</b>	<b>13.8%</b>	<b>26.0%</b>	<b>14.1%</b>	<b>9.5%</b>	<b>6.3%</b>	<b>12.9%</b>	<b>7.0%</b>	<b>2.0%</b>	<b>2.9%</b>	<b>2.9%</b>	<b>2.6%</b>
Russell Growth Weight	4.4%	41.5%	13.4%	11.9%	1.0%	17.9%	5.7%	0.2%	0.0%	2.2%	1.8%
Russell Value Weight	23.3%	9.9%	13.9%	7.9%	11.1%	8.3%	7.3%	3.6%	5.7%	4.9%	4.1%
<b>2nd Qtr. 2018 Return</b>	<b>(3.2%)</b>	<b>7.1%</b>	<b>3.1%</b>	<b>(3.2%)</b>	<b>13.5%</b>	<b>8.2%</b>	<b>(1.5%)</b>	<b>(0.9%)</b>	<b>3.7%</b>	<b>6.1%</b>	<b>2.6%</b>
<b>YTD Return</b>	<b>(4.1%)</b>	<b>10.9%</b>	<b>1.8%</b>	<b>(4.7%)</b>	<b>6.8%</b>	<b>11.5%</b>	<b>(8.5%)</b>	<b>(8.4%)</b>	<b>0.3%</b>	<b>0.8%</b>	<b>(3.1%)</b>

•Notable outperformers for the quarter include Energy (+13.5%), Consumer Discretionary (+8.2%), and Technology (+7.1%). Outperformance in these sectors can be attributable to the rise in oil prices, continued strong growth from tech stocks, and strong consumer spending. Oil prices rose sharply to \$74/barrel (+14%) due to strong global demand and various geopolitical factors.

•Notable tech stocks (Facebook, Amazon, Apple, Netflix, Google, and Microsoft) accounted for over 120% of the S&P 500 year-to-date returns. Nearly 40% of the year-to-date returns for the S&P 500 can be attributed to Amazon alone.

•Detractors in the index were Financials (-3.2%), Industrials (-3.2%), Consumer Staples (-1.5%), and Telecom (-0.9%). Underperformance in these sectors was driven by concerns over a flattening yield curve, rising rates, and trade uncertainty. A flattening yield curve is generally a headwind for banks, while rising rates can negatively affect “bond proxy” sectors where dividend yields are above average.

## International Markets



•International equity markets underperformed U.S. markets for the third straight quarter due to the trade conflict, slowing international economic growth, and the strengthening of the U.S. dollar. The MSCI ACWI ex US fell -2.6% in the quarter, down -3.8% year-to-date.

•In local terms the MSCI EAFE Index beat U.S. stocks (+3.5% vs. +3.4%). However, the strong dollar clipped nearly 5% from international returns for U.S. investors.

•The worst performing equity index during the quarter was the MSCI Emerging Markets index, falling -8.0%. Brazil was the weakest performer, losing -26.4% during the quarter, as its currency plummeted. Brazil, the fifth largest allocation in the emerging market index, was also roiled by upcoming presidential elections.

•India posted the strongest relative performance in emerging markets with a modest loss of -0.6%. China, the largest component of the emerging markets benchmark posted a loss of -3.4% in the quarter.

•Japan returned -2.2% for the quarter and its economy shrank for the first time in two years.

•Eurozone central bankers pared back their growth projections in 2018 to +2.1% from +2.4%. The European Central Bank plans to cut its monthly asset purchase program in half starting in October.

## Fixed Income Markets

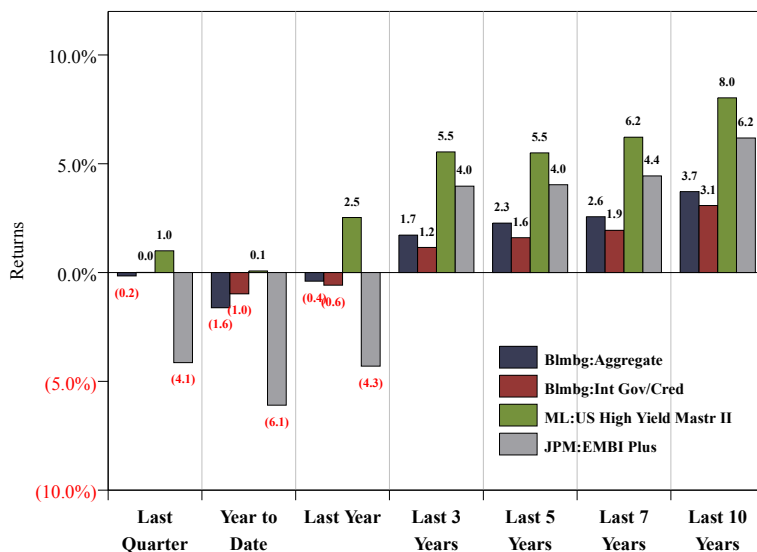
•The Bloomberg Barclays Aggregate Index, measuring U.S. investment grade bonds, fell -0.2% in the quarter. Interest rates rose again this quarter and the yield curve continued to flatten.

•The 10-year U.S. Treasury yield ended the quarter at 2.85%, an 11 bps increase from the end of the first quarter. The spread between the 10-year yield and 2-year yield ended the quarter at 33 bps, the lowest in over 10 years.

•High yield bonds (+1.0%) were the strongest quarterly performers. Municipals (+0.9%) also posted solid returns. Corporates (-0.9%) trailed U.S. treasuries (+0.1%) for the quarter, while structured products posted decent gains (ABS +0.4%, MBS +0.2%).

•U.S. dollar-denominated emerging market debt fell -4.1% in the quarter, heavily impacted by a strengthening dollar, rising interest rates, and geopolitical concerns.

•As expected, the Federal Reserve raised the Federal Funds rate by a quarter-point to a range of 1.75% - 2.00%, with two additional increases expected this year and three more next year.





**Comparative Market Returns**  
**Average Annual Compound Returns (%)**  
**for Periods Ending June 30, 2018**

	<u>Last</u>	<u>Year to</u>	<u>Last</u>	<u>Last 2</u>	<u>Last 3</u>	<u>Last 4</u>	<u>Last 5</u>	<u>Last 6</u>	<u>Last 7</u>	<u>Last 8</u>	<u>Last 9</u>	<u>Last 10</u>	<u>Last 15</u>
	<u>Quarter</u>	<u>Date</u>	<u>Year</u>	<u>Years</u>	<u>Years</u>	<u>Years</u>	<u>Years</u>	<u>Years</u>	<u>Years</u>	<u>Years</u>	<u>Years</u>	<u>Years</u>	<u>Years</u>
<b><u>U.S. Large Cap Equity</u></b>													
S&P:500	3.43	2.65	14.37	16.12	11.93	10.79	13.42	14.59	13.23	15.28	15.19	10.17	9.30
S&P:500 Growth	5.25	7.28	20.64	19.96	14.48	13.36	15.99	16.12	14.89	17.07	16.56	11.70	10.04
S&P:500 Value	1.40	(2.22)	7.58	11.64	8.82	7.74	10.45	12.76	11.31	13.26	13.60	8.44	8.38
DJ:30 Industrials	1.26	(0.73)	16.31	19.18	14.07	12.31	12.96	13.92	12.85	14.90	15.35	10.78	9.57
Russell:3000 Index	3.89	3.22	14.78	16.63	11.58	10.50	13.29	14.62	13.01	15.27	15.32	10.23	9.61
Russell:1000 Index	3.57	2.85	14.54	16.27	11.64	10.56	13.37	14.65	13.12	15.32	15.31	10.20	9.54
Russell:1000 Growth	5.76	7.25	22.51	21.46	14.98	13.85	16.36	16.47	14.88	17.22	16.82	11.83	10.30
Russell:1000 Value	1.18	(1.69)	6.77	11.06	8.26	7.21	10.34	12.71	11.27	13.34	13.73	8.49	8.63
<b><u>Mid Cap Equity</u></b>													
S&P:400 Mid Cap	4.29	3.49	13.50	16.01	10.89	9.75	12.69	14.68	12.08	15.18	16.22	10.78	11.39
Russell:2500 Index	5.71	5.46	16.24	18.03	10.30	9.19	12.29	14.40	11.85	14.96	15.94	10.74	10.99
Russell:2500 Growth	5.53	8.04	21.53	21.48	10.86	10.97	13.87	15.50	12.63	16.21	16.78	11.38	11.46
Russell:2500 Value	5.80	3.00	11.49	14.87	9.76	7.50	10.78	13.32	11.07	13.77	15.11	10.10	10.37
<b><u>Small Cap Equity</u></b>													
S&P:600 Small Cap	8.77	9.39	20.50	21.48	13.84	12.02	14.60	16.30	14.05	16.69	17.45	12.25	12.03
Russell:2000 Index	7.75	7.66	17.57	21.03	10.96	9.83	12.46	14.34	11.83	14.75	15.48	10.60	10.50
Russell:2000 Growth	7.23	9.70	21.86	23.13	10.60	11.03	13.65	15.26	12.50	15.98	16.20	11.24	10.95
Russell:2000 Value	8.30	5.44	13.10	18.83	11.22	8.51	11.18	13.34	11.10	13.45	14.68	9.88	9.93
<b><u>Global Equity</u></b>													
MSCI:ACWI	0.53	(0.43)	10.73	14.68	8.19	6.27	9.41	10.57	7.96	10.51	10.65	5.80	8.19
MSCI:ACWI ex US	(2.61)	(3.77)	7.28	13.67	5.07	2.38	5.99	7.23	3.81	6.74	7.14	2.54	7.74
MSCI EAFE USS (net)	(1.24)	(2.75)	6.84	13.36	4.90	2.54	6.44	8.38	4.89	7.78	7.57	2.84	7.26
MSCI EAFE Growth	0.11	(0.93)	9.41	12.51	6.41	4.42	7.43	9.22	5.81	8.70	8.69	3.45	7.55
MSCI EAFE Value	(2.64)	(4.61)	4.25	14.16	3.30	0.60	5.37	7.46	3.90	6.78	6.38	2.17	6.88
MSCI:Europe	(1.27)	(3.23)	5.28	12.92	4.22	1.11	6.21	8.22	4.29	7.81	7.57	2.36	7.07
MSCI:Pacific	(1.35)	(2.02)	9.91	14.49	6.37	5.44	6.93	8.77	6.15	7.88	7.72	3.96	7.75
MSCI:EM	(7.96)	(6.66)	8.20	15.71	5.60	2.81	5.01	4.65	1.43	4.40	6.33	2.26	10.70
<b><u>Fixed Income</u></b>													
Blmbg:Aggregate	(0.16)	(1.62)	(0.40)	(0.36)	1.72	1.75	2.27	1.77	2.57	2.73	3.46	3.72	3.77
Blmbg:Int Gov/Cred	0.01	(0.97)	(0.58)	(0.40)	1.16	1.29	1.60	1.38	1.95	2.17	2.84	3.08	3.21
Blmbg:Gov/Credit	(0.33)	(1.90)	(0.63)	(0.52)	1.83	1.80	2.29	1.80	2.77	2.88	3.61	3.78	3.71
Blmbg:Long Gov/Credit	(1.45)	(4.98)	(0.78)	(0.93)	4.34	3.73	5.10	3.40	6.19	5.81	6.95	6.79	5.84
Blmbg:Muni 10 Yr	0.90	(0.72)	0.86	0.22	2.84	2.87	3.56	2.97	3.99	4.05	4.65	4.74	4.33
ML:US High Yield Cash Pay	1.00	0.06	2.49	7.50	5.53	3.98	5.48	6.13	6.20	7.30	9.33	7.96	7.59
JPM:EMBI Plus	(4.14)	(6.09)	(4.31)	(0.36)	3.97	2.43	4.04	3.36	4.44	5.33	6.61	6.19	7.29
ML:US Treasuries 1-3 Yrs	0.22	0.09	0.08	(0.01)	0.42	0.54	0.58	0.54	0.58	0.67	0.89	1.24	1.92
3 Month T-Bill	0.45	0.81	1.36	0.92	0.68	0.51	0.42	0.37	0.33	0.30	0.29	0.35	1.29
CPI (All Urban Cons.)	0.98	2.22	2.87	2.25	1.83	1.40	1.54	1.57	1.58	1.83	1.74	1.42	2.13
<b><u>Alternatives</u></b>													
HFR Fund of Funds Index	0.88	1.15	5.62	6.06	2.09	2.56	3.55	4.16	2.88	3.35	3.49	1.46	3.50
Blmbg:Commodity Price Idx	(0.07)	(0.86)	5.82	(0.81)	(5.23)	(10.24)	(6.82)	(7.04)	(8.12)	(4.44)	(3.68)	(9.34)	(1.86)
GS Commodity Index	8.00	10.36	30.04	8.78	(4.37)	(13.78)	(9.41)	(7.59)	(8.05)	(4.35)	(4.47)	(12.36)	(2.33)
Wilshire:REIT	9.73	1.52	3.88	1.05	7.84	7.17	8.42	8.42	9.09	12.09	16.24	7.81	10.00

USI VEBA Trust  
Performance Summary Table (Net of Fees)  
for Periods Ending June 30, 2018  
(Investment Returns are Shown Net of Fees)

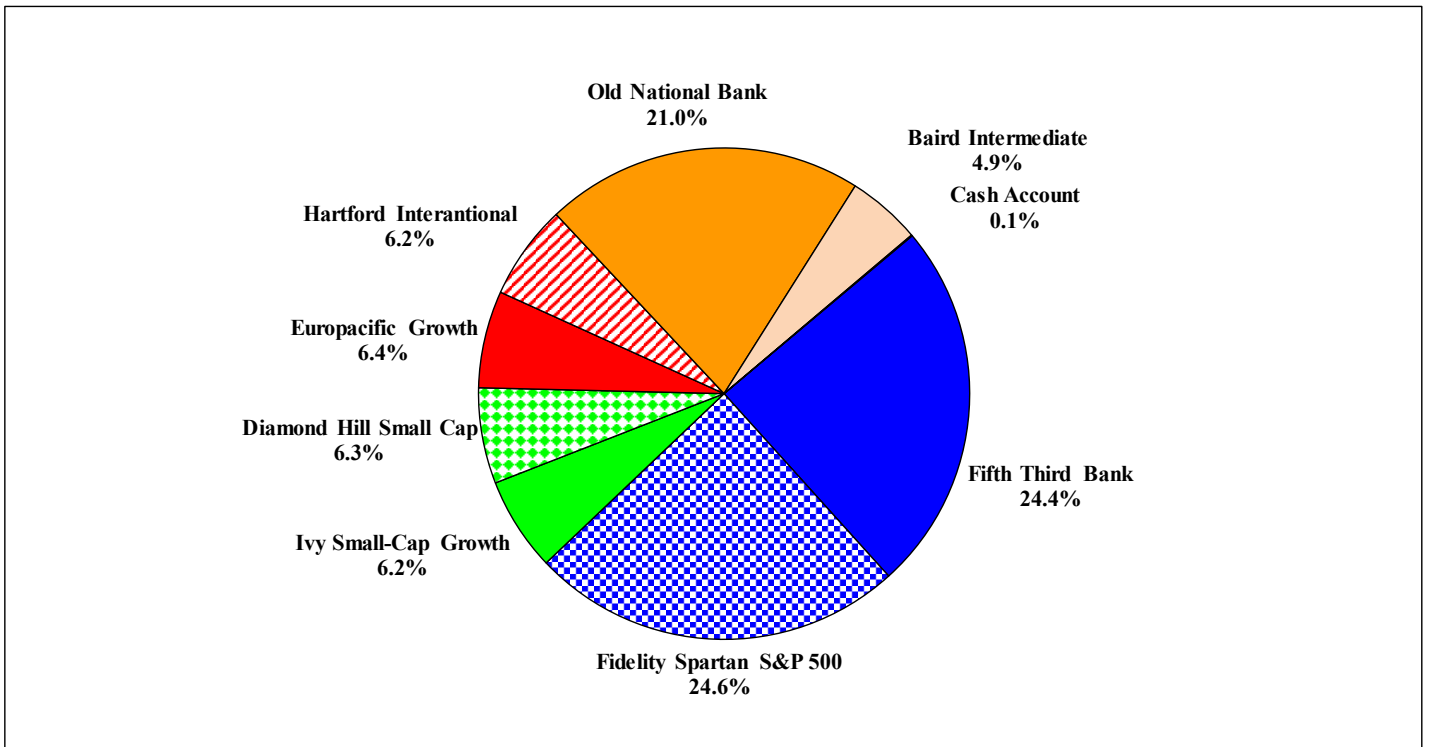
	<u>QTR</u>	<u>YTD</u>	<u>1 YR</u>	<u>3 YR</u>	<u>5 YR</u>	<u>10 YR</u>	<u>15 YR</u>	<u>Inception</u>	<u>Date</u>
<b>USI VEBA Trust Composite</b>	<b>1.7</b>	<b>1.8</b>	<b>9.7</b>	<b>6.7</b>	<b>8.4</b>	<b>6.9</b>	<b>7.4</b>	<b>6.0</b>	<b>Dec-95</b>
<i>Balanced Index<sup>1</sup></i>	2.4	1.6	9.8	8.7	9.9	8.2	7.7	5.9	Dec-95
<i>Diversified Balanced Index<sup>2</sup></i>	2.0	1.2	8.7	7.6	8.8	7.2	7.6	5.9	Dec-95
<i>US DOL:CPI All Urban Cons</i>	1.0	2.2	2.9	1.8	1.5	1.4	2.1	2.2	Dec-95
<u>Domestic Equity</u>									
<b>Fifth Third Bank</b>	<b>2.7</b>	<b>3.7</b>	<b>15.2</b>	<b>8.0</b>	<b>10.9</b>	<b>8.0</b>	<b>8.9</b>	<b>7.4</b>	<b>Dec-00</b>
<b>Fidelity Spartan S&amp;P 500</b>	<b>3.4</b>	<b>2.6</b>	<b>14.3</b>	<b>11.9</b>	<b>13.4</b>	<b>10.1</b>	--	<b>8.2</b>	<b>Jun-07</b>
<i>S&amp;P:500</i>	3.4	2.6	14.4	11.9	13.4	10.2	9.3	6.3	Dec-00
<b>Ivy Small Cap Growth</b>	<b>7.2</b>	<b>12.2</b>	<b>22.8</b>	<b>13.4</b>	<b>14.2</b>	<b>13.1</b>	<b>11.7</b>	<b>8.2</b>	<b>Dec-00</b>
<i>Russell:2000 Index</i>	7.8	7.7	17.6	11.0	12.5	10.6	10.5	8.7	Dec-00
<i>Russell:2000 Growth</i>	7.2	9.7	21.9	10.6	13.6	11.2	10.9	7.6	Dec-00
<b>Diamond Hill Small Cap</b>	<b>1.6</b>	<b>0.6</b>	<b>9.6</b>	<b>6.3</b>	<b>8.5</b>	<b>8.7</b>	--	<b>11.1</b>	<b>Nov-09</b>
<i>Russell:2000 Index</i>	7.8	7.7	17.6	11.0	12.5	10.6	10.5	14.4	Nov-09
<i>Russell:2000 Value</i>	8.3	5.4	13.1	11.2	11.2	9.9	9.9	13.2	Nov-09
<u>International Equity</u>									
<b>American Funds EuroPac</b>	<b>(2.9)</b>	<b>(1.9)</b>	<b>9.2</b>	<b>6.4</b>	<b>8.2</b>	--	--	<b>6.7</b>	<b>Mar-10</b>
<i>MSCI:EAFE</i>	(1.2)	(2.7)	6.8	4.9	6.4	2.8	7.3	5.6	Mar-10
<b>Hartford Int'l Oppty</b>	<b>(3.5)</b>	<b>(3.4)</b>	<b>5.3</b>	<b>5.1</b>	<b>6.9</b>	<b>4.0</b>	<b>8.6</b>	<b>11.6</b>	<b>Feb-17</b>
<i>MSCI:EAFE</i>	(1.2)	(2.7)	6.8	4.9	6.4	2.8	7.3	12.1	Feb-17
<u>Fixed Income</u>									
<b>Old National Bank</b>	<b>0.1</b>	<b>(0.9)</b>	<b>(0.4)</b>	<b>1.2</b>	<b>1.7</b>	<b>2.9</b>	<b>3.1</b>	<b>4.0</b>	<b>Dec-95</b>
<i>Blmbg:Int Gov/Cred</i>	0.0	(1.0)	(0.6)	1.2	1.6	3.1	3.2	4.5	Dec-95
<b>Baird Fixed Income</b>	<b>(0.1)</b>	<b>(1.2)</b>	<b>(0.5)</b>	<b>1.5</b>	<b>2.0</b>	<b>3.9</b>	<b>3.8</b>	<b>1.3</b>	<b>Sep-15</b>
<i>Blmbg:Int Gov/Cred</i>	0.0	(1.0)	(0.6)	1.2	1.6	3.1	3.2	0.9	Sep-15

<sup>1</sup> 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.

<sup>2</sup> The Diversified Balanced Index is comprised of 100% BC Intermediate Govt/Corp Index from 1/1/1996 through 12/31/2000, 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 9/30/2014, 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 from 9/30/14 to 8/31/2017. From 9/1/2017 forward, the index is comprised of 30% Bloomberg Barclays Intermediate Govt/Corp Index, 45% S&P 500 Index, 13% MSCI EAFE Index, 6% Russell Midcap Index, and 6% Russell 2000 Index.

**USI VEBA Trust**  
 Asset Mix  
 Periods Ending June 30, 2018

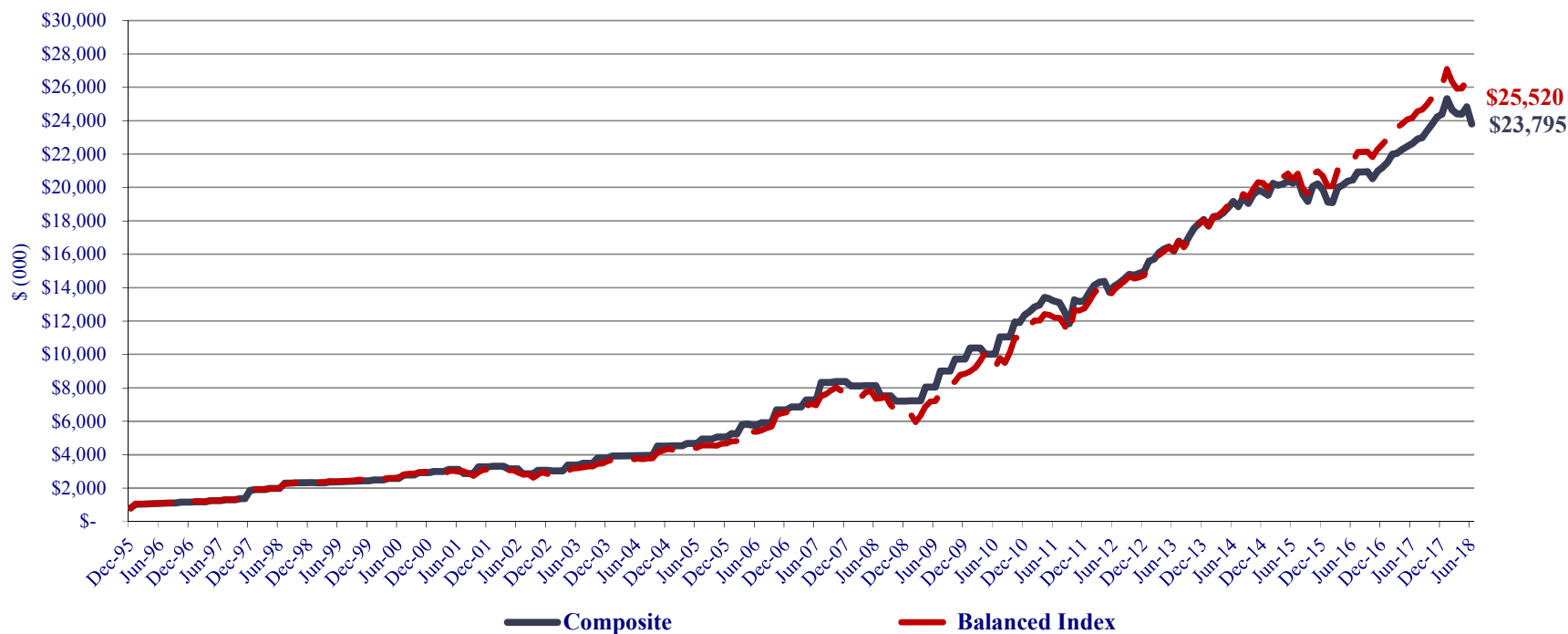
Total Assets: \$23,794,620



	<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	\$5,125,598	\$179,820	-	\$331,171	-	\$173,429	\$5,810,018
Fidelity Spartan 500 Index	\$5,852,903	-	-	-	-	-	\$5,852,903
Ivy Small-Cap Growth	-	\$431,238	\$1,039,059	-	-	-	\$1,470,298
Diamond Hill Small Cap	-	\$609,339	\$891,495	-	-	-	\$1,500,834
Europacific Growth Fund	-	-	-	\$1,519,393	-	-	\$1,519,393
Hartford Int'l Oppty.	-	-	-	\$1,483,341	-	-	\$1,483,341
Old National Bank	-	-	-	-	\$4,985,290	-	\$4,985,290
Baird Intermediate	-	-	-	-	\$1,158,028	-	\$1,158,028
Cash Account	-	-	-	-	-	\$14,516	\$14,516
<b>Total</b>	<b>\$10,978,501</b>	<b>\$1,220,397</b>	<b>\$1,930,555</b>	<b>\$3,333,905</b>	<b>\$6,143,318</b>	<b>\$187,945</b>	<b>\$23,794,620</b>
<b>% of Total</b>	<b>46%</b>	<b>5%</b>	<b>8%</b>	<b>14%</b>	<b>26%</b>	<b>1%</b>	<b>100%</b>
<b>Target</b>	<b>45%</b>	<b>6%</b>	<b>6%</b>	<b>13%</b>	<b>30%</b>	<b>0%</b>	

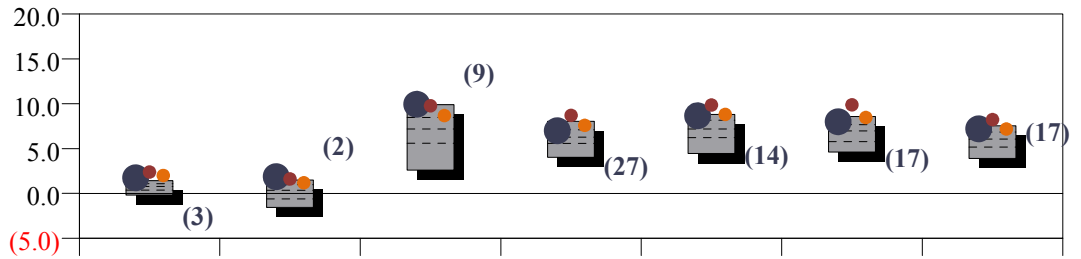


USI VEBA Trust  
 Sources of Growth  
 Market Values from December 31, 1995 through June 30, 2018



	<u>Net Cash Flow</u>	<u>Gain/Loss</u>	Incremental Gain/Loss Relative to: <u>Balanced Index</u>
Past Quarter	(\$1,015,917)	\$403,808	(\$217,303)
Year-to-Date	(\$1,015,917)	\$423,611	\$1,563
Past Year	(\$1,015,917)	\$2,182,152	(\$179,592)
Past 3 Years	(\$865,917)	\$4,401,817	(\$1,479,795)
Past 5 Years	(\$565,917)	\$8,155,968	(\$1,732,260)
Since Inception	\$8,558,503	\$14,430,001	(\$1,725,109)

**USI VEBA Trust Composite (Gross)**  
**for Periods Ended June 30, 2018**  
**Group: Callan Corp Fund Sponsor - Small (<100M)**



**Callan Corp Fd Spons Sm**

	Last Quarter	Year to Date	Last Year	Last 3 Years	Last 5 Years	Last 7 Years	Last 10 Years
25th Percentile	1.09	0.99	8.47	7.11	8.17	7.69	6.86
Median	0.79	0.37	7.19	6.30	7.19	6.97	6.07
75th Percentile	0.37	(0.60)	5.61	5.59	6.23	5.79	5.19

<b>USI VEBA Trust Composite (Gross)</b>	●	1.75	1.88	9.94	6.99	8.67	8.01	7.20
<b>Balanced Index</b>	●	2.40	1.62	9.77	8.72	9.86	9.88	8.25
<b>Diversified Balanced Index</b>	●	2.02	1.20	8.68	7.60	8.81	8.48	7.18

Calendar Year Returns	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>USI VEBA Trust</b>	21.28 (50)	12.37 (56)	0.05 (54)	10.70 (78)	20.22 (13)	7.71 (24)	0.27 (24)	6.91 (57)	15.29 (52)
<b>Balanced Index</b>	20.22 (60)	12.70 (46)	3.46 (23)	12.37 (54)	21.54 (7)	10.49 (13)	1.49 (6)	9.04 (20)	15.61 (48)

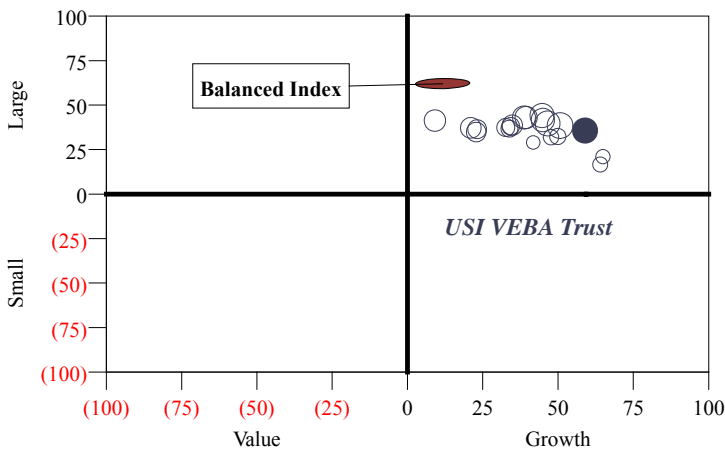
**3 YEARS RISK STATISTICS**

	Standard Deviation	Alpha	Beta	R-Squared
<b>USI VEBA Trust</b>	5.10	(1.36)	0.97	0.92
<b>Balanced Index</b>	5.01	0.00	1.00	1.00
<b>Callan Corp Fd Spons Sm</b>	5.66	(1.74)	1.00	0.79

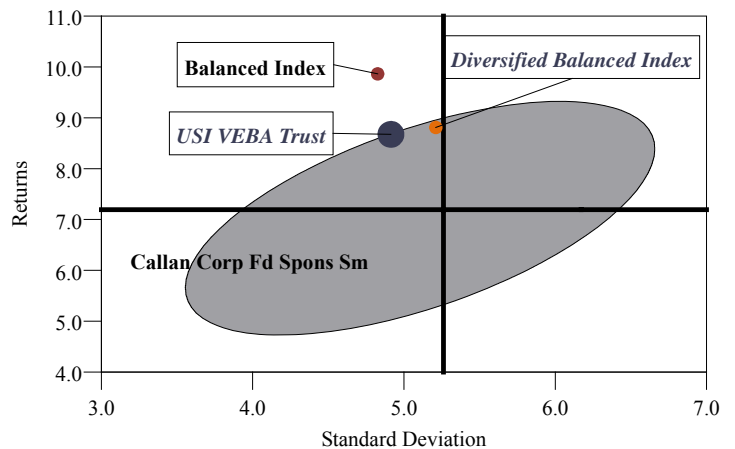
**5 YEARS RISK STATISTICS**

	Standard Deviation	Alpha	Beta	R-Squared
<b>USI VEBA Trust</b>	4.91	(0.72)	0.96	0.89
<b>Balanced Index</b>	4.83	0.00	1.00	1.00
<b>Callan Corp Fd Spons Sm</b>	5.26	(1.25)	0.86	0.71

**Style Map for Rolling 5 Years Ended 6/30/18**



**Risk vs. Return for 5 Years Ending 6/30/18**



# Statement of Disclosures and Disclaimer

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While information is a very important aspect of our ability to provide superior service and advice, the foundation of our firm is our clients and the trust that they place in us. As a commitment to this foundation, keeping our clients' information secure and using it only as our clients need us to are top priorities at Fourth Street Performance Partners, Inc. ("FSPP").

### *Types of Information We Collect*

We collect only the information necessary to consistently deliver responsive, high quality services and advice to our clients and to fulfill legal and regulatory requirements. In order to fulfill these obligations, we may collect nonpublic personal information about our clients from sources such as:

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- Information regarding our clients' assets or transactions with other investment advisors, custodial banks, FSPP, or other organizations.

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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'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 Fund. Beginning in fiscal year 2017-2018, ~~the first annual distribution from the Fund was taken to fund a portion of the University's post-retirement health benefits. 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 into the future by exceeding the rate of inflation by the amount of the distribution rate of the Fund.

Investment decisions for the Fund will be based upon the continuing belief in a free enterprise society supported by publicly owned businesses; therefore, the 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 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 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 will not be directly or internally managed by the Board of Trustees, the Finance/Audit Committee, or University officials. 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 the Fund. 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 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 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 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 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 Fund, and prudent risk tolerances, the following asset allocation guidelines are deemed appropriate for the investment of 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 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	45%
International	13%
U.S. Small/Mid Capitalization	<u>12%</u>
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 Bloomberg Barclay's 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. USIA18-1  
 April 26, 2018

## Audit Report Undergraduate Admissions

### 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 relevance of prospective student profile information and correlation to admission standards				
Evaluate geographic assignments of undergraduate admission (UA) counselors for travel efficiency and workload				
Evaluate the administration of admission standards to applicants				
Review controls over the assessment and waiver of admission application fees				
Verify students receiving scholarships awarded through the admission process met eligibility requirements				

#### Introduction

Our report of the internal audit of Undergraduate Admissions (UA) is presented below. We would like to thank Laura McDaniel, Koryn Parsons, Mark Rusk, Rashad Smith, and other UA personnel who contributed positively to our results.

#### Background Information

The University of Southern Indiana draws the majority of its full-time undergraduate student population from southern Indiana, southern Illinois, and western Kentucky. For recruiting first-time, full-time freshmen, UA management has divided the state of Indiana into four territories each of which has an admission counselor or administrator assigned. In addition, one counselor is assigned to out-of-state recruiting. UA also has an administrator and a counselor devoted to the recruitment of transfer students.

Report No. USIA18-1  
April 26, 2018

UA personnel respond to approximately 14,000 inquiries per year from prospective freshman students. These inquiries typically generate more than 5,000 online applications for admission to the University, of which approximately 80%, or a little over 4,000 applicants per year, are granted admission. About 40% or 1,600 of the admitted freshman applicants become USI students. UA personnel also facilitate the admission of approximately 500 transfer students each year. In addition to rendering admission decisions, UA personnel award several scholarships based on the applicants' admission application credentials.

This report is based on a review of undergraduate admission applications processed for the fall of 2016 and a review of application fee waivers for the five-year period from 2013 through 2017. The audit approach consisted of interviews with UA management regarding recruiting and evaluating prospective students for admission and scholarships; reviewing admission standards in relation to successful student profiles; reviewing recruiting territory assignments; evaluating student admission and scholarship decisions for a sample of applications; and analyzing application fee waivers and revenue in relation to total applications received.

The objectives of the audit were to:

- Evaluate the relevance of prospective student profile information and correlation to admission standards
- Evaluate geographic assignments of undergraduate admission (UA) counselors for travel efficiency and workload
- Evaluate the administration of admission standards to applicants
- Review controls over the assessment and waiver of admission application fees
- Verify students receiving scholarships awarded through the admission process met eligibility requirements

#### Conclusion

In general, the results of our audit procedures indicate opportunity for significant improvement with respect to the assessment and waiver of application fees; adequate controls and practices with respect to prospective student profiles and their correlation to admission standards, as well as geographic assignments of UA counselors; and opportunity for minor improvement with respect to the administration of admission standards and scholarship eligibility.

Management will take or has taken the following actions:

- Consider implementing a review of manually entered grade point average (GPA) and SAT/ACT test scores for accuracy
- Automating components of the admission decision process
- Generating and reviewing an exception report to detect qualified/unqualified applicants incorrectly denied/approved for admission
- Updating application fee waiver promotional codes and monitoring their use
- Generating and reviewing an exception report to detect eligible/ineligible out-of-state scholarship recipients incorrectly denied/awarded scholarships

No additional action or response is required.

Bradley V. Will  
Director of Internal Audit

Kendra Groeninger  
Internal Audit Manager

Distribution: Rashad Smith  
Andy Wright  
Steve Bridges  
Dr. Ronald Rochon

Report No. USIA18-1  
April 26, 2018

## Undergraduate Admissions Audit Report

### Control Issues and Responses

#### **Consider implementing a review of manually entered grade point average (GPA) and SAT/ACT test scores for accuracy**

**Issue:** Based on discussions with undergraduate admissions personnel, high school transcript information such as GPA and some SAT/ACT test scores (if not received electronically from the testing service) must be manually entered into Banner. While admission personnel look for oddities when working with the data, there is currently not an independent review of these manually entered data elements comparing the data entered to the source documents. Internal Audit reviewed a sample of 63 applicants and noted three discrepancies between the GPA on the prospects' transcripts and information in Banner or admission and scholarship eligibility criteria.

**Risk:** The lack of an independent review of manually entered GPA and SAT/ACT test scores increases the risk that data entry errors go undetected and prospective students are either granted or denied admission or scholarships in error.

**Response:** Given the limited personnel to perform this task and extremely high risk of longer turnaround time to notify students of admissions decisions, UA management will implement an independent review of manually entered GPA and SAT/ACT test scores which will be performed weekly or daily depending on seasonal workload. The review will take place on a weekly basis during fall semesters when staffing is stretched due to high application volume and recruiting tasks. The review will be performed daily during spring semesters and other times when the workload is manageable.

#### **Automating components of the admission decision process**

**Issue:** During discussions with Internal Audit, the UA director expressed his interest and intention to automate a portion of the admission decision process. Upon reviewing the current process, Internal Audit noted potential opportunities for automation with respect to identifying students that are clear admits or denials and with respect to coding the decision in Banner.

**Risk:** The current process requires the associate director to perform a series of data sorts/filters multiple times a day and requires manual entry of the admission decision into Banner. Automation of these activities should improve efficiency of the decision process and reduce the risk of data entry errors.

**Response:** UA plans to have the automated admission decision process and reports fully in place by spring semester of 2019 if the project queue in Information Technology (IT) allows. The process will be reviewed with IT, tested, and implemented in the coming months.

#### **Generating and reviewing an exception report to detect qualified/unqualified applicants incorrectly denied/approved for admission**

**Issue:** Based on discussions with UA personnel, there is not a recurring report of possible approved/denied applicant exceptions (approved applicants whose GPA and test scores fall outside of standard admission requirements and denied applicants whose GPA and test scores meet admission requirements).

**Risk:** The lack of an exception report that can be reviewed regularly increases the risk that admission decision coding errors go undetected, resulting in qualified applicants being incorrectly denied admission and unqualified applicants being incorrectly approved for admission.

Report No. USIA18-1  
April 26, 2018

**Response:** UA management is working with IT on the development of exception reports that show approved applicants whose GPA and test scores fall outside of standard admission requirements and denied applicants who appear to meet admission requirements. UA plans to have the exception reports running and being sent to UA leadership by the end of August 2018.

#### **Updating application fee waiver promotional codes and monitoring their use**

**Issue:** Based on discussions with UA personnel, there is not a systematic review of fee waivers claimed during the admission application process and the existing promotional codes may have been used for more than one reason. Additionally, the promotional codes for waiving the application fee appear to everyone on the online application.

**Risk:** The lack of a review of application fee waivers, the use of the same promotional codes for multiple waiver reasons, and the display of the promotional codes to all applicants increase the risk that waivers are claimed by applicants who do not qualify resulting in lost revenue.

**Response:** UA management will review the promotional codes currently in place and update the active codes by July 1, 2018, to define their purpose and reduce the risk that the codes are being misused. UA management will communicate to UA staff by July 15, 2018, that the fee waiver promotional codes are to be used only for situations meeting the defined purpose of the codes to allow for better tracking and monitoring. Also, beginning August 1, 2018, UA management will perform a weekly review of application fee waivers to monitor the volume for reasonableness. Lastly, UA will work with IT to modify the online application by August 1, 2018, so that the promotional codes only appear after the applicant answers questions that would indicate he or she qualifies for the waiver.

#### **Generating and reviewing an exception report to detect eligible/ineligible out-of-state scholarship recipients incorrectly denied/awarded scholarships**

**Issue:** Based on a review of the fall 2016 out-of-state freshman and transfer cohorts, Internal Audit noted eleven applicants for whom an incorrect scholarship decision was made. Eight of these applicants appear to have received an award for which they were not eligible, while three applicants did not receive an award for which they appeared to be eligible.

**Risk:** The lack of an exception report that can be reviewed regularly increases the risk that scholarship decision errors go undetected, resulting in qualified applicants being incorrectly denied awards and unqualified applicants being incorrectly approved for awards.

**Response:** UA management is working with IT on the development of exception reports for the out-of-state top scholar, out-of-state scholarship, out-of-state transfer top scholar, and out-of-state transfer scholarships which will identify eligible applicants who were incorrectly denied these awards and ineligible applicants who were incorrectly approved for awards. The edit reports will be in place by the end of August 2018.

Report No. USIA18-2  
 July 27, 2018

## Audit Report Review of Construction Change Orders

### Results at a Glance

Audit Objectives:	RISK MITIGATION			
	Adequate Controls & Practices	Opportunity for Minor Improvement	Opportunity for Moderate Improvement	Opportunity for Significant Improvement
Construction change orders adhere to change order pricing guidelines				
Construction change order support is complete and mathematically accurate				
Construction change orders are properly authorized and approved				

#### Introduction

Our report of the internal audit of construction change orders is presented below. We would like to thank Jim Wolfe and Gary Burgdorf who contributed positively to our results.

#### Background Information

The University began construction on several major projects during calendar year 2017, including the third floor Health Professions building renovation and the Physical Activities Center renovation/expansion, as well as construction of the Fuquay Welcome Center. As with most major construction projects initiated by the University, management entered into lump-sum contracts with the lowest and best bidders for completion of the construction.

Given the fixed-price structure of the construction contracts, the risk of cost overrun borne by the University is limited to changes in the scope of the project. As a result, a strong control environment over project scope changes, including the review and approval of construction change orders is critical to ensure that the project is managed on time and within budget.

This report is based on a review of a sample of approved change orders associated with the Health Professions building renovation and the Physical Activities Center renovation/expansion processed from April 2017 through February 2018. The audit approach included reviewing the change order details for compliance with contractual pricing guidelines, verifying the mathematical accuracy of the change order details, and examining change order documentation for the required approvals.

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

- Obtain reasonable assurance that change orders adhere to the “Change Order Pricing Guidelines” outlined in Exhibit B to the Owner-Contractor Contract

Report No. USIA18-2  
July 27, 2018

- Evaluate the completeness and mathematical accuracy of change order support for a sample of approved change orders
- Obtain reasonable assurance that change orders are properly authorized and approved

#### Conclusion

In general, the results of our audit procedures indicate opportunities for **minor improvement** with respect to ensuring that **change orders adhere to contractual pricing guidelines**, opportunities for **significant improvement** with respect to **completeness of change order support**, while **adequate controls and practices** exist with respect to **change order authorization and approval**.

Management will take or has taken the following actions:

- Updating Exhibit B to the Owner-Contractor Contract
- Ensuring construction change orders contain complete and mathematically accurate supporting documentation prior to signing and providing to Finance and Administration

No additional action or response is required.

Bradley V. Will  
Director of Internal Audit

Kendra Groeninger  
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Report No. USIA18-2  
July 27, 2018

## **Construction Project Management Audit Report**

### **Control Issues and Responses**

#### **Updating Exhibit B to the Owner-Contractor Contract**

**Issue:** Exhibit B to the Owner-Contractor Contracts for the third floor Health Professions building renovation, the Physical Activities Center renovation and expansion, and the construction of the Fuquay Welcome Center contain references to the 1997 Edition of the American Institute of Architects (AIA) Document A201 General Conditions of the Contract for Construction and the Common Construction Wage. Two revised versions of Document A201 have been released by the AIA, a 2007 Edition and a 2017 Edition. Furthermore, the Indiana Common Construction Wage Act was repealed in July 2015.

**Risk:** References in the construction contract to outdated documents governing the general conditions of construction and references to repealed legislation could leave the University exposed to contractual risks that current documentation and legislation were intended to address.

**Response:** Prior to the start of the audit, Facility Operations reviewed and discussed with our legal counsel the latest Owner-Contractor contract template, including Exhibit B, Supplementary Conditions, and references to the latest updates of AIA Form 201. Completion of legal counsel review and updates to the contract templates have been requested and changes are expected to be made by September 21, 2018.

#### **Ensuring construction change orders contain complete and mathematically accurate supporting documentation prior to signing and providing to Finance and Administration**

**Issue:** Based on a review of approved change orders for the third floor Health Professions building renovation and the Physical Activities Center renovation and expansion, several change orders on file in Finance and Administration were missing supporting documentation for a portion of the total amount of the change.

**Risk:** The change order files maintained by the Sr. Administrative Associate for Finance and Administration are intended to represent the official University copy of approved change orders. As a result, these files are subject to audit and review by both internal and external auditors. Missing or incomplete documentation may call the legitimacy of the change or the University's due diligence into question.

**Response:** Review of change order supporting documentation will be completed by at least one additional person to ensure the completeness and mathematical accuracy of the documentation. Facility Operations management will identify the individual who will perform this review by September 21, 2018.



University of Southern Indiana  
 Audit Recommendations Matrix  
 Calendar Year 2012

AUDIT NAME	RISK	RECOMMENDATION	RESPONSE	TARGET	STATUS
<b>Employment, Payroll, &amp; Benefits</b> 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.	January 2018 Revised Response: HR is drafting a proposal to move all employees to a bi-weekly payroll schedule. Submission of the proposal for executive review is expected by March 31, 2018.	March 31, 2018	Proposal submitted and under executive management review

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

AUDIT NAME	RISK	RECOMMENDATION	RESPONSE	TARGET	STATUS
<b>Eagle Access Department Card</b>					
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  See below.	
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.	Revised Response: Effective September 2017, transition to Accounts Payable the responsibility for allocating Eagle Access card expenses to appropriate cost centers  Management expects to eliminate the use of Eagle Access department cards for payment of hospitality expenses by December 21, 2018, and require departmental hospitality purchases be made using one of the following methods:  1. University purchasing cards for point-of-sale transactions 2. Purchase order and invoice for events scheduled through Special Events and Scheduling Services 3. Pre-numbered meal vouchers for activities managed by Outreach & Engagement	Transition expense allocation: September 2017  December 21, 2018	Completed, includes requirement to provide receipts and explanation of business purpose

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

AUDIT NAME	RISK RATING	RECOMMENDATION	RESPONSE	TARGET	STATUS
<b>Information Security and Privacy Compliance</b>					
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.	<p>IT has begun the process of evaluation of additional tools to solve this need. Specifically, IT expects that the University needs the following systems:</p> <ul style="list-style-type: none"> <li>• Intrusion Prevention System (IPS)</li> <li>• Intrusion Detection System, including File Integrity Monitoring</li> <li>• Log File Aggregation System</li> </ul> <p>IT anticipates having these in place by end of the 2014 - 2015 fiscal year.</p> <p>Revised Response:            In June 2018, IT completed a request for proposal for managed security services providers (MSSPs) to address the University's security monitoring needs.            A vendor has been selected and the contract is under review.            Target for contract execution is September 30, 2018.            Implementation of managed security services expected 60-90 days from contract execution.</p>	<p>June 30, 2015</p> <p>Revised:            TBD</p> <p>Execute contract with MSSP:            September 30, 2018</p> <p>Implement MSSP solution 60-90 days following contract execution</p>	<p>In progress</p> <p>ASA firewalls with FirePOWER (which includes IPS, advanced malware protection, and URL filtering) in place</p>
<b>Fuel Pump Access and Accountability</b>					
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.	<p>December 2014</p> <p>Revised:            Begin three month trial of fuel reconciliation August 31, 2017</p> <p>Revised:            Complete three month trial April 2018</p> <p>Revised:            January 2019</p>	

University of Southern Indiana  
 Audit Recommendations Matrix  
 Calendar Year 2015

AUDIT NAME	RISK RATING	RECOMMENDATION	RESPONSE	TARGET	STATUS
<b>Community Health Centers Claims Processing and Cash Controls</b>					
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.  Due to turnover of health center management in 2018, USI will determine a long-term strategy for administration and reconciliation of deposits and adjustments by December 21, 2018.	Deposit report created, but not reconciled to payments posted  Business Office personnel have obtained system access and have received training. Next steps: obtain report of adjustments and perform a site visit by February 28, 2018.
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.  See item above regarding long-term strategy for administration and reconciliation of deposits and adjustments.	Business Office personnel have obtained system access and have received training. Next steps: obtain report of adjustments and perform a site visit by February 28, 2018.

University of Southern Indiana  
Audit Recommendations Matrix  
Calendar Year 2017

AUDIT NAME	RISK RATING	RECOMMENDATION	RESPONSE	TARGET	STATUS
<b>Athletics Ticket Sales and Sponsorship Revenue</b>  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  Vendor selected and contract under review  On hold due to budget constraints
<b>Child Protection Policy (CPP) and Procedures</b>					
1. The following issues were noted during a review of 15 University-sponsored child-related events held during the 2016 calendar year:  <ul style="list-style-type: none"> <li>• Eight events did not use a Background Check Tracking Form</li> <li>• Five programs were missing at least one volunteer's Program Participant Form</li> <li>• Seven events were missing at least one volunteer's Authorization for Background and Sex Offender Registry Checks</li> <li>• Seven programs did not conduct Background Sex Offender Registry Checks as required by the CPP and/or Child Protection Committee (CPC) instructions on the Event Planning Form</li> </ul>	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  Revised target for implementation: July 1, 2018 January 1, 2019	Background check vendor selected  Background check policy for new hires and employee position changes is under review by legal counsel
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:  <ul style="list-style-type: none"> <li>• Three programs did not use a Participant Check-In Form or acceptable alternative</li> <li>• Eight events did not use a Background Check/Sex Offender Registry Check Tracking Form</li> <li>• Five programs were missing at least one volunteer's Program Participant Form</li> <li>• Seven events were missing at least one volunteer's Authorization for Background and Sex Offender Registry Checks</li> <li>• Seven programs did not conduct Background and Sex Offender Registry Checks as CPP and/or CPC instructions on the Event Planning Form</li> </ul>	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  Revised: Fall 2018	Trial using Raptor with STEM programs and Historic New Harmony in Spring 2018
4. None of the 15 events reviewed during the audit successfully complied with all elements of the CPP and procedures.	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  Revised: Fall 2018	
5. A comprehensive list summarizing child-related events reviewed by the CPC has not been maintained.	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  Revised: Fall 2018	In progress

University of Southern Indiana  
 Audit Recommendations Matrix  
 Calendar Year 2017

AUDIT NAME	RISK RATING	RECOMMENDATION	RESPONSE	TARGET	STATUS
<b>Federal Grant and Contract Pre-award Policies and Procedures</b>					
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  Revised: January 2019	
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.	10/1/2017  Revised: May 1, 2018	Completed
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  Revised target for Opportunity Development division: December 2018	Completed for Lifelong Learning division of O&E

University of Southern Indiana  
Audit Recommendations Matrix  
Calendar Year 2017

AUDIT NAME	RISK RATING	RECOMMENDATION	RESPONSE	TARGET	STATUS
<b>Housing and Residence Life (HRL) Operations</b>					
2. Based on discussions with HRL management, manual charges and adjustments related to housing are generally processed by the assistant director or an administrative assistant. There is currently no independent review of the charges after entry and prior to upload into Banner.	Low	Implement an independent review of all manual charges and adjustments.	Effective November 1, 2017, the HRL director will review the assistant director's billing adjustments and the assistant director will continue to review the administrative assistant's billing adjustments. The review shall occur no more than two business days following the posting of billing adjustments.	November 1, 2017  Update: Documented review of adjustments on hold pending system upgrade to Mercury 3.0.	
3. Based on discussions with HRL management, the assistant director of HRL operations performs most of the billing process. Although there is an administrative assistant who assists with some aspects of billing, HRL does not have a fully cross-trained backup administrator for billing.	Moderate	Develop a fully cross-trained backup for billing and other critical functions and create a detailed procedures manual to assist with completion of the critical functions.	The HRL administrative assistant is being cross-trained on daily billing processes. However, HRL does not currently have the staffing structure to fully cross-train at the required level or to the depth needed.  By December 20, 2017, the following critical functions will be documented: process for entering billing rates, cancellation procedures, damage billing procedures, and the room change process.  All critical billing functions will be documented by June 1, 2018.  Update: Documentation on hold pending completion of system upgrade to Mercury 3.0. Target for documentation of all critical billing functions is March 29, 2019.	December 20, 2017 Revised: March 29, 2019  June 1, 2018  Revised: March 29, 2019	
5. HRL operations uses the RMS Classic software and a reporting application called Extras to manage housing assignments and billing. Based on discussions with RMS customer support personnel, the Extras application has not been supported by RMS for nearly 10 years.	High	Upgrade the residential management system to RMS Mercury 3.0 as RMS customer support has recommended.	HRL has submitted a work order with RMS to upgrade from RMS Classic to RMS Mercury 3.0, which will also eliminate the need for the Extras application. The earliest that HRL could implement Mercury 3.0 is for the academic year 2019-2020. The training for HRL staff on the new software would occur in fall 2018 to prepare the application and contract process to go live December 1, 2018.	December 1, 2018	
7. HRL operations has created generic accounts for certain positions/personnel to share (e.g. student workers at the front desk) for accessing RMS.	Low	Disable all shared accounts and create unique accounts for each user of the RMS system.	Current student account permissions are view access only and present limited risk. Also, the current version of RMS has limited user account and password change functionality. HRL will coordinate the implementation of unique user accounts with the RMS upgrade to Mercury planned for fall 2018.	December 1, 2018	
8. The employee who controls access privileges, including extent of access, user ID, and password assignment, to RMS is also responsible for the majority of transactional activity.	Moderate	Work with IT to transition RMS user administration from HRL personnel to appropriate IT personnel and follow similar protocol for granting user access privileges as for other major systems and applications for which IT administers user access (e.g. Banner).	HRL management will work with IT to transition user administration to IT personnel in conjunction with the upgrade to RMS Mercury in fall 2018.	December 1, 2018	

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

<b>AUDIT NAME</b>	<b>RISK RATING</b>	<b>RECOMMENDATION</b>	<b>RESPONSE</b>	<b>TARGET</b>	<b>STATUS</b>
<b>Natural Gas Purchasing Strategy</b>					
1. The conservative nature of the University's natural gas purchasing strategy may preclude it from recognizing any benefits of a declining market.	Moderate	Engage the University's natural gas supplier in discussion and analysis regarding its purchasing strategy. The discussions should include reviewing the University's historical usage and purchases and an analysis of potential costs and benefits of a managed purchasing solution that smooths the cost by making purchases incrementally over time.	Procurement and Facility Operations personnel have met with the University's natural gas supplier and expect to review the purchase and usage analysis by March 31, 2018. A decision on future purchasing strategy will be determined based upon the results.	March 31, 2018	Completed
2. The University's analysis of the effectiveness of its natural gas purchasing strategy has been limited to an evaluation of the price change from one contract period to the next. The effectiveness of the purchasing strategy cannot be fully evaluated without some analysis of how the contracted natural gas price compared to the performance of the market for the same period.	High	The University should work with its natural gas supplier to analyze the effectiveness of its purchasing strategy, at least annually. While the markets are unpredictable, the review of market performance compared to the purchasing strategy employed by the University can inform future purchasing decisions.	This review will be initiated with the activities to engage the supplier in the analysis and development of the University's purchasing strategy mentioned above.	March 31, 2018	Completed and Ongoing



University of Southern Indiana  
 Audit Recommendations Matrix  
 Calendar Year 2018

AUDIT NAME	OBSERVATION	RISK RATING	RECOMMENDATION	RESPONSE	TARGET	STATUS
<b>Undergraduate Admissions (UA)</b>						
	1. There is currently not an independent review of manually entered high school transcript information such as GPA and some SAT/ACT test scores.	Moderate	Implement an independent review of manually entered data, which are critical to the admission decision (i.e. GPA and test scores).	UA management will implement an independent review of manually entered GPA and SAT/ACT test scores which will be performed weekly or daily depending on seasonal workload.	August 31, 2018	
	2. The current admission decision process requires the associate director to perform a series of data sorts multiple times a day and requires manual entry of the admission decision into Banner.	Low	Work with information technology personnel to automate the data sort process to eliminate manual sorting. Consider programmatically creating separate reports of applicants that meet admission criteria, applicants that are clearly denials, and applicants that require manual review. Consider automating the entry of the admission decision for the obvious approvals and denials.	UA plans to have the automated admission decision process and reports fully in place by spring semester of 2019 if the project queue in Information Technology (IT) allows.	January 2, 2019	
	3. There is not a recurring report of possible approved or denied applicant exceptions (approved applicants whose GPA and test scores fall outside of standard admission requirements and denied applicants whose GPA and test scores meet admission requirements).	Moderate	Implement an exception report that shows approved applicants whose GPA and test scores fall outside of standard admission requirements and denied applicants who appear to meet admission requirements. Perform a daily review of these exceptions, in particular the denied applicants who appear to meet admission requirements, in order to detect potentially eligible applicants before a denial letter is generated.	UA management is working with IT on the development of exception reports that show approved applicants whose GPA and test scores fall outside of standard admission requirements and denied applicants who appear to meet admission requirements. UA plans to have the exception reports running and being sent to UA leadership by the end of August 2018.	August 31, 2018	
	4. There is not a systematic review of fee waivers claimed during the admission application process and the existing promotional codes may have been used for more than one reason. Additionally, the promotional codes for waiving the application fee appear to everyone on the online application.	High	Implement an eligibility review of students claiming application fee waivers. If each student's eligibility cannot be efficiently reviewed, UA may wish to consider creating an exception report where the applicant answered, "No" to the eligibility questions but still used the promotional code. These applicants could then be reviewed for eligibility. In addition, UA should consider modifying the online application so that the promotional codes only appear after the applicant answers the questions about participation in the 21st Century Scholar program and eligibility for free/reduced lunch and test fee waivers.	UA management will review the promotional codes currently in place and update the active codes by July 1, 2018, to define their purpose and reduce the risk that the codes are being misused. UA management will communicate to UA staff by July 15, 2018, that the fee waiver promotional codes are to be used only for situations meeting the defined purpose of the codes to allow for better tracking and monitoring. Also, beginning August 1, 2018, UA management will perform a weekly review of application fee waivers to monitor the volume for reasonableness. Lastly, UA will work with IT to modify the online application by August 1, 2018, so that the promotional codes only appear after the applicant answers questions that would indicate he or she qualifies for the waiver.	Update promotional codes: July 1, 2018  Communication to staff: July 15, 2018  Weekly review of fee waivers: August 1, 2018  Modify online application: August 1, 2018	Completed  Completed  In progress  Completed
	5. There is not a recurring report of possible scholarship decision errors associated with the out-of-state scholarship awards to incoming freshmen and transfers.	Moderate	Implement an exception report that shows potentially eligible applicants who were denied out-of-state scholarship awards and ineligible applicants who were incorrectly approved for these awards.	UA management is working with IT on the development of exception reports for the out-of-state top scholar, out-of-state scholarship, out-of-state transfer top scholar, and out-of-state transfer scholarships which will identify eligible applicants who were incorrectly denied these awards and ineligible applicants who were incorrectly approved for awards. The edit reports will be in place by the end of August 2018.	August 31, 2018	

**University of Southern Indiana  
 Audit Recommendations Matrix  
 Calendar Year 2018**

<b>AUDIT NAME</b>	<b>RISK RATING</b>	<b>RECOMMENDATION</b>	<b>RESPONSE</b>	<b>TARGET</b>	<b>STATUS</b>
<b>Construction Change Orders</b>					
1. Exhibit B to the Owner-Contractor Contract contains references to the 1997 Edition of the American Institute of Architects (AIA) Document A201 General Conditions of the Contract for Construction and the Common Construction Wage. Two revised versions of Document A201 have been released by the AIA, a 2007 Edition and a 2017 Edition. Furthermore, the Indiana Common Construction Wage Act was repealed in July 2015.	Low	Review the 2017 Edition of AIA Document A201 with legal counsel, and if appropriate, update the template for Exhibit B so future contracts reflect the current version of the document. In addition, work with legal counsel to identify and remove all references to the Common Construction Wage.	Completion of legal counsel review and updates to the contract templates have been requested and changes are expected to be made by September 21, 2018.	September 21, 2018	
2. Several change orders on file in Finance and Administration were missing supporting documentation for a portion of the total amount of the change.	High	Construction management should review the supporting documentation for the final version of all change orders prior to signing (or seeking management signature) and submitting to Finance and Administration to ensure that the total amount of the change order is supported by detailed cost information for each contractor/subcontractor performing work associated with the change request.	Review of change order supporting documentation will be completed by at least one additional person to ensure the completeness and mathematical accuracy of the documentation. Facility Operations management will identify the individual who will perform this review by September 21, 2018.	September 21, 2018	

**University of Southern Indiana  
 Annual Audit Plan  
 Calendar Year 2018**

<b>QUARTER BEGINNING</b>	<b>AUDIT AREA</b>	<b>DESCRIPTION</b>	<b>HOURS</b>
January 2018	Undergraduate Admissions	Review controls over admission of prospective students	120
	University Scholarships and Discounts	Evaluate yield from scholarships and discounts-retention and academic progress of recipients	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 2018	Construction Change Orders	Review construction change orders for third floor of Health Professions Building, Physical Activities Center, and Welcome Center	120
	University Risk Management Committee	Facilitation of University Risk Assessment Committee Activities	60
	Athletics Grant-in-Aid	Evaluate NCAA compliance	240
	Travel Expense Reporting	Review travel expense approval authority and evaluate internal controls established with implementation of new travel expense reporting system	220
	Facility Operations Storeroom	Physical inventory observation	50
July 2018	OMB Uniform Guidance	Assess University procurement processes for compliance with new procurement standards	150
	Federal Student Financial Aid	Grants and scholarships	250
	IT Security Initiatives	Monitoring progress on security findings from prior IT security and privacy audits & coordinating follow-up to Protiviti review	220
October 2018	State Student Financial Aid	Support for state auditors review of state student financial assistance	200
	Payroll	Review controls over payroll, employee withholdings, and remittance of tax withholdings	285
	Tax-Exempt Bonds Payable	Review for compliance with private business use restrictions	220

<b>Total Hours</b>	<b>2495</b>
Hours Available	2525
Hours available for unscheduled audits	30

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

**2018 - 2019 Fiscal Year**

<b>1. Campus HVAC Water Supply Infrastructure Improvements</b>	<b>\$ 400,000</b>
<b>2. General Campus R&amp;R</b>	<b>\$ 531,336</b>
<b>Total</b>	<b>\$ 931,336</b>