

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

September 5, 2019

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 unchanged Investment Policy Statement for the VEBA Trust is recommended.

3. UNIVERSITY INVESTMENTS UPDATE

Fourth Street Performance Partners has been appointed as investment advisor for the University of Southern Indiana. Mr. Heppler will give a brief report and a proposed Investment Policy Statement for the University (Attachment C).

Approval of the Investment Policy Statement for the University is recommended.

4. APPROVAL OF RECOMMENDATION FOR 2020-2021 HOUSING RATES

Approval of a recommendation to the Board of Trustees for approval of the following 2020-2021 housing rates is recommended.

<u>FALL OR SPRING SEMESTER</u>	<u>CURRENT RATE</u>	<u>PROPOSED RATE</u>	<u>EFFECTIVE DATE</u>
<u>McDONALD or O'DANIEL APARTMENT</u>			
Two Bedroom: Two students per bedroom	\$2,424	\$2,472	7-01-20
One student per bedroom	4,329	4,329	7-01-20
One Bedroom: Two students	2,923	2,981	7-01-20
One student	5,430	5,430	7-01-20
<u>GOVERNORS, NEWMAN, O'BANNON, or RUSTON HALL</u>			
Two Bedroom: Two students per bedroom	\$2,424	\$2,472	7-01-20
One Bedroom Studio: One student	2,923	2,981	7-01-20

Students who live in housing have \$50 in Munch Money added to the 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.

5. APPROVAL OF RECOMMENDATION FOR 2020-2021 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	\$2,213	\$2,235	7-01-20

Approval of a recommendation to the Board of Trustees for approval of the proposed meal plan rates for 2020-2021 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 2019 (Attachment D) will be reviewed.

7. APPROVAL OF REQUEST FOR GENERAL REPAIR AND REHABILITATION FUNDS

The Indiana General Assembly appropriated \$1,112,962 for fiscal year 2019-2020 repair and rehabilitation of campus facilities in the 2019 session. Board approval of the appropriation will allow the University to access and draw down the fiscal year 2019-2020 funds.

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

8. APPROVAL OF CONSTRUCTION CHANGE ORDERS

Construction change orders requiring approval of the Board of Trustees are summarized in Attachment E.

Approval of the change orders in Attachment E is recommended.



Independent Investment Consultants for Institutions



Board Meeting

Trust, Process, Results

VEBA Trust - Investment Portfolio Review
Neil Heppler, Co-President
September 5, 2019



Fiscal Year Market Review

Global Market Returns For Periods Ended June 30, 2019

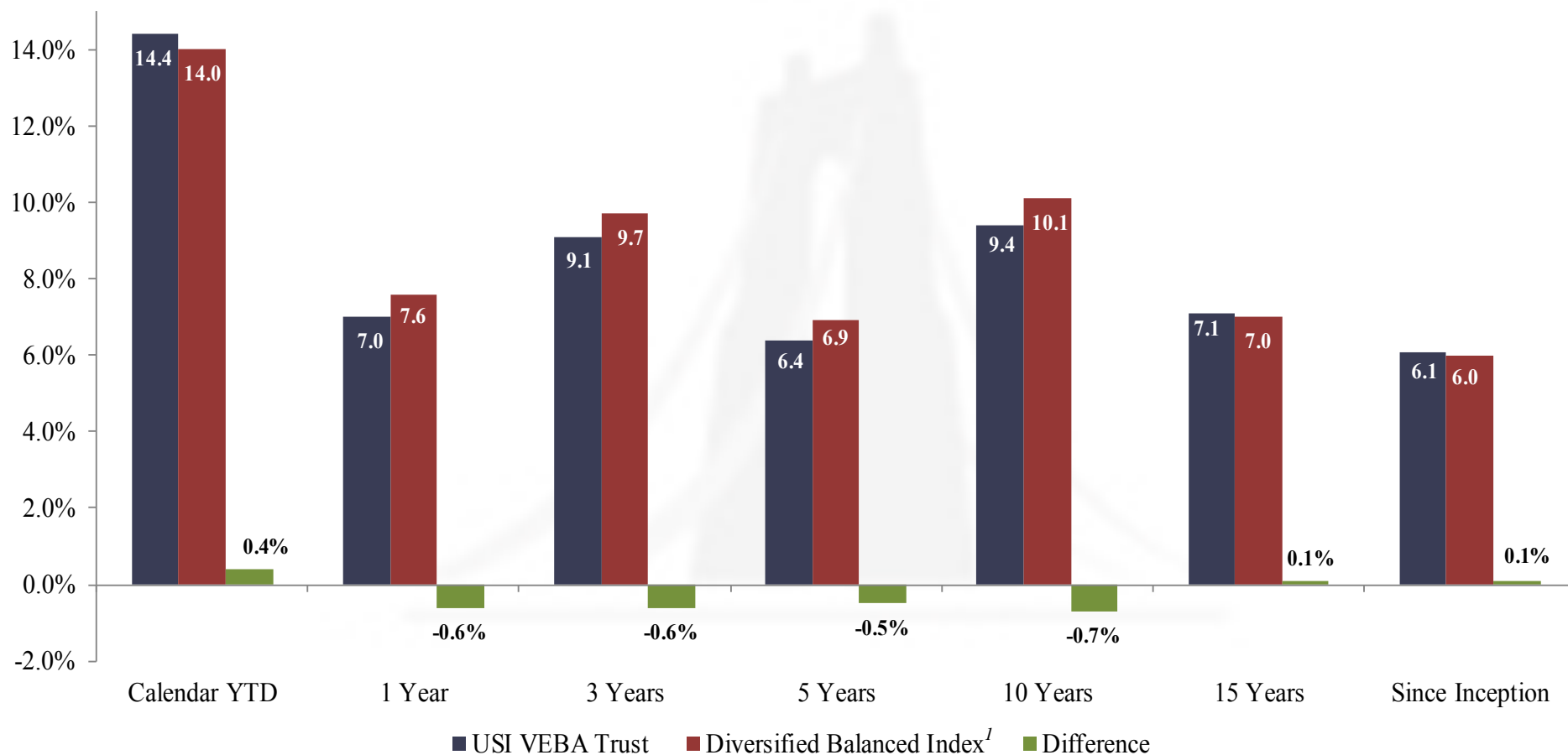
	<u>Calendar</u> <u>YTD</u>	<u>Fiscal Year</u> <u>2019</u>
<u>Equity Markets</u>		
S&P:500	18.5%	10.4%
Russell:Midcap Index	21.3%	7.8%
Russell:2000 Index	17.0%	(3.3%)
MSCI:EAFE	14.0%	1.1%
MSCI:EM	10.6%	1.2%
<u>Fixed Income Markets</u>		
Blmbg:Int Gov/Cred	5.0%	6.9%
Blmbg:Aggregate	6.1%	7.9%
ML:US Hi Yld BB-B N-Dist	10.4%	8.8%
JPM:EMBI Plus	10.8%	11.7%

- Large-cap U.S. equities continued to rally in anticipation of further monetary stimulus from the Fed
- Growth stocks outperformed value – once again
- Small-cap stocks significantly underperform
- Developed international equities again trailed U.S. stocks due to slower growth and trade concerns
- Emerging market stocks limped along as the impact of tariffs on China was a significant headwind
- Interest rates fell sharply; bonds enjoying large gains relative to yields
- Dovish Fed comments and softer economic data has led the market to expect two or three rate cuts in 2019
- The yield curve flattened; 2 and 10 year Treasury spread barely positive at fiscal year end
- Higher yielding bonds, led by EM debt, outperformed investment grade bonds



Investment Portfolio

Performance Summary Table
 For Periods Ended June 30, 2019*



*Returns are presented net of investment management and consultant fees and are in percentages. Returns for periods greater than 1-year are annualized.

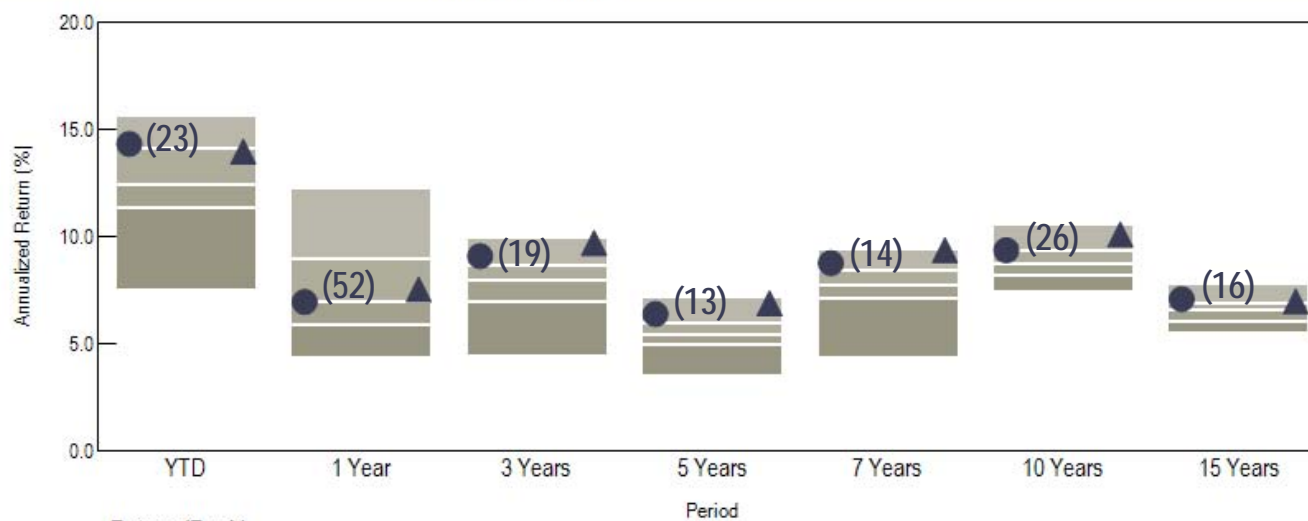
¹ The Diversified Balanced Index is comprised of 100% BC Intermediate Govt/Corp Index from 1/1/1996 through 12/31/2000 and 30% BC Intermediate Govt/Corp Index, 42% S&P 500 Stock Index, 18% MSCI EAFE Index, and 10% Russell 2000 Index from 1/1/2001 to 9/30/14. From September 30, 2014 to September 30, 2017, the Diversified Balanced Index is comprised of 30% Bloomberg Barclays Intermediate Govt/Corp Index, 40% S&P 500 Stock Index, 10% MSCI EAFE Index, 10% Russell Midcap Index and 10% Russell 2000 Index. From October 1, 2017 to present the Diversified Balanced Index is comprised of 30% Bloomberg Barclays Intermediate Govt/Corp Index, 45% S&P 500 Stock Index, 13% MSCI EAFE Index, 6% Russell Midcap Index and 6% Russell 2000 Index.



Performance vs. Peers

InvMetrics Corp DB < \$50mm Net Return Comparison
 Ending June 30, 2019

➤ Top quartile performance over long-term trailing periods.



	Return (Rank)							Period								
5th Percentile	15.6	12.2	9.9	7.1	9.4	10.5	7.8									
25th Percentile	14.2	9.0	8.7	6.0	8.4	9.4	7.0									
Median	12.5	7.0	8.0	5.5	7.8	8.7	6.6									
75th Percentile	11.4	5.9	7.0	5.0	7.1	8.3	6.1									
95th Percentile	7.6	4.4	4.5	3.6	4.4	7.5	5.6									
# of Portfolios	144	144	125	111	91	60	24									
● VEBA Trust Composite	14.4 (23)	7.0 (52)	9.1 (19)	6.4 (13)	8.8 (14)	9.4 (26)	7.1 (16)									
▲ Diversified Balanced Index	14.0 (26)	7.6 (46)	9.7 (7)	6.9 (8)	9.4 (7)	10.1 (13)	7.0 (23)									

*Peer universe is net of investment management fees.

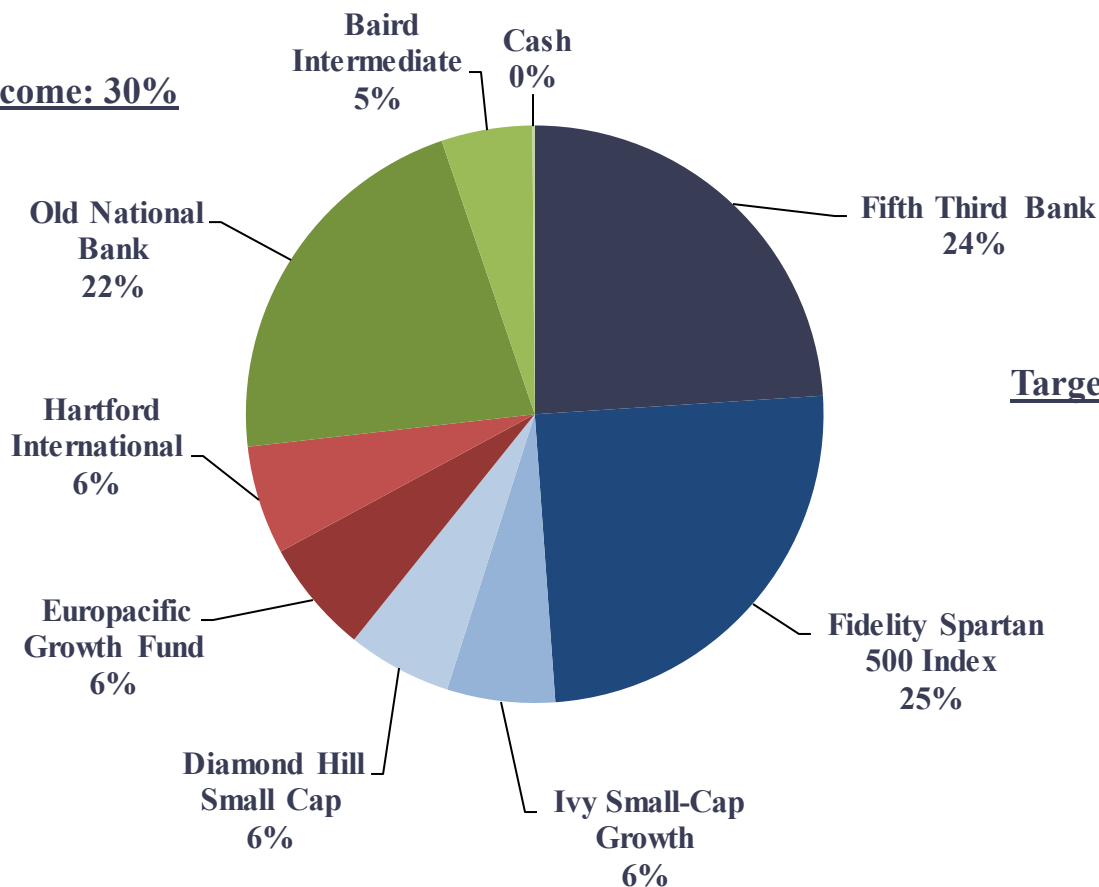


USI VEBA Trust

Asset Allocation as of June 30, 2019

Investment Manager Allocation

Target for Fixed Income: 30%



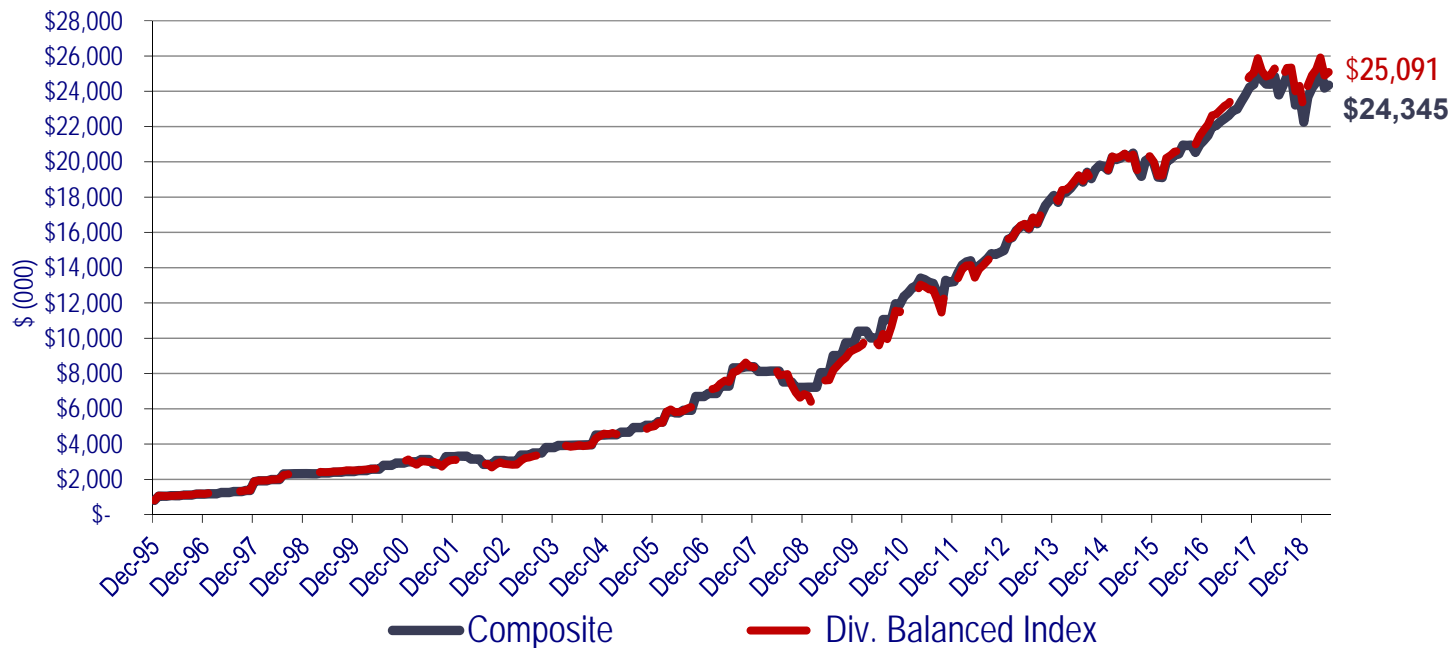
Target for Equities: 70%

Large-Cap: 45%
Small-Cap: 12%
International: 13%

Market Value \$24,344,711



Portfolio Sources of Growth

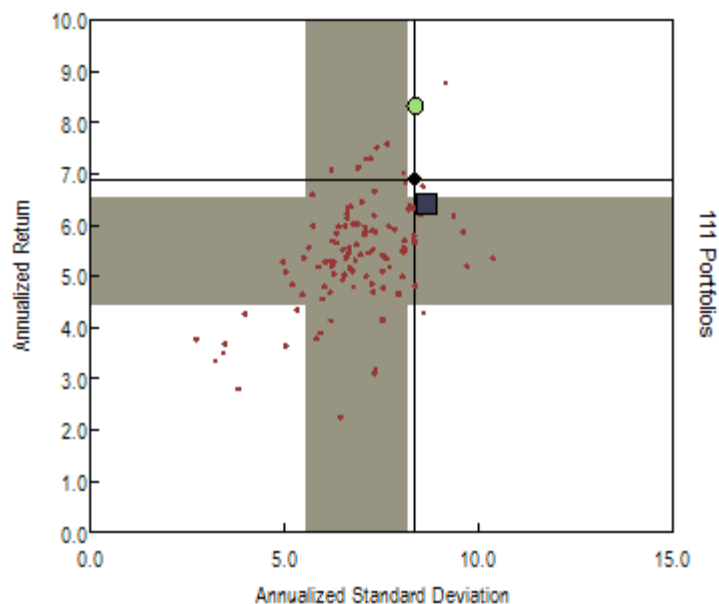


	Net Cash Flow	Gain/Loss	Incremental Gain/Loss Relative to: Div. Balanced Index
Past Quarter	(\$1,085,612)	\$912,270	(\$28,531)
Year-to-Date	(\$1,098,929)	\$3,190,145	(\$55,565)
Past Year	(\$1,098,929)	\$1,649,020	(\$221,692)
Past 3 Years	(\$2,114,846)	\$6,016,228	(\$563,642)
Past 5 Years	(\$1,814,846)	\$6,993,047	(\$685,709)
Since Inception	\$7,459,574	\$15,166,751	(\$746,119)



Portfolio Risk Statistics

Risk Return for 5 Years



- VEBA Trust Composite
- ◆ Diversified Balanced Index
- Balanced Index
- 68% Confidence Interval
- InvMetrics Corp DB < \$50mm Net

5 Years Ending June 30, 2019

	Anlzd Standard Deviation	Anlzd Alpha	Beta	R-Squared
VEBA Trust Composite	8.67%	-0.69%	1.03	0.98
Diversified Balanced Index	8.36%	0.00%	1.00	1.00
Balanced Index	8.36%	1.50%	0.99	0.98
InvMetrics Corp DB < \$50mm Net Median	6.89%	-0.56%	1.03	0.98

Calendar Year

	2009 (%)	2010 (%)	2011 (%)	2012 (%)	2013 (%)	2014 (%)	2015 (%)	2016 (%)	2017 (%)	2018 (%)
VEBA Trust Composite	20.9	12.1	-0.2	10.4	20.0	7.5	0.0	6.6	15.0	-4.8
Diversified Balanced Index	21.4	12.6	0.2	12.7	20.6	7.0	0.4	9.1	14.8	-4.5
Balanced Index	20.2	12.7	3.5	12.4	21.5	10.5	1.5	9.0	15.6	-2.6
Consumer Price Index	2.7	1.5	3.0	1.7	1.5	0.8	0.7	2.1	2.1	1.9
InvMetrics Corp DB < \$50mm Net Rank	40	47	63	75	14	25	31	47	43	36



Investment Program Fee Analysis



	Manager Fee	Asset Allocation (\$24.3 M)	Fee Percentage	Manager Fees (\$)
<u>Large Cap</u>				
Fifth Third Bank	0.32%	24.0%	0.077%	\$ 18,679
Fidelity Spartan 500 Index	0.02%	24.9%	0.004%	\$ 909
<u>Small Cap</u>				
Ivy Small Cap Growth	0.89%	6.0%	0.054%	\$ 13,086
Diamond Hill Small Cap	0.87%	5.8%	0.051%	\$ 12,380
<u>International</u>				
American Funds Europacific	0.49%	6.4%	0.031%	\$ 7,588
Hartford International	0.79%	6.1%	0.048%	\$ 11,721
<u>Fixed Income</u>				
Old National Bank	0.15%	21.6%	0.032%	\$ 7,879
Baird Intermediate	0.30%	5.1%	0.015%	\$ 3,719
Total Manager Fees			0.31%	\$ 75,959
Fourth Street Consulting Fee			0.04%	\$ 10,000
Custodial Fees			0.10%	\$ 24,344
<u>Total Fee</u>			<u>0.45%</u>	<u>\$ 110,303</u>



Fourth Street Performance Partners



- Fourth Street is 100% employee owned, SEC-registered investment consultant.
- Fourth Street's only source of revenue comes from client fees.
- Fourth Street is an institutional consulting firm serving 65 clients with over \$9 billion in assets.
- Our only business is institutional investment consulting, supported by 10 investment consulting professionals.
- Fourth Street is a member of Callan's Independent Adviser Group.



Representative Clients

For over 20 years, we have partnered with 65 clients, representing over \$9.5 billion in assets.

A representative list of our institutional clients is provided below.

Educational Institutions

- Army War College
- Eastern Kentucky University Foundation
- **Kentucky Wesleyan College**
- Louisville St. Xavier High School
- Marshall University Big Green Fund
- Thomas More College
- University of Dallas
- **University of Southern Indiana Foundation**

Healthcare

- Baptist Health
- **Columbus Regional Hospital**
- Deaconess Associations, Inc.
- **Deaconess Health System**
- **Hancock Regional Health**
- **Hendricks Regional Health**
- **Indiana Healthcare Reciprocal RRG**
- **Indiana Hospital Association**
- **Methodist Hospital**
- **Union Hospital**
- **Witham Health Services**

Foundations & Endowments

- **Community Foundation Alliance**
- Community Foundation of Louisville
- **Community Foundation of Southern Indiana**
- **Dubois County Community Foundation**
- Foundation for the Tri-State Community
- **Heritage Fund – The Community Foundation of Bartholomew County**
- Jewish Federation of Greater Dayton Foundation
- Jewish Heritage Fund for Excellence
- The Kentucky Center for the Performing Arts
- **Washington County Community Foundation**

Other

- Congregation of Divine Providence
- CM Wealth Advisors
- Diocese of Covington
- Jewish Community Center of Cincinnati
- Province of St. Joseph of the Capuchins
- **Sister of St. Francis of Perpetual Adoration**
- **Vanderburgh County Police Pension Plan**



Biographies



T. Neil Heppler, Co-President & Senior Consultant

Neil has over thirty years of experience in consulting and financial services. Before founding Asset Performance Partners in 1997, Neil was a Managing Director at Fund Evaluation Group (FEG), an investment consulting firm, where he consulted to a broad client base and headed FEG's services to healthcare organizations. Neil also spent eight years in public accounting at Price Waterhouse and Coopers & Lybrand specializing in health care, insurance, and non-profit companies. Neil holds a B.S. in Accounting from Western Kentucky University and a J.D. from Northern Kentucky University's Chase College of Law. He is an inactive member of the Kentucky and Ohio Bar Associations.



Performance Summary

As of
June 30, 2019

	Q2 (%)	YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	7 Yrs (%)	10 Yrs (%)	Inception (%)	Inception Date	Market Value (\$)	% of Portfolio
VEBA Trust Composite	3.8	14.4	7.0	9.1	6.4	8.8	9.4	6.1	Dec-95	24,344,711	100.0
<i>Diversified Balanced Index</i>	3.7	14.0	7.6	9.7	6.9	9.4	10.1	6.0			
<i>Balanced Index</i>	3.9	14.5	9.8	10.6	8.3	10.5	11.3	6.1			
<i>Consumer Price Index</i>	0.8	2.0	1.6	2.0	1.5	1.6	1.7	2.2			
Domestic Equity											
Fidelity Spartan S&P 500	4.3	18.5	10.4	14.2	10.7	13.9	14.7	8.0	Jun-07	6,058,299	24.9
<i>S&P 500</i>	4.3	18.5	10.4	14.2	10.7	14.0	14.7	8.0			
Fifth Third Bank	4.5	17.7	10.5	12.6	8.5	11.4	12.3	7.5	Dec-00	5,837,262	24.0
<i>S&P 500</i>	4.3	18.5	10.4	14.2	10.7	14.0	14.7	6.5			
Ivy Small Cap Growth	5.2	23.8	6.2	17.6	10.9	14.0	16.2	8.6	Dec-00	1,470,920	6.0
<i>Russell 2000 Growth</i>	2.7	20.4	-0.5	14.7	8.6	12.9	14.4	7.1			
<i>Russell 2000</i>	2.1	17.0	-3.3	12.3	7.1	11.6	13.4	8.0			
Diamond Hill Small Cap	1.9	12.0	-5.2	5.7	2.5	9.3	10.7	9.3	Nov-09	1,422,944	5.8
<i>Russell 2000 Value</i>	1.4	13.5	-6.2	9.8	5.4	10.3	12.4	11.0			
<i>Russell 2000</i>	2.1	17.0	-3.3	12.3	7.1	11.6	13.4	12.5			
International Equity											
American Funds EuroPac	3.9	17.6	1.9	10.8	4.4	8.3	8.1	6.2	Mar-10	1,548,472	6.4
<i>MSCI EAFE</i>	3.7	14.0	1.1	9.1	2.2	7.3	6.9	5.1			
Hartford International	4.0	18.7	0.0	4.1	0.7	5.4	6.6	4.3	Feb-17	1,483,658	6.1
<i>MSCI EAFE</i>	3.7	14.0	1.1	9.1	2.2	7.3	6.9	7.3			
Fixed Income											
Old National Bank Fixed Income	2.2	4.5	6.1	1.7	2.4	2.2	2.8	4.4	Dec-95	5,252,492	21.6
<i>BBgBarc US Govt/Credit Int TR</i>	2.6	5.0	6.9	2.0	2.4	2.2	3.2	4.6			
Baird Intermediate	2.7	5.2	7.0	2.3	2.6	2.7	4.2	2.8	Sep-15	1,239,638	5.1
<i>BBgBarc US Govt/Credit Int TR</i>	2.6	5.0	6.9	2.0	2.4	2.2	3.2	2.5			

- Diversified Balanced Index = 30% BBgBarc US Govt/Credit Int TR / 45% S&P 500 / 13% MSCI EAFE / 6% Russell MidCap / 6% Russell 2000

- Balanced Index = 30% BBgBarc US Govt/Credit Int TR / 70% S&P 500



Asset Allocation

**As of
 June 30, 2019**

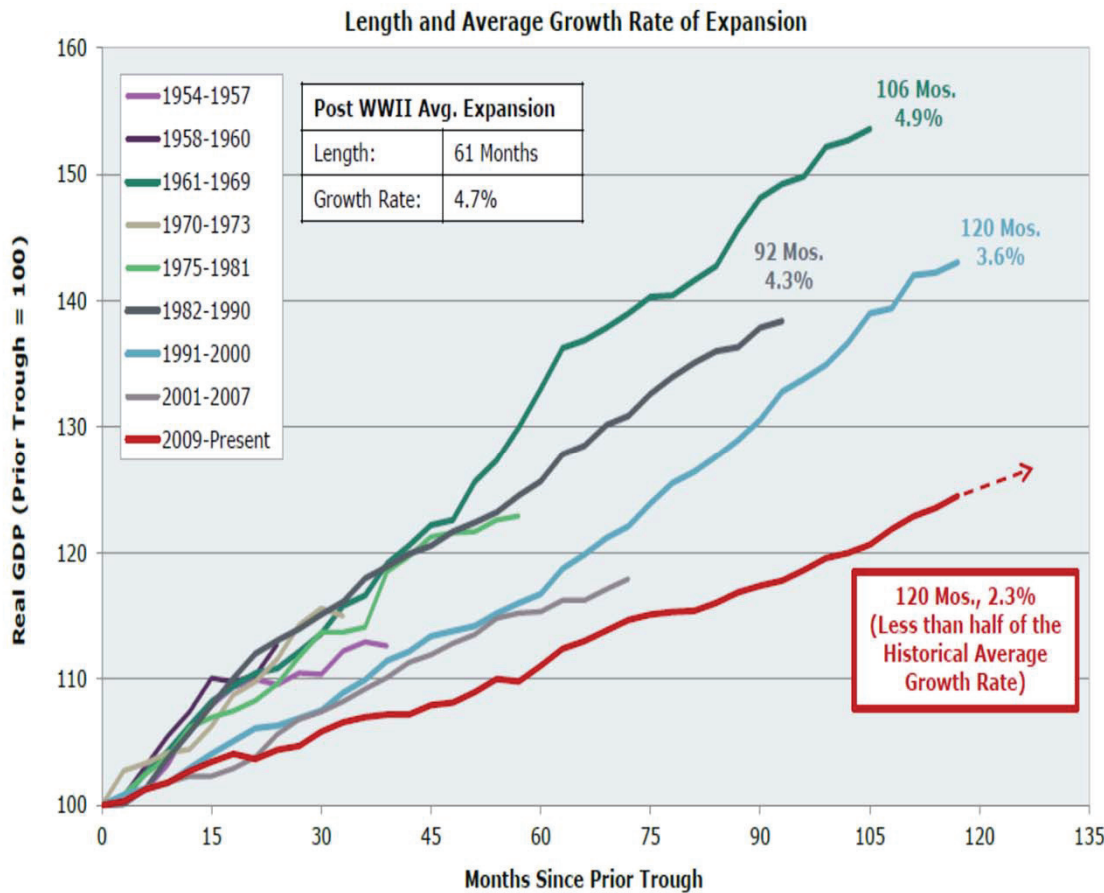
	Current	Current	Policy	Difference*	Policy Range	Within Range
Domestic Large Cap Equity	11,895,561	48.9	45.0	3.9	35.0 - 55.0	Yes
Fidelity Spartan S&P 500	6,058,299	24.9				
Fifth Third Bank	5,837,262	24.0				
Domestic Mid/Small Cap Equity	2,893,864	11.9	12.0	-0.1	9.0 - 15.0	Yes
Ivy Small Cap Growth	1,470,920	6.0				
Diamond Hill Small Cap	1,422,944	5.8				
International Equity	3,032,131	12.5	13.0	-0.5	10.0 - 16.0	Yes
American Funds EuroPac	1,548,472	6.4				
Hartford International	1,483,658	6.1				
Fixed Income	6,492,129	26.7	30.0	-3.3	25.0 - 35.0	Yes
Old National Bank Fixed Income	5,252,492	21.6				
Baird Intermediate	1,239,638	5.1				
Cash	31,027	0.1	0.0	0.1	0.0 - 2.0	Yes
Cash	31,027	0.1				
Total	24,344,711	100.0	100.0			

*Difference between Policy and Current Allocation



The Longest Recovery in U.S. History

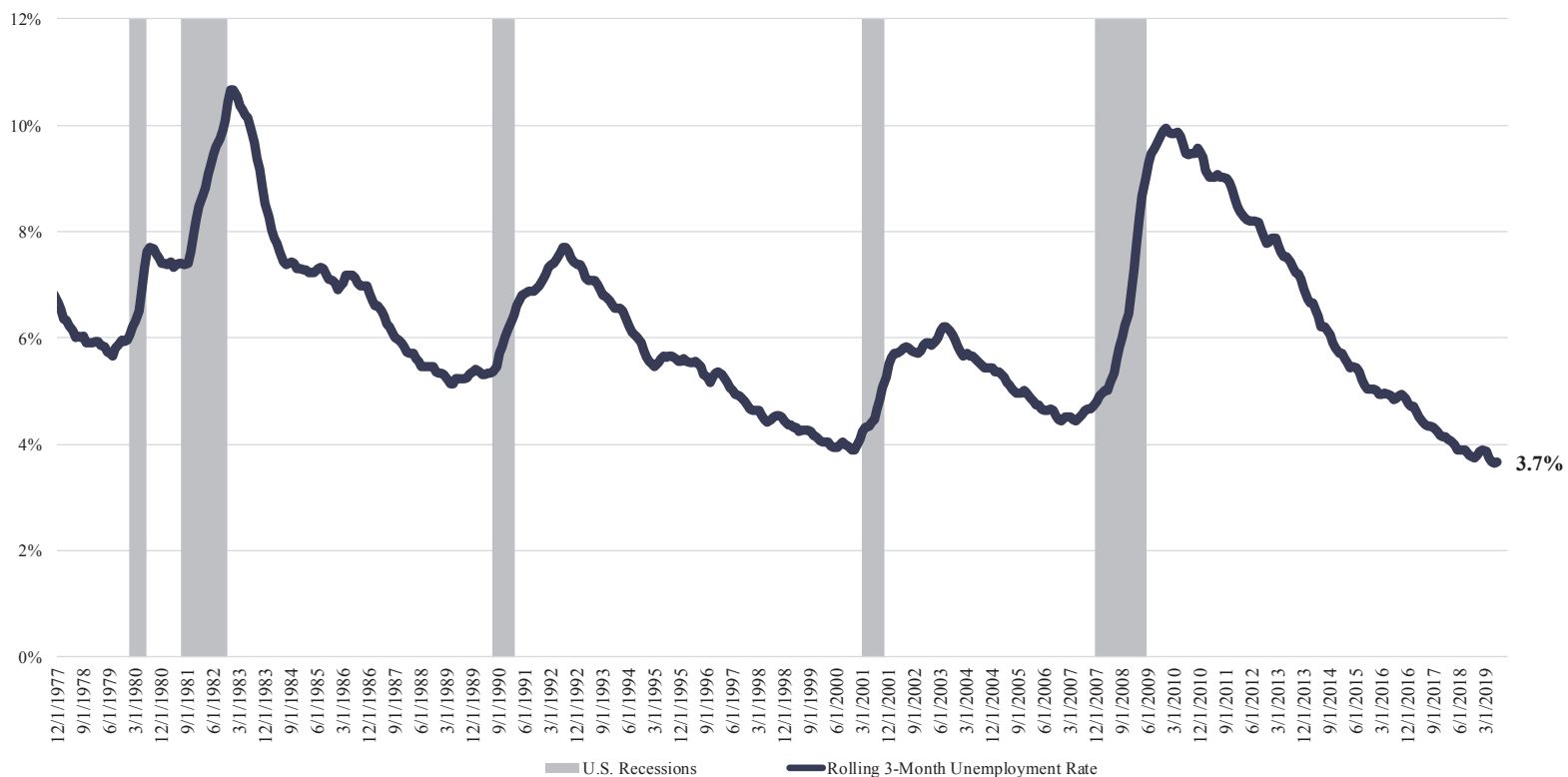
...and one of the Slowest



Expansion	Annual Growth	Cumulative Growth	Duration Quarters	Rank
1970	4.8%	52.0%	35	1
2001	3.5%	42.6%	40	2
1990	4.0%	38.4%	32	3
1953	7.1%	29.4%	14	4
2019	2.3%	24.8%	40	5
1980	3.9%	23.3%	21	6
2007	2.6%	18.0%	25	7
1973	4.7%	16.0%	12	8
1957	3.7%	13.6%	13	9
1960	5.8%	11.9%	8	10
1981	3.2%	3.2%	4	11



Unemployment Rate

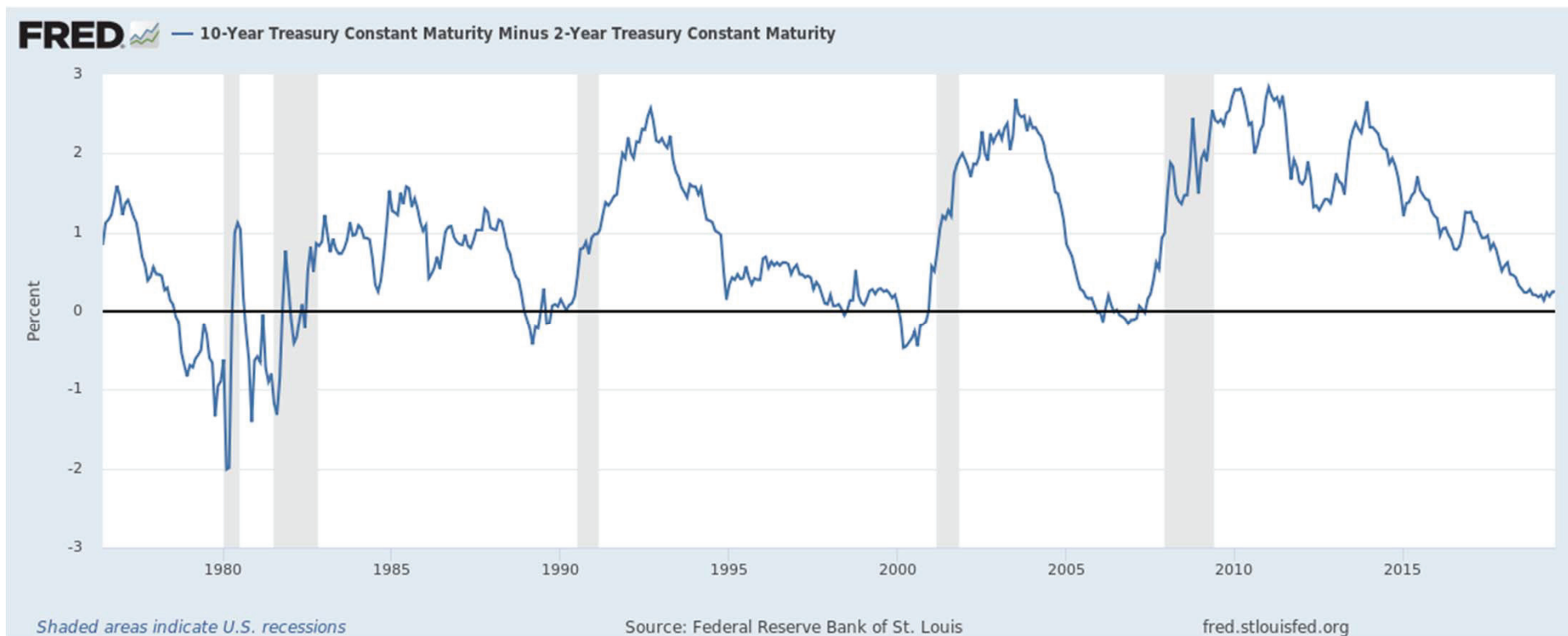


- Since World War II, every time the three-month average of the unemployment rate has ticked higher by 0.3% a recession has followed
- Current three-month average unemployment is 3.7%



Inverted Yield Curve Recession Indicator

10 Year Yield less 2 Year Yield



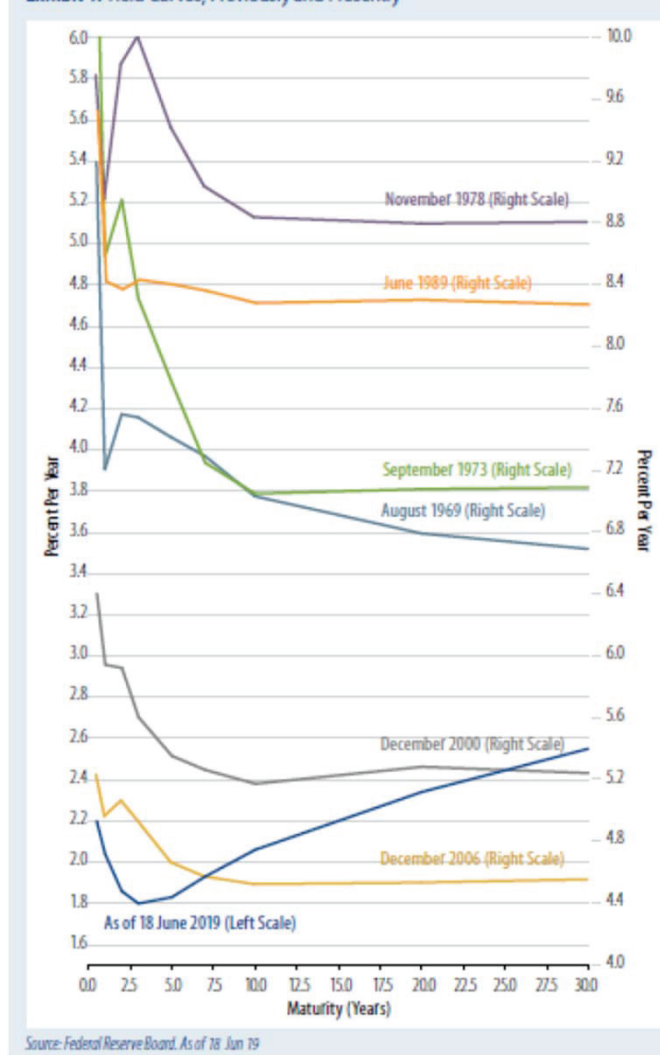
- 25 bp spread at 6/30; was 18 bps at end of 2018
- Inverted yield curve has preceded every recession since WWII
- But not every inversion of the the yield curve was followed by recession; “False Positives”



Are We Truly Inverted?

- **Current Yield Curve (bottom blue line) is not inverted from Fed Funds to 30-year Treasuries**
- **Every previous yield curve that preceded recession had a negative slope out to 30-year Treasuries**
- **Current “inverted” yield curve looks different than previous inversions**

Exhibit 1: Yield Curves, Previously and Presently





Statement of Disclosure

Disclaimer

Past performance is no guarantee of future results. Historical market trends are not necessarily indicative of future market movements.

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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. 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

Approved by USI Board of Trustees on 9/5/2019

UNIVERSITY OF SOUTHERN INDIANA

Proposed Investment Policy Statement

for

Unrestricted Funds

PURPOSE

The purpose of this investment policy statement (the “IPS”) is to define the investment objectives and policies for the management and oversight of any marketable securities of unrestricted funds held by the University of Southern Indiana (the “University”).

The IPS establishes the governance principles and allocates responsibilities for the investment of these University assets. It will be used as a guideline for the Finance/Audit Committee of the Board of Trustees, University Management and all investment managers overseeing any portion of these assets.

INVESTMENT OBJECTIVES

The primary investment objective for all investments subject to this IPS is to ensure the preservation of asset principal necessary to maintain appropriate liquidity to meet the annual cash needs of the University with a secondary emphasis on maximizing return consistent with the primary investment objective. Additionally, the investment of these assets is subject to and shall comply with Section 30-4-3-3 of the Indiana Code.

ROLES AND RESPONSIBILITIES

Board of Trustees (the “Board”)

Under Indiana Code Section 21-29-2-1, the Board of the University is responsible for any establishment and oversight of written policies concerning the investment of funds in the manner provided by Indiana Code Section 30-4-3-3.

Finance/Audit Committee of the Board of Trustees (The “Committee”)

The Committee acts in a fiduciary capacity with respect to the University’s assets and is accountable to the University Board for overseeing the investment of assets consistent with this Board-approved IPS.

The Committee is responsible for the formulation of the IPS that sets forth the investment objectives and guidelines that govern the activities of the Committee and any other parties to whom the Committee has delegated investment management responsibility for University assets.

The Committee may hire an investment consultant or other advisor to act as a fiduciary in providing information, analysis, and recommendations to the Committee on various aspects of the University’s investment program. With the guidance and assistance of the investment consultant, the Committee hires appropriate investment managers to manage portions of these assets.

The Committee is responsible for reviewing this IPS at least once per year. Changes to this IPS can be made only by affirmation of a majority of the Committee and requires approval by the Board prior to implementation.

University Management - Vice President for Finance and Administration

The office of the Vice President for Finance and Administration has day-to-day responsibilities and managerial oversight of any services provided to the University by any investment consultant, investment managers, and custodians. The primary functions of University management, in conjunction with the investment consultant, include:

1. Monitoring University investments and implementing Committee decisions consistent with this IPS.
2. Maintaining appropriate liquidity necessary to meet University spending needs and disbursements.
3. Investment of funds deemed too short-term to be overseen by an investment manager consistent with this IPS.
4. Informing and advising the Committee on financial, economic and political developments that may affect the University.
5. Monitoring custodial and brokerage activity.

Investment Consultant

University management may hire an investment consultant to act as a fiduciary in providing information, analysis, and recommendations to the Committee on various aspects of the University's investment program including the following:

1. Strategic and tactical asset allocation guidance to support the University's investment portfolio objectives.
2. Review of this IPS on an annual basis.
3. Investment manager search data and assistance in the selection and monitoring of investment managers.
4. 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 Committee illustrating the risk/return profile of the University's investments and investment managers relative to appropriate indices and peers.
5. Monitoring the investment managers relative to their organizational structure, investment style, and compliance with this IPS. The investment consultant shall report to the Committee any findings that may prevent the portfolio from meeting the objectives of the IPS.

Investment Managers

With the guidance and assistance of the investment consultant, the Committee generally will engage investment managers to implement the investing of assets in various asset classes and to manage the University assets subject to this IPS. Investment managers are required to meet the following criteria:

1. Investment managers must be a bank, insurance company or its affiliate, mutual fund or investment advisor as defined by the Registered Investment Advisors Act of 1940.
2. Investment managers must provide to the investment consultant historical quarterly performance information calculated on a time-weighted basis, based on a composite of all fully discretionary accounts of similar investment style, and reported net and gross of fees.
3. Investment managers must provide detailed information to the investment consultant on the history of the firm, key personnel, key clients, fee schedule, and support personnel.
4. Investment managers must clearly articulate the investment strategy that will be followed and document that the strategy has been successfully adhered to over time.

The duties and responsibilities of each investment manager retained by the Committee shall include the following:

1. Managing University investments under its care, custody, and/or control in accordance with the IPS objectives and guidelines set forth herein and expressed in separate written agreements when deviation is deemed prudent and desirable by the Committee.
2. Exercising investment discretion, including holding cash equivalents as an alternative, within the IPS objectives and guidelines set forth herein.
3. Promptly informing the Committee, University management, and the investment consultant in writing regarding all significant and/or material matters and changes pertaining to the investment of assets, including, but not limited to:
 - a) Changes in investment strategy, portfolio structure, tactical approaches, and significant market value of managed assets.
 - b) Changes in the ownership, organizational structure, financial condition, and/or professional staff of the firm.
 - c) All material legal, SEC, and other regulatory agency proceedings affecting the firm.
4. At the discretion of the Committee, investment managers may vote all proxies and related actions in a manner consistent with the long-term interests and objectives of the University set forth herein. Each investment manager shall keep detailed records of said voting of proxies and related action and will comply with all regulatory obligations related thereto.
5. Each investment manager shall utilize 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.

Custodians

With the assistance of the investment consultant, University management will select one or more custodians to physically, or through agreements with sub-custodians, maintain possession of securities owned by the University, collect dividends and interest payments, redeem maturing securities, and effect receipt and delivery of securities following purchases and sales. Custodians will provide detailed monthly statements to University management and the investment consultant as directed and including all information as determined by the Vice President for Finance and Administration's office as necessary to meet the University's internal accounting requirements. Further, any custodian must be able to provide annual fiscal year-end data deemed

necessary by University management to comply with all applicable Governmental Accounting Standards Board statements.

INVESTMENT PERFORMANCE GOALS

The following investment performance goals shall be monitored by University Management on a quarterly basis and by the Committee on at least a yearly basis. It is intended that they be achieved, net-of-investment management fees, over appropriate evaluation periods.

1. The total return is expected to exceed a Balanced Index comprised of 20 percent BofA Merrill Lynch 1-3 Year Government/Corporate Bond Index and 80 percent Barclays U.S. Intermediate Government/Corporate Bond Index.
2. The total return is expected to maintain volatility (beta) of no more than 1.20 times that of the Balanced Index and maintain a positive risk-adjusted performance (alpha).

EVALUATION OF INVESTMENT MANAGERS

Investment managers will be reviewed on an ongoing basis and will be evaluated based upon the following criteria:

1. Continuity of personnel and practices at the firm.
2. Adherence to the philosophy and style which were articulated to the University at, or subsequent to, the time the investment manager was retained.
3. Ability to exceed the investment performance (net-of-investment management fees) of other investment managers who adhere to the same or similar style.
4. Ability to exceed the investment performance objectives (net-of- investment management fees) stated below:

Fixed Income Managers

1. The total return of each manager's portion of these assets shall exceed that of the manager's corresponding index: either the BofA Merrill Lynch 1-3 Year Government/Corporate Bond Index or Bloomberg Barclays U.S. Intermediate Government/Corporate Bond Index.
2. Each manager will be evaluated versus a universe of similar fixed income managers and is expected to rank in the top one-third of this universe over most three-year periods.

ASSET ALLOCATION

The allocation of funds among the various investment categories shall be determined by the Committee and monitored by University Management on a quarterly basis to reflect the following structures for each asset pool.

<u>Investment Category</u>	<u>Minimum</u>	<u>Target Mix</u>	<u>Maximum</u>
Intermediate Fixed Income Securities (Duration between 3-5 years)	70%	80%	100%
Liquid/Short Term Fixed Income (Duration between 1-3 Years)	0%	20%	30%

AUTHORIZED INVESTMENTS AND EXPOSURE RESTRICTIONS

- Obligations of the U.S. Government and Agencies** – All obligations of the U.S. Government or sponsored agencies are authorized for use.
- Money Market Funds** – Shares of any established money market fund which invests only in U.S. Treasury and/or Federal Agency securities and whose assets exceed \$250 million or funds managed by Indiana banks which provide insurance for University funds under Indiana Statute by the Public Deposit Insurance fund and registered with the SEC (maximum maturity of one year) are authorized for use.
- Certificates of Deposit, Demand/Transaction Deposits, and Time Deposits** – Certificates of Deposit, Demand/Transaction Deposits, and Time Deposits may be purchased from domestic banks and savings and loan associations that are designated by the Indiana state board of finance as a depository for public funds in accordance with Indiana Code Section 5-13-9-5-3.
- Commercial Paper** – Commercial paper rated A-1 by Standard & Poor's or Fitch's or P-1 by Moody's and matures within 270 days are authorized for use. With respect to commercial paper that is split rated by the rating agencies (i.e., rated A-1 or P-1 by one or more agency but also rated below these ratings by one or more agency), where all three agencies have a rating on the commercial paper, the middle rating will apply. Where ratings are provided by only two agencies, the lower of the two ratings will apply.

Outstanding commercial paper of any individual corporation may not exceed \$500,000 and the aggregate for any individual industry will be limited to \$1 million.

5. **Bankers' Acceptances** – Bankers' acceptances are limited to those financial institutions designated as public depositories as described above in paragraph 3.
6. **Investment Grade Corporate Notes and Bonds** – Notes and bonds of a corporate business entity, organized under the law of the United States or any State thereof with a corporate bond rating by Standard & Poor's, Fitch's or Moody's of investment grade (BBB- or Baa-) or above are authorized for use. With respect to corporate bonds or notes that are split rated by the rating agencies (i.e., rated investment grade by one or more agency but also rated below investment grade by one or more agency), where all three agencies have a rating on the security, the middle rating will apply. Where ratings are provided by only two agencies, the lower of the two ratings will apply.

Outstanding Corporate Notes and Bonds may not constitute more than 50 percent of any investment manager's fixed income portfolio.

7. **Mortgage-Backed Securities** – U.S. Government or agency Mortgage Pass-Through Securities (including TBAs and non-agency MBSs) rated AA-/Aa- or better by Standard & Poor's, Fitch's or Moody's are authorized for use. With respect to mortgage-backed securities that are split rated by the rating agencies (i.e., rated AA-/Aa- or better by one or more agency but rated below AA-/Aa- by one or more agency), where all three agencies have a rating on the security, the middle rating will apply. Where ratings are provided by only two agencies, the lower of the two ratings will apply.

Outstanding Mortgage-Backed Securities may not constitute more than 20 percent (at the time of purchase) of any investment manager's fixed income portfolio. Outstanding non-agency residential mortgage-backed securities otherwise meeting the criteria of this subsection shall not comprise more than five percent of any fixed income manager's portfolio.

In the broadest sense, Mortgage-backed securities are derivative securities. However, for purposes of this Investment Policy Statement, "Whole Loan" Agency Pass-through Securities and Collateralized Mortgage Obligations (CMOs) which do not leverage the exposure of a portfolio to changes in interest rates or prepayment rates will not be considered derivatives. However, structured notes and lower class tranches of Collateralized Mortgage Obligations (CMO's) and securities created by stripping the principal and interest payments from the underlying mortgage-backed security into separate classes (including interest only (IO), principal only (PO), and inverse floating securities) which do leverage the exposure of a portfolio to changes in interest rates of prepayment rates are considered derivative securities and prohibited.

8. **Asset-Backed Securities** – Asset-backed securities rated AA-/Aa- by Standard & Poor's, Moody's or Fitch's or better are authorized for use. With respect to asset-backed securities that are split rated by the rating agencies (i.e., rated AA-/Aa- or better by one or more agency but rated below AA-/Aa- by one or more agency), where all three agencies have a rating on

the security, the middle rating will apply. Where ratings are provided by only two agencies, the lower of the two ratings will apply.

Outstanding Asset-Backed Securities may not constitute more than 20 percent of any investment manager's fixed income portfolio.

9. **Municipal Bonds** – All general obligation and revenue bonds issued by domestic state and local governments and their creations with a municipal bond rating by Standard & Poor's, Fitch or Moody's of A- or above are authorized for use. With respect to municipal bonds that are split rated by the rating agencies (i.e., rated A- or better by one or more agency but rated below A- by one or more agency), where all three agencies have a rating on the security, the middle rating will apply. Where ratings are provided by only two agencies, the lower of the two ratings will apply.

Outstanding municipal bonds may not constitute more than 15 percent of any investment manager's total investment assets unless that investment manager has been specifically directed by the Committee to invest solely in municipal bond securities. Municipal bonds from one state may not exceed five percent of the total securities in a municipal bond portfolio

10. **Derivatives** – Investments in derivative securities shall not be utilized to increase the actual or potential risk posture of the University's investment portfolio. The use of primary derivatives, including, but not limited to, futures contracts, options, short sales, margin trading and such other specialized investment activity is prohibited without prior written approval of the Committee.

Moreover, investment managers are precluded from using derivative securities to affect a leveraged portfolio structure (if options and/or futures are specifically approved in writing by the Committee, such positions must be offset in their entirety by corresponding cash or securities).

INVESTMENT MANAGER GUIDELINES AND RESTRICTIONS

1. Each investment manager shall have full investment discretion regarding market timing and security selection.
2. Any investment manager shall immediately notify management in writing of any material changes in its investment strategy, ownership, organizational structure, financial condition or senior personnel.
3. Separate account investment managers should be prepared to meet with the University at least annually.
4. Securities transactions should be entered into based on best execution, which normally means best realized price.
5. There shall be no investments in non-marketable securities.
6. Any investment manager's investment grade fixed income portfolio must have a weighted average credit rating of AA-/Aa- or better by Standard & Poor's, Fitch's or Moody's rating services. Also, no investment grade fixed income manager shall purchase a security rated below investment grade (BBB-/Baa-).
7. If any security held in an investment manager's portfolio becomes an unauthorized investment subsequent to purchase, the investment manager must immediately notify University management and the investment consultant and submit a written analysis of the security to the appropriate oversight committee providing a recommendation for holding or disposing of such security.
8. The total exposure to any individual issuer shall not exceed five percent of any investment manager's portfolio, at aggregate cost value, except for securities issued by the U.S. Government (and its agencies).
9. Securities are to be diversified both as to sectors and industries as well as to number of holdings with no more than 30 percent of the portfolio at the time of purchase invested in securities of corporations in any one industry. Also, concentrating in industries or companies all of which are sensitive to a single economic or political event or investment idea should be avoided.
10. With respect to maturity and duration, "maturity" shall mean the time from valuation date to the date of expected repayment of principal. "Duration" shall mean the present value weighted average time to full recovery of principal and interest payments, and also shall mean Macauley's duration adjusted for implied options. Investment managers shall make these estimations for all issues, particularly self-amortizing issues.

- a) The duration of any intermediate-term fixed income portfolio shall be between three years and five years. The maturity of individual fixed income issues shall be restricted to 10 years.
- b) The duration of any short-term fixed income portfolio shall be between one year and three years. The maturity of individual fixed income issues shall be restricted to 10 years unless self-amortizing in which case the average life is to be five years or less.

FINANCE/AUDIT COMMITTEE REVIEW

This IPS shall be reviewed by the Committee annually. Investment performance will be reported to University management on a quarterly basis and the Committee will meet formally annually to review the returns of the investments subject to this IPS. Outside investment managers are welcome to provide suggestions regarding appropriate adjustments to this statement or the way investment performance is reviewed.

Acknowledged by: _____
Chair, Finance/Audit Committee
University of Southern Indiana

Date



UNIVERSITY OF SOUTHERN INDIANA

Internal Audit Report

Prepared by

Bradley V. Will, CPA
Director of Internal Audit

Kendra Groeninger
Internal Audit Manager

Report No. USIA19-1
 March 14, 2019

Audit Report Uniform Guidance for Federal Awards Procurement Standards Compliance

Results at a Glance

Audit Objectives:	<i>RISK MITIGATION</i>			
	Adequate Controls & Practices	Opportunity for Minor Improvement	Opportunity for Moderate Improvement	Opportunity for Significant Improvement
Evaluate procurement policies and procedures for compliance with the Uniform Guidance				
Review contract and purchase order terms and conditions for compliance with requirements under the Uniform Guidance				
Review grant accounting procedures for cost transfer requests to ensure compliance with procurement standards				
Evaluate procurement transactions for compliance with procurement methods required under the Uniform Guidance				

Introduction

Our report of the internal audit of Uniform Guidance for Federal Awards Procurement Standards Compliance is presented below. We would like to thank Dan Martens, Jeff Sponn, Jonathan Shoptaw, and Jina Campbell who contributed positively to our results.

Background Information

The Office of Management and Budget's (OMB) Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) is an authoritative set of rules and requirements governing the administration of federal awards which became effective in December 2014. The Uniform Guidance includes standards which non-federal entities must follow for the procurement of goods and services involving federal funds. However, due to the perceived administrative burden of implementing the procurement standards, the OMB allowed federal award recipients to delay the implementation of the procurement standards until fiscal years beginning on or after December 2017. As a recipient of federal awards with a June 30 fiscal year end, the University of Southern Indiana was required to begin complying with the procurement standards effective with the fiscal year beginning on July 1, 2018.

Report No. USIA19-1
March 14, 2019

This report is based on a review of procurement policies and procedures in place and procurement activities associated with federal awards from July 1, 2018, through February 20, 2019. The audit approach consisted of reviewing USI procurement policies, interviews with procurement personnel regarding the Uniform Guidance procurement standards and their relationship to University procurement policy, reviewing contract and purchase order terms and conditions used in the execution of procurement transactions, interviews with grant accounting personnel, and reviewing procurement transactions associated with federal awards during the audit period.

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

- Evaluate procurement policies and procedures for compliance with the Uniform Guidance
- Review contract and purchase order terms and conditions for compliance with requirements under the Uniform Guidance
- Review grant accounting procedures for cost transfer requests to ensure compliance with procurement standards
- Evaluate procurement transactions for compliance with procurement methods required under the Uniform Guidance

Conclusion

We noted **opportunity for moderate improvement** with respect to policies and procedures and contract/purchase order terms and conditions, **opportunity for minor improvement** with respect to grant accounting procedures for cost transfer requests, and **adequate controls and practices** with respect to the compliance of transactions with Uniform Guidance procurement methods.

Management will take or has taken the following actions:

- Verifying that vendors and contractors are not suspended, debarred, or otherwise excluded when considered for purchases under federal awards
- Ensuring that contracts under federal awards include provisions required by the Uniform Guidance
- Defining in the purchasing policy when the use of competitive proposals is appropriate
- Documenting procedures for review of cost transfer requests to ensure compliance with procurement standards

No additional action or response is required.

Bradley V. Will
Director of Internal Audit

Kendra Groeninger
Internal Audit Manager

Distribution: Jeff Sponn
Dan Martens
Jonathan Shoptaw
Jina Campbell
Jeff Sickman
Steve Bridges
Dr. Ronald Rochon

Report No. USIA19-1
March 14, 2019

**Uniform Guidance for Federal Awards
Procurement Standards Compliance
Audit Report**

Control Issues and Responses

Verifying that vendors and contractors are not suspended, debarred, or otherwise excluded when considered for purchases under federal awards

Issue: Based on discussions with procurement personnel, there is currently not a process to review prospective vendors and contractors providing goods or services under federal awards for potential suspension, debarment, or other exclusions.

Risk: The Office of Management and Budget Uniform Guidance procurement standards require federal award recipients to “award contracts only to responsible contractors with the ability to perform successfully under the terms and conditions of a proposed procurement.” This includes verifying that prospective vendors and contractors are not suspended, debarred, or otherwise excluded from or ineligible for participation in Federal assistance programs or activities.

Response: Beginning April 15, 2019, and thereafter, prior to selecting vendors or contractors to provide goods and services associated with federal awards, procurement personnel will review the list of parties suspended, debarred, or otherwise excluded from receiving federal awards or contracts available at the following website: <https://www.sam.gov/SAM/pages/public/extracts/samPublicAccessData.jsf>.

Ensuring that contracts under federal awards include provisions required by the Uniform Guidance

Issue: Based on discussions with procurement personnel, review of purchase order terms and conditions, and review of the University’s construction contract template, there are some contract provisions required by the Uniform Guidance that are not addressed in these documents.

Risk: The absence of contract provisions required by the Uniform Guidance may result in compliance findings by external awarding agencies and could result in financial penalties or a loss of federal funding.

Response: By April 30, 2019, procurement personnel will incorporate the following provisions, as referenced in 2 CFR Part 200, Subpart D, Section 200.326 and described in Appendix II to Part 200, into contracts and purchase orders associated with federal awards:

- a. Administrative, contractual or legal remedies in instances where contractors violate or breach contract terms and provide for appropriate sanctions and penalties
- b. Termination for cause
- c. Equal Employment Opportunity
- d. Davis-Bacon Act and the Copeland “Anti-Kickback” Act
- e. Contract Work Hours and Safety Standards Act
- f. Rights to Inventions Made Under a Contract or Agreement
- g. Clean Air Act and the Federal Water Pollution Control Act
- h. Debarment and Suspension
- i. Byrd Anti-Lobbying Amendment

Report No. USIA19-1
March 14, 2019

Defining in the purchasing policy when the use of competitive proposals is appropriate

Issue: The University's purchasing policy addresses quote thresholds and bidding requirements. The policy does not address thresholds and circumstances for procurement by competitive proposals.

Risk: The Uniform Guidance includes competitive proposals as one of four acceptable methods of procurement. External awarding agencies may view the University's policy as non-compliant with the Uniform Guidance due to the lack of any policy statement on the use of competitive proposals.

Response: By April 30, 2019, procurement personnel will define in the procurement policy the circumstances and dollar thresholds for using competitive proposals. The University's policy for use of competitive proposals will be similar to the following language from the Uniform Guidance:

Procurement by competitive proposals. The technique of competitive proposals is normally conducted with more than one source submitting an offer, and either a fixed price or cost-reimbursement type contract is awarded. It is generally used when conditions are not appropriate for the use of sealed bids. If this method is used, the following requirements apply:

1. Requests for proposals must be publicized and identify all evaluation factors and their relative importance. Any response to publicized requests for proposals must be considered to the maximum extent practical;
2. Proposals must be solicited from an adequate number of qualified sources;
3. Technical evaluations of the proposals and the selection of the vendor must follow a written process/procedure;
4. Contracts must be awarded to the responsible firm whose proposal is most advantageous to the program, with price and other factors considered; and
5. Competitive proposal procedures may be used for qualifications-based procurement of architectural/engineering (A/E) professional services whereby competitors' qualifications are evaluated and the most qualified competitor is selected, subject to negotiation of fair and reasonable compensation. The method, where price is not used as a selection factor, can only be used in procurement of A/E professional services. It cannot be used to purchase other types of services though A/E firms are a potential source to perform the proposed effort.

Documenting procedures for review of cost transfer requests to ensure compliance with procurement standards

Issue: There is not a documented procedure for reviewing cost transfer requests to verify the federal procurement standards were followed before processing a transfer.

Risk: Because the University has a higher threshold (\$25,000) for seeking multiple quotes for procurement transactions than federal procurement standards (\$10,000), there is a risk that federal procurements, submitted by the purchaser as non-federal, do not obtain an adequate number of quotes or have the required supporting documentation. Transferring the costs to the federal award without considering the procurement process applied to the transaction could lead to non-compliance with the Uniform Guidance procurement standards.

Response: By June 30, 2019, grant accounting personnel will document procedures for reviewing cost transfer requests associated with procurement transactions to ensure they meet the federal requirements for obtaining competitive quotations or bids before processing the transfer. The procedures will include an evaluation of both the expense requested for transfer and any associated purchase orders to determine the appropriate method of procurement [micro-purchase (\leq \$10,000), small purchase (\$10,001-\$250,000), sealed bids ($>$ \$250,000), competitive proposals ($>$ \$250,000), or sole/single provider ($>$ \$10,000)] to be applied in evaluating the transfer. Procurements that do not adhere to federal procurement standards will not be transferred to the federal award to avoid creating a compliance violation.

Report No. USIA19-2
 June 25, 2019

Audit Report Employment, Payroll, and Benefits

Results at a Glance

Audit Objectives:	RISK MITIGATION			
	Adequate Controls & Practices	Opportunity for Minor Improvement	Opportunity for Moderate Improvement	Opportunity for Significant Improvement
New hires, terminations, and other employee related changes are accurately processed on the human resource and payroll system				
Employment eligibility verification processes comply with federal requirements and Banner I-9 data is reliable				
Benefit elections, tax filing status, withholding allowances, and payroll direct deposit data are authorized and recorded accurately in the payroll system				
Pay rate changes are properly authorized and processed accurately				
Payroll hours are reported accurately, and employees are properly compensated				
Payroll transfers are authorized, payroll cards are properly secured, deposits are made to the appropriate accounts, and taxes are properly calculated and remitted				
Benefit invoices are reconciled to participant data in the human resource system				
Access to the HR module in Banner is properly restricted				

Report No. USIA19-2
June 25, 2019

Introduction

Our report of the internal audit of USI employment, payroll, and benefits is presented below. We would like to thank Kate Rotramel, Rita Ricketts, Wendy Seitz, Ingrid Lindy, Sarah Will, Andrew Lenhardt, and other Human Resources (HR) personnel who contributed positively to our results.

Background Information

The HR department supports the University of Southern Indiana in attracting and retaining a quality faculty and staff and maintaining a positive work environment. The department's areas of responsibility include: employment; employee relations; design and administration of employee benefits; compensation; position evaluation and design; diversity and equal opportunity compliance; payroll; employee training and development; and administration of employee records and other related functions.

The University employs approximately 1,000 full-time employees and 1,600 part-time and student employees. Salaries and benefits expenses comprise nearly 56 percent of the University's total annual operating expenses. Given the complexities associated with the employment, benefits, and payroll functions, as well as the materiality of salaries and benefits expense, a strong system of internal controls is critical to ensure that employment records, employee benefits, and payroll are processed timely and accurately.

This report is based on a review of the processes and procedures for setting up and maintaining employee data in the human resources and payroll system, producing payroll, and administering and reconciling employee benefit elections, withholdings, and remittances. The audit approach consisted of interviews with human resources management; review of employee files, payroll information, and benefit elections for a sample of employees, including administrators, faculty, support staff, and student employees; review of the accounting entries, monetary transfers, and benefit liability reconciliations for a sample of six payroll periods from July 1, 2018, through March 30, 2019; a review of Banner data related to I-9 compliance; and a review of user access to the Banner HR module.

The **objectives** of the audit were to obtain reasonable assurance that:

- New hires, terminations, and other employee related changes are accurately processed on the human resource and payroll system
- Employment eligibility verification processes comply with federal requirements and Banner I-9 data is reliable
- Benefit elections, tax filing status, withholding allowances, and payroll direct deposit data are authorized and recorded accurately in the payroll system
- Pay rate changes are properly authorized and processed accurately
- Payroll hours are reported accurately and employees are properly compensated
- Payroll transfers are authorized, payroll cards are properly secured and distributed, deposits are made to the appropriate employee and benefit vendor accounts, and taxes are properly calculated and remitted timely
- Benefit invoices are reconciled to participant data in the human resource system
- Access to the HR module in Banner is properly restricted

Conclusion

In general, the results of our audit procedures indicate **adequate controls and practices** exist with respect to employment eligibility verification processes; processing payroll transfers and security of payroll cards; and reconciling benefit invoices to participant data in the human resource system. Internal audit noted **opportunities for minor improvement** with respect to adding/removing new/terminated employees; processing employee related changes, benefit elections, tax withholding allowances, and payroll direct deposit elections; processing pay rate changes; reporting payroll hours; calculation and remittance of tax withholdings; and user access to the Banner HR module.

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Management will take or has taken the following actions:

- Developing change/audit reports to ensure critical system updates are detected and reviewed
- Formalizing and documenting management approval of summer rehab bonus payouts
- Implementing online employee benefits enrollment
- Transitioning the monthly payroll schedule to a bi-weekly payroll schedule
- Utilizing technology solutions to increase efficiency of payroll processing
- Engaging a consultant or payroll tax professional to advise regarding federal and state payroll tax issues
- Reviewing course cancellations and comparing the list to employees with adjunct, overload, summer, or stipend positions

No additional action or response is required.

Bradley V. Will
Director of Internal Audit

Kendra Groeninger
Internal Audit Manager

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Employment, Payroll, and Benefits Audit Report

Control Issues and Responses

Developing change/audit reports to ensure critical system updates are detected and reviewed

Issue: Human Resources department procedures involving the input of data associated with the setup of new employees, pay rate changes, tax exemptions/filing status, employee benefit elections, and direct deposit account information include a review of the information entered by someone other than the person that performed the data entry. The review is triggered based on paper forms routed through the department. A review of a sample of personnel files revealed that forms used to track data entry and review were not consistently initialed by personnel performing the verification of the data entered.

Risk: Lack of consistent processing may be a symptom of personnel failing to initial the forms after their review or it could indicate the data entered from the forms were not reviewed. The lack of consistency may lead to unidentified errors, inefficient processing, and duplication of effort.

Response: The Human Resource management team will seek to develop change/audit reports generated from Banner to identify critical data fields that contain new or modified data when compared to the previous day. Examples of critical changes to be considered for such reporting include: creation of a new employee, benefit elections/changes, tax exemptions/filing status elections and changes, position changes, pay rate changes, and demand deposit account changes. These reports will be reviewed by someone in the department independent of the data entry for comparison to the paper forms to ensure that all critical updates to personnel, payroll, and benefit information are properly authorized and entered accurately. Management expects the reports to be implemented by October 31, 2019.

Formalizing and documenting management approval of summer rehab bonus payouts

Issue: During the review of payroll activity for the period under audit, Internal Audit reviewed two summer housing rehabilitation employees who received attendance bonuses. While there was documented evidence available of executive management approval of the bonus structure and budget, there was not documentation available showing human resources review and approval of the individual bonus payouts prepared by the Sr. Employment Assistant.

Risk: The lack of formal management approval of the bonus payouts creates the appearance that the Sr. Employment Assistant is responsible for authorizing payroll to pay the bonuses to the employees. However, the individual in this role is not a financial manager and has not been delegated such authority.

Response: Human resources management will formalize and document management approval of the bonus payouts for the August 2019 bonuses. The approval will be retained with the documentation for the bonuses to be paid and provided to payroll personnel along with the payout details to support the fact that the bonuses as submitted are approved by someone other than the Sr. Employment Assistant.

Implementing online employee benefits enrollment

Issue: During the audit, human resources management explained there are plans in place to implement an online employee benefits enrollment process. The current process relies heavily on hard-copy documents for employees to make their benefit elections, which then must be entered into both the University's human resource system (Banner HR) and into the insurance provider's system by employee benefits staff. Human resources management is considering implementing the online employee election process for fall 2019 and subsequently implementing the data uploads to Banner HR and the insurance providers.

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Risk: The current paper-based process is inefficient, requiring data to be manually entered into multiple systems, and limits the amount of time benefits personnel can devote to analytical and review procedures. Also, until the data upload process is implemented, employee benefits staff will still be required to manually enter elections into multiple systems. Because the upload process is not visible to the general users, there is a risk that its significance gets overlooked and resources get redeployed to other priorities.

Response: Human resources management is targeting implementation of the employee benefit election upload to Banner HR by June 2020 to ensure that the process is in place prior to the fall 2020 open enrollment period.

Transitioning the monthly payroll schedule to a bi-weekly payroll schedule

Issue: Human Resources management submitted a proposal to senior management in 2018 to transition employees currently on the monthly payroll cycle to a bi-weekly payroll cycle paid one week in arrears. 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 payroll is paid current.

Risk: Depending upon start date and contract, a monthly employee may have to wait from four to six weeks before receiving their first paycheck. Although the University provides short-term payroll advances upon employee request, these add complexity to the payroll process. In addition, the monthly payroll requires a separate cycle which impacts processing efficiency and may make payroll information more difficult to administer and understand. Finally, the monthly payroll schedule does not correspond well with the summer academic sessions resulting in the creation of numerous special pay schedules to more closely align payment with the performance of instruction.

Response: Senior management has approved the transition of monthly payroll to a bi-weekly payroll schedule. The transition will be scheduled to occur following the implementation of an electronic time reporting system for both student employees and support staff in the fall of 2020 and spring of 2021, respectively.

Utilizing technology solutions to increase efficiency of payroll processing

Issue: 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.

Risk: The paper recap documents require a fairly significant amount of time and effort to prepare and distribute for each department and each payroll period. In addition, the current process involves a duplication of effort with department personnel filling out the recap and then payroll personnel entering the hours from the recap into the payroll system. These activities limit the amount of time that payroll personnel can devote to analytical and review procedures.

Response: Human resources management has targeted the implementation of an electronic time and attendance reporting system to occur in three phases. The first phase will involve transitioning student employees to electronic time reporting in the summer or fall of 2020. The second phase will transition support staff to electronic time reporting in the spring of 2021. Lastly, monthly employees would be transitioned to electronic attendance reporting in the fall of 2021 or thereafter, depending on the ability to complete the first two phases as expected.

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Engaging a consultant or payroll tax professional to advise regarding federal and state payroll tax issues

Issue: Turnover in the management of the payroll function over the past few years has resulted in a loss of payroll tax experience within the payroll area. During the audit, human resources management and payroll personnel indicated they are evaluating potential consultants and payroll tax professionals to provide federal and state payroll tax advisory and review services.

Risk: A lack of expertise in payroll tax requirements may result in withholding and reporting errors that could lead to fines from federal and/or state agencies.

Response: Beginning in July 2019, human resources management has engaged an accounting and consulting firm to provide payroll tax advisory services. The engagement includes research regarding state and local tax issues, as well as ongoing access for payroll personnel to tax experts for federal, state, and local tax questions.

Reviewing course cancellations and comparing the list to employees with adjunct, overload, summer, or stipend positions

Issue: The current operating environment relies upon personnel within each of the colleges to notify payroll when a course or section is canceled. As a result of this decentralized environment, sometimes payroll is not notified timely of such cancellations.

Risk: Failure to timely notify payroll personnel of course or section cancellations increases the risk that instructors may be paid in error. Furthermore, when such payment errors are identified, they require a significant amount of time and effort by the Payroll Manager to correct.

Response: Human resources will work towards the development of a Banner report showing course or section cancellations, including the instructor of record and a process to systematically compare that data to a list of employees assigned positions associated with adjunct, overload, summer, or stipend payments. HR will develop a procedure where a match is identified for payroll or employment personnel to email the appropriate department regarding whether or not the employee should be paid for the assignment. The target for implementation of the report and review procedure is for spring 2020 faculty assignments.

University of Southern Indiana
 Audit Recommendations Matrix
 Calendar Year 2013

AUDIT NAME	OBSERVATION	RISK	RECOMMENDATION	RESPONSE	TARGET	STATUS
Eagle Access Department Card	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.	<p>Revised Response: Effective September 2017, transition to Accounts Payable the responsibility for allocating Eagle Access card expenses to appropriate cost centers</p> <p>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:</p> <ol style="list-style-type: none"> 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 	<p>Transition expense allocation: September 2017</p> <p>December 21, 2018</p> <p>Revised: August 31, 2019</p>	<p>Completed, includes requirement to provide receipts and explanation of business purpose</p> <p>Completed</p>

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

AUDIT NAME	RISK RATING	RECOMMENDATION	RESPONSE	TARGET	STATUS
Information Security and Privacy Compliance					
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"> • Intrusion Prevention System (IPS) • Intrusion Detection System, including File Integrity Monitoring • Log File Aggregation System <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> <p>MSSP Contract executed in October 2018</p> <p>Implementation completed</p>

University of Southern Indiana
 Audit Recommendations Matrix
 Calendar Year 2017

AUDIT NAME	RISK RATING	RECOMMENDATION	RESPONSE	TARGET	STATUS
Athletics Ticket Sales and Sponsorship Revenue 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 Athletic department personnel are evaluating whether they can leverage the ticketing system used by University theatre personnel
Child Protection Policy (CPP) and Procedures					
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"> • Eight events did not use a Background Check Tracking Form • Five programs were missing at least one volunteer's Program Participant Form • Seven events were missing at least one volunteer's Authorization for Background and Sex Offender Registry Checks • Seven programs did not conduct Background Sex Offender Registry Checks as required by the CPP and/or Child Protection Committee (CPC) instructions on the Event Planning Form 	Moderate	Implement a third-party background check or modify policy and procedures to simplify the process. If third-party checks are cost-prohibitive, consider a tiered approach for screening individuals that work with children (e.g. performing criminal background checks and sex offender registry checks through Human Resources on all employees participating in programs involving children, while only requiring sex offender registry checks utilizing the Raptor system for non-employee volunteers).	Management will implement a third-party background check by October 31, 2017. The University will utilize a tiered approach for screening individuals that work with children such as performing criminal background checks and sex offender registry checks through Human Resources on all employees participating in programs involving children, while only requiring sex offender registry checks utilizing the Raptor system for non-employee volunteers.	October 31, 2017 Revised target for implementation of Raptor screening: July 1, 2018 January 1, 2019 August 31, 2019 Target for implementation of third-party background checks on new employees: May 31, 2019 Revised: October 1, 2019	
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"> • Three programs did not use a Participant Check-In Form or acceptable alternative • Eight events did not use a Background Check/Sex Offender Registry Check Tracking Form • Five programs were missing at least one volunteer's Program Participant Form • Seven events were missing at least one volunteer's Authorization for Background and Sex Offender Registry Checks • Seven programs did not conduct Background and Sex Offender Registry Checks as CPP and/or CPC instructions on the Event Planning Form 	Moderate	Utilize the Raptor system for sex offender registry checking and event check-in for all employee, student, and community volunteers each day of a child-related event and develop procedures for discreetly addressing potential sex offender "hits" the day of the event.	Revised response: Responsibilities for the Child Protection Policy and performance of sex offender registry checks are being assumed by Public Safety. Proposed policy and procedure revisions will be complete by March 31, 2019 Executive management approval will be obtained by April 30, 2019 Revised policy and procedures rolled out to University community by August 31, 2019	Policy/procedure: March 31, 2019 Management approval: April 30, 2019 Policy/procedure: August 31, 2019 Revised: September 30, 2019	
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 as 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 Implementation of the online volunteer registration form by Public Safety for fall 2019 and beyond will also result in a database of events.	In progress

University of Southern Indiana
Audit Recommendations Matrix
Calendar Year 2017

AUDIT NAME	RISK RATING	RECOMMENDATION	RESPONSE	TARGET	STATUS
Federal Grant and Contract Pre-award Policies and Procedures					
1. While Outreach and Engagement (O&E) holds internal meetings and discussions to communicate what they are working on within the department, there is no formal interdepartmental communication of the opportunities O&E is seeking to develop within the next several months.	Moderate	Formalize and communicate, internally and with other impacted departments, both interim and annual objectives of the type and number of opportunities O&E seeks to develop. Include general selection criteria for pursuing an opportunity (e.g. dollar amount of profit relative to effort expended, public relations benefits, relationship development for future opportunities, etc.). When new or unique opportunities present themselves, engage the appropriate parties and management personnel to discuss and evaluate the new opportunities.	O&E will hold meetings twice a year with the Office of Sponsored Projects and Research Administration (OSPRA), Business Office and other relevant personnel to review opportunities, including the type, number, and general selection criteria of opportunities it seeks to develop. We will tie this effort in with the completion of the detailed cost analyses targeted for March 31, 2018. In the interim, O&E will continue to provide weekly updates to OSPRA regarding opportunities involving grants and will communicate through email or through meetings regarding new opportunities.	March 31, 2018 Revised: January 2019 March 2019	Completed and ongoing
Housing and Residence Life (HRL) Operations					
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	Completed Completed
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. Revised Response: HRL will continue to manage user administration, however, as a compensating control HRL will develop a report of RMS user access changes which will be reviewed by the HRL Director.	December 1, 2018 Revised: February 28, 2019	Completed

University of Southern Indiana
 Audit Recommendations Matrix
 Calendar Year 2018

AUDIT NAME	OBSERVATION	RISK RATING	RECOMMENDATION	RESPONSE	TARGET	STATUS
Undergraduate Admissions (UA)						
	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.	<p>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.</p> <p>Revised Response: UA determined it was not feasible to utilize Banner functionality to automate admission decisions.</p> <p>UA will meet with IT to determine feasibility of custom programming and priority in the work queue.</p>	<p>January 2, 2019</p> <p>Feasibility meeting: September 30, 2019</p>	
	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.	<p>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.</p> <p>Revised Response: The UA administrative associate will begin reviewing daily exception reports generated within the department.</p>	<p>August 31, 2018</p> <p>Revised: May 15, 2019</p> <p>Revised: September 30, 2019</p>	
	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.	<p>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.</p> <p>Revised Response: Edit reports for out-of-state top scholar and the out-of-state scholar were in place at time of the audit. UA will create an edit report for the out-of-state transfer top scholar and out-of-state transfer scholarship by May 15, 2019.</p> <p>Due to limited availability of IT resources, UA will evaluate other options for identifying potential exceptions.</p>	<p>August 31, 2018</p> <p>Revised: May 15, 2019</p> <p>Identificaton of alternatives: December 31, 2019</p>	

University of Southern Indiana
 Audit Recommendations Matrix
 Calendar Year 2018

AUDIT NAME	RISK RATING	RECOMMENDATION	RESPONSE	TARGET	STATUS
Construction Change Orders					
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 Update: Review changes selected by legal counsel and implement revised documents: June 1, 2019	Legal counsel review complete Revised documents implemented
NCAA Grant-in-Aid					
1. Grant-in-aid forms are the documents by which renewals of athletic grant-in-aid are communicated to student-athletes. These forms are prepared by athletic office personnel and reviewed by financial aid personnel after the student-athlete has signed and returned the form. NCAA Bylaws require these notices to come from the institution's regular financial aid authority.	Low	Route grant-in-aid renewal forms to financial aid personnel for review and signature prior to delivery to student-athletes in conformance with NCAA regulations.	Effective for 2019-2020 grant-in-aid renewals, athletic department personnel will route the grant-in-aid forms to financial aid for signature prior to delivery to student-athletes.	April 1, 2019	Completed and ongoing

University of Southern Indiana
Audit Recommendations Matrix
Calendar Year 2019

AUDIT NAME	RISK RATING	RECOMMENDATION	RESPONSE	TARGET	STATUS
Uniform Guidance for Federal Awards Procurement Standards Compliance					
1. There is currently not a process to review prospective vendors and contractors providing goods or services under federal awards for potential suspension, debarment, or other exclusions.	Moderate	Review the list of parties suspended, debarred, or otherwise excluded from receiving federal awards or contracts prior to selecting vendors or contractors to provide goods and services associated with federal awards. A listing of vendors and contractors with active exclusions can be obtained from https://www.sam.gov/SAM/pages/public/extracts/samPublicAccessData.jsf by selecting the most recent Exclusions Extract Data Package.	Beginning April 15, 2019 and thereafter, procurement personnel will review the list of parties suspended, debarred, or otherwise excluded from receiving federal awards or contracts prior to vendor selection.	April 15, 2019	Completed and ongoing
2. Based on discussions with procurement personnel, review of purchase order terms and conditions, and review of the University's construction contract template, there are some contract provisions required by the Uniform Guidance that are not addressed in these documents.	Moderate	Incorporate into contracts and purchase orders associated with federal awards the applicable provisions referenced in 2 CFR Part 200, Subpart D, Section 200.326 and described in Appendix II to Part 200.	By April 30, 2019, procurement personnel will incorporate the applicable provisions into the terms and conditions page of the procurement website as well as in contracts associated with federal awards.	April 30, 2019	Completed
3. The University's purchasing policy does not address thresholds and circumstances for procurement by competitive proposals.	Moderate	Define in the procurement policy the circumstances and dollar thresholds for using competitive proposals. The University's policy for use of competitive proposals should mirror language from the Uniform Guidance	Procurement will define in its policies and procedures manual the circumstances and dollar thresholds for using competitive proposals.	April 30, 2019	Completed
4. There is not a documented procedure for reviewing cost transfer requests to verify the federal procurement standards were followed before processing a transfer.	Moderate	Document procedures for reviewing cost transfer requests associated with procurement transactions to ensure they meet the federal requirements for obtaining competitive quotations or bids before processing the transfer.	By June 30, 2019, grant accounting personnel will document procedures for reviewing cost transfer requests associated with procurement transactions related to federal awards to ensure they meet federal requirements for obtaining competitive quotations or bids before processing.	June 30, 2019	Completed
Employment, Payroll, and Benefits					
1. A review of a sample of personnel files revealed that forms used to track the data entry and review of employment, payroll, and employee benefit data were not consistently initiated by personnel performing the verification of the data entered. This could indicate the data entered from the forms were not reviewed.	Moderate	Develop change/audit reports to identify critical data fields that contain new or modified data when compared to the previous day and implement reviews by someone in the department independent of the data entry to compare to the paper forms to ensure updates are properly authorized and entered accurately.	Human resources will develop change/audit reports generated from Banner to identify critical data fields that contain new or modified data and implement a review process by someone independent of the data entry.	October 31, 2019	
2. During the review of payroll activity for the period under audit, Internal Audit reviewed two summer housing rehabilitation employees who received attendance bonuses. While there was documented evidence available of executive management approval of the bonus structure and budget, there was not documentation available showing human resources review and approval of the individual bonus payouts prepared by the Sr. Employment Assistant.	Low	Formalize and document management approval of the bonus payouts and retain the approval with the documentation provided to payroll personnel along with the payout details.	Human resources management will formalize and document management approval of the bonus payouts for the August 2019 bonuses.	August 31, 2019	
3. Plans are in place to implement an online employee benefits enrollment process. Human resources management is considering implementing the online employee election process for fall 2019 and subsequently implementing the data uploads to Banner HR and the insurance providers. Because the upload process is not visible to the general users, there is a risk that its significance gets overlooked and resources get redeployed to other priorities	Low	Ensure that the upload process is implemented soon after the employee election front-end so that employee benefits personnel reap the full benefit of the online enrollment capabilities.	Human resources management is targeting implementation of the employee benefit election upload to Banner HR by June 2020 to ensure that the process is in place prior to the fall 2020 open enrollment period.	June 30, 2020	
4. 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 payroll is paid current. The variety of payroll cycles creates complexities that impact the efficiency and effectiveness of payroll processing.	Low	Transition the monthly payroll to a bi-weekly payroll schedule that is one week in arrears.	Senior management has approved the transition of monthly payroll to a bi-weekly payroll schedule. The transition will be scheduled to occur following the implementation of an electronic time reporting system for both student employees and support staff in the fall of 2020 and spring of 2021, respectively.	August 1, 2021	

University of Southern Indiana
 Audit Recommendations Matrix
 Calendar Year 2019

AUDIT NAME	RISK RATING	RECOMMENDATION	RESPONSE	TARGET	STATUS
5. During the audit, payroll personnel indicated they have established 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	Continue to pursue ways to increase the use of technology as it relates to time tracking and reporting for payroll. Depending upon the cost and amount of time required to implement a "package" solution, the payroll department could see near-term efficiency gains by replacing the paper recap documents with an electronic spreadsheet.	Human resources has targeted the implementation of an electronic time and attendance reporting system to occur in three phases. The first phase will involve transitioning student employees to electronic time reporting in the summer or fall of 2020. The second phase will transition support staff to electronic time reporting in the spring of 2021. Lastly, monthly employees would be transitioned to electronic attendance reporting in the fall of 2021 or thereafter, depending on the ability to complete the first two phases as expected.	Phase 1: Fall 2020 Phase 2: Spring 2021 Phase 3: Fall 2021	
6. Turnover in the management of the payroll function over the past few years has resulted in a loss of payroll tax experience within the payroll area. During the audit, human resources management and payroll personnel indicated they are evaluating potential consultants and payroll tax professionals to provide federal and state payroll tax advisory and review services.	Moderate	Pursue payroll tax advisory services and consider whether these services should be short-term, with the intention of providing the knowledge of process and procedure to University payroll personnel, or an ongoing relationship where the advisors review withholdings and filings to ensure ongoing accuracy and are retained as a resource for answering payroll tax questions as they arise.	Beginning in July 2019, human resources has engaged an accounting and consulting firm to provide payroll tax advisory services. The engagement includes research regarding state and local tax issues, as well as ongoing access for payroll personnel to tax experts for federal, state, and local tax questions.	July 2019	In progress
7. The current operating environment relies upon personnel within each of the colleges to notify payroll when a course or section is canceled. As a result of this decentralized environment, sometimes payroll is not notified timely of such cancellations.	Moderate	Utilize a report of course or section cancellations from Banner, including the instructor of record, and systematically compare that data to a list of employees assigned positions associated with adjunct, overload, summer, or stipend payments. For those where a match is identified, payroll or employment personnel could email the appropriate department regarding whether or not the employee should be paid for the assignment.	Human resources will work towards the development of a Banner report showing course or section cancellations and a procedure for payroll or employment personnel to email the appropriate department regarding whether or not the employee should be paid for the assignment.	Spring 2020	

**University of Southern Indiana
 Annual Audit Plan
 Calendar Year 2019**

QUARTER BEGINNING	AUDIT AREA	DESCRIPTION	HOURS
January 2019	OMB Uniform Guidance	Assess University procurement processes for compliance with federal procurement standards	150
	Internal Control Documents for financial statement audit	Documentation of accounting and financial reporting controls for state auditors	100
	Auxiliary Enterprises	Physical inventory observations (New Harmony Museum Shop and Campus Store)	45
April 2019	Human Resources	Review controls over payroll and employee benefit elections and withholdings	285
	University Risk Management Committee	Facilitation of University Risk Management Committee Activities	60
	Athletics Recruiting	NCAA Division II compliance review	250
	Food Services	Review food services agreement and revenue	120
	Facility Operations Storeroom	Physical inventory observation	50
July 2019	Public Safety	Clery Act reporting compliance	200
	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 past external audit reviews	220
October 2019	External Audit Support	Support for external auditors performing federal financial aid audit and state aid agreed upon procedures	120
	Tax-Exempt Bonds Payable	Review for compliance with private business use restrictions	220
	Travel Expense Reporting	Review Chrome River travel expense routing, approval processing, and reporting system	220
	Title IX	Review policies and procedures for compliance with revised regulations	150

Total Hours	<u>2,440</u>
Hours Available	2,467
Hours available for unscheduled audits	27

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

PHYSICAL ACTIVITIES CENTER (PAC) RENOVATION

Empire Contractors, Inc. - General Contractor

CO 051	Additional Subbase Replacement for the Plaza	\$ 51,636
CO 052	Modifications to Ductwork and Structure Near Roof Hatch	\$ 29,833
CO 053	Concrete for Foundation Additional Depth	\$ 74,461
CO 054	Drain Pans and Sensors Under Smoke Exhaust Fans	\$ 50,937