MINUTES

FINANCE/AUDIT COMMITTEE

UNIVERSITY OF SOUTHERN INDIANA
BOARD OF TRUSTEES

September 7, 2023

The Finance/Audit Committee of the University of Southern Indiana Board of Trustees met on Thursday, September 7, 2023, in the Griffin Center on campus. Present were Committee Chair Daniel M. Fuquay, and Trustees John M. Dunn, Fouad L. Hamami '25, and Ronald D. Romain '73. Also in attendance were Vice President for Finance and Administration Steven J. Bridges '89 M'95, Vice President for Development David A. Bower, and Chief Government and Legal Affairs Officer Aaron C. Trump.

Chair Fuquay called the meeting to order at 9:04 a.m.

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

Mr. Fuquay called on Vice President Bridges, who reported that the Voluntary Employees' Benefit Association (VEBA) Trust was created in 1995 to establish a long-term investment vehicle to partially fund future retiree benefit costs for medical, dental, and life insurance.

Mr. Bridges introduced, Neil Heppler with Fourth Street Performance Partners and the investment advisor for the VEBA Trust, for an annual report. Mr. Heppler reported on the performance of the VEBA Trust Fund for the fiscal year ending June 30, 2023. He reviewed the fiscal year market, the USI VEBA Trust investment portfolio performance summary table, and the asset allocation which has a market value of $26,896,604 as of June 30, 2023. Mr. Heppler concluded his report by reviewing the investment program fee analysis.

2. VEBA TRUST INVESTMENT POLICY STATEMENT REVIEW

Mr. Fuquay called on Vice President Bridges to report on the annual review of the VEBA Trust Investment Policy. Mr. Bridges directed the Trustees to Attachment A, a redlined version of the VEBA Trust Investment policy, which included three changes for recommendation. The changes were recommended by USI's investment advisors at Fourth Street Performance and are all noted on page 4 of the policy. It was recommended that the investment restrictions change from "A" rating to BBB/Baa" rating. Old National Bank manages an intermediate portfolio for the Unrestricted portfolio without this "A or better" restriction. It makes sense to have the Old National VEBA portfolio and the Old National Unrestricted portfolio have similar portfolio guidelines and parameters.

Under the Performance Objective and the subheading of International Equity, USI is requested to change Europe, Australia Far East (EAFE) to All Country World ex – U.S. (ACWI ex US) which is the same as the index. USI is recommending changing that benchmark to the MSCI All Country World ex – US Index, which includes emerging markets. The VEBA's international equity managers currently have exposure to emerging markets (15-20%) so this index change would better reflect the managers' opportunity set in international equities. This index change would also make the VEBA policy consistent with the USI Foundation investment policy.

Under the subheading of U.S. Intermediate Fixed Income, USI is requesting to replace Barclay's Intermediate Government/Credit Index with Bloomberg Intermediate Government/Credit Index. Bloomberg acquired assets from Barclay's and have rebranded the index, so this simply updates the language to current terminology.

On a motion by Mr. Dunn, seconded by Mr. Romain, approval of the Investment Policy Statement for the VEBA Trust in Attachment A <u>was approved</u>.

3. UNIVERSITY INVESTMENTS UPDATE

Mr. Fuquay called on Vice President Bridges for an update on university investments. Mr. Bridges stated in addition to his work with the VEBA Trust Fund, Neil Heppler assists the University with its investment portfolio and Mr. Heppler will provide an update for the University investment portfolio as of June 30, 2023, as well as context in the current market. Mr. Heppler reviewed USI's investment portfolio performance summary noting the returns are presented net of investment management fees. The Balanced Index is comprised of 80% of the Bloomberg Intermediate U.S. Government/Credit Index and 20% of the ICE BofA 1-3 Year Gov/Corp Index. Asset allocation for investments is comprised of intermediate fixed income, certificates of deposit and cash, short-duration investments, and government bonds. The market value of investments at fiscal year-end totaled $113,102,500. Mr. Heppler concluded his report by reviewing the investment program fee analysis and current economic indicators including treasury yield spread; unemployment rates as a recession indicator; interest rate projections; and inflation rates.

4. UNIVERSITY INVESTMENT POLICY STATEMENT REVIEW

Mr. Fuquay called on Vice President Bridges, who referred the Trustees to Attachment B for review of the University Investment Policy Statement. This annual review is preferred by USI's banking partners and there are no changes recommended with the policy for this year. The unchanged policy approved by the Board on September 1, 2022, in Attachment B was reviewed and was signed by Committee Chair Fuquay as reapproved.

5. APPROVAL OF RECOMMENDATION FOR 2024-2025 HOUSING RATES

Mr. Fuquay called on Vice President Bridges for a review of the recommendation for the 2024-2025 housing rates.

Mr. Bridges reported student housing at USI includes 580 apartments in 53 buildings and 236 suites in four residence halls which allow for approximately 2,700 beds. In fall 2023, student housing occupancy opened at just under 81%, up from 67% at the same time last year. He proposed an increase of $75 per semester for 2024-2025, or approximately a three percent increase for the most common occupancy contract, two students per bedroom. The proposed rate will be $2,564 for this double occupancy room. USI will continue to work extensively with Student Affairs to maintain programming in the complexes and to maintain a comprehensive maintenance program that keeps USI well positioned in price and quality and Board approval will aid in continuing those efforts.

On a motion by Mr. Dunn, seconded by Mr. Romain, a recommendation to the Board of Trustees for approval of the following 2024-2025 housing rates was approved.

FALL OR SPRING SEMESTER		CURRENT RATE	PROPOSED RATE	EFFECTIVE DATE
Mc DONALD or O'DANIEL APARTMENT				
Two Bedroom:	Two students per bedroom	$2,489	$2,564	7-01-24
	One student per bedroom	4,341	4,471	7-01-24
One Bedroom:	Two students	2,960	3,049	7-01-24
	One student	5,470	5,634	7-01-24
GOVERNORS, NEWMAN, O'BANNON, or RUSTON HALL				
Two Bedroom: Two students per bedroom		$2,489	$2,564	7-01-24
One Bedroom Studio: One student		2,960	3,049	7-01-24

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

SUMMER SESSIONS

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

6. APPROVAL OF 2024-2025 MEAL PLAN RATES

Mr. Fuquay called on Vice President Bridges for a review of the recommendation for the 2024-2025 meal plan rates. He noted for the start of the 2023-2024 year, USI had 115 meal plans more than the prior year, an eight percent increase. This is a result of increased activity on campus this year including a larger freshman class and housing occupancy increases. USI proposed a $125 increase to $2,616 per semester, a five percent increase that equates to $1.15 per day. The new dollars will be used to meet what will be inevitable operating increases from food and labor costs.

On a motion by Mr. Romain, seconded by Mr. Dunn, a recommendation to the Board of Trustees for approval of the following 2024-2025 meal plan rates <u>was approved</u>.

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

FALL OR SPRING SEMESTER	**CURRENT RATE**	**PROPOSED RATE**	**EFFECTIVE DATE**
Red, White, or Blue Eagle Meal Plan	$2,491	$2,616	7-01-24

7. REVIEW OF COMPLETED AUDITS AND ANNUAL AUDIT PLAN

Mr. Fuquay called on Vice President Bridges who noted that a second internal audit report to the committee was added because the volume of information reviewed is difficult to accommodate in a single meeting. Mr. Bridges introduced Director of Internal Audit, Brad Will, for the report. Mr. Will reviewed three assessments that were completed year-to-date. He shared his conclusions and reviewed actions to be taken as a result of the following:

- Academic Accreditation Risk Assessment;
- Advisory Services Purchasing Card Review; and
- Archie's Book Bundle Fee Assessment.

He also reviewed other audit and advisory activities including Federal Student Aid compliance; update of internal control documents for state auditors; facilitation of University Risk Management activities; monitoring and advising on IT security initiatives; and coordination of USI's response for the Indiana Public Retirement System audit.

Mr. Will concluded his report by providing an audit recommendation status update and referred the Trustees to Attachment C for a summary of audits and other activities conducted by the Internal Audit Department during 2023.

8. REPORT OF CONSTRUCTION CHANGE ORDERS APPROVED BY THE VICE PRESIDENT FOR FINANCE AND ADMINISTRATION

Mr. Fuquay called on Vice President Bridges to review the construction change orders approved by the vice president for Finance and Administration. Mr. Bridges directed the Trustees to Attachment D containing change orders related to the Wellness Center and the Health Professions projects. He noted two of the change orders are below the $50,000 amount that would require Board approval. The first involved electrical and data changes which are common as projects advance. In addition, casework changes were made, and fiber mesh was added to concrete mixtures to reduce the risk of surface cracking that often occurs in the life of a structure.

Change order 003 for $189,934 exceeded the $50,000 approval authority by the Vice President for Finance and Administration. This change order for the Health Professions project resulted from the decision to move air compressors closer to the dental clinic and the elimination of a dark room which was determined to be unnecessary. Mr. Bridges presented this change order to the construction committee of the Board which is composed of the Finance/Audit Committee members on August 31, 2023. Mr. Bridges concluded his report by noting Trustees Fuquay, Dunn, and Romain approved the change order by email as is required by the procedure.

There being no further business, Chair Fuquay adjourned the meeting at 10:03 a.m.

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

Investment Type	Target	Range
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.

Asset Class/Style	Target
Equities	
U.S.Large Capitalization	45%
International	13%
U.S. Small/Mid Capitalization	12%
Total Equities	70%

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

INVESTMENT RESTRICTIONS

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

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

(5) Private placements
(6) Bonds rated less than ~~"A"~~ "BBB/Baa"
(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)~~ All Country World ex – U.S. (ACWI ex US) Index, net of fees, and provide positive risk-adjusted returns. Investment managers' and mutual funds' returns in this category should exceed the median of a peer group of international equity mutual funds utilizing a similar investment style.

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

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

INVESTMENT CONSULTANT RESPONSIBILITIES

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

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

INVESTMENT MANAGER RESPONSIBILITIES

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

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

ROLE OF THE FINANCE/AUDIT COMMITTEE

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

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

MONITORING OF INVESTMENT MANAGERS

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

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

UNIVERSITY OF SOUTHERN INDIANA

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, <u>net-of-investment management fees, over appropriate evaluation periods.</u>

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.

Investment Category	Minimum	Target Mix	Maximum
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

1. **Obligations of the U.S. Government and Agencies** – All obligations of the U.S. Government or sponsored agencies are authorized for use.

2. **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.

3. **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.

4. **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. USIA23-1
May 12, 2023

Audit Report
Academic Accreditation
Risk Assessment

Introduction

Our report of the risk assessment of institutional and programmatic academic accreditation is presented below. We would like to thank Dr. Darrin Sorrells, Dr. Shelly Blunt, Dr. Del Doughty, Dr. Mohammed Khayum, Dr. Sudesh Mujumdar, Dr. Tim Schibik, Dr. Julie McCullough, and Dr. Connie Swenty who contributed positively to our results.

Background Information

Accreditation is one of the mechanisms by which institutions of higher education demonstrate acceptable levels of quality in their academic programs. Additionally, accreditation by a nationally recognized accrediting agency is required for institutions to participate in federal student aid programs administered by the U.S. Department of Education. The University of Southern Indiana obtains its institutional accreditation from the Higher Learning Commission (HLC), which validates the quality of the institution, including its academic offerings, governance and administration, mission, finances, and resources. In addition to its institutional accreditation, the University has earned accreditation for approximately twenty degree programs from various other accrediting agencies.

Considering the retirement in January 2022 of the University's Chief Data Officer, who also served as the University's HLC Accreditation Liaison Officer (ALO), and the impending retirement of Provost Khayum, Internal Audit performed a risk assessment to evaluate personnel and processes in place for monitoring and maintaining institutional accreditation with HLC. In addition, our review included an evaluation of personnel and processes for maintaining program-specific accreditation.

The objectives of the review were to:

- Understand the roles and responsibilities of personnel responsible for monitoring and maintaining institutional and program-specific accreditation
- Evaluate the adequacy of resources to fulfill the roles and responsibilities
- Understand the criteria for institutional accreditation and periodic reporting requirements
- Identify and evaluate risks to the University's ability to provide required supporting information efficiently and effectively to complete reaccreditation requirements

Internal Audit interviewed Darrin Sorrells, who is currently fulfilling the role of HLC ALO, to obtain an understanding of the HLC accreditation requirements and how the University monitors, measures, and reports on those requirements. Internal Audit also interviewed Provost Khayum to get his insight regarding potential opportunities for process improvement or risk mitigation as it relates to institutional accreditation. Additionally, we interviewed the deans of each college to obtain an understanding of how program-specific accreditation requirements are managed. Internal Audit also reviewed the organization and storage of supporting documents that were used to support the arguments for reaccreditation.

Conclusion

Based on our review, despite the departure of the individual serving as HLC ALO in 2022, the University is well positioned to continue the necessary activities associated with HLC accreditation. Dr. Sorrells is an experienced HLC peer reviewer and has the knowledge to competently fulfill the role of HLC ALO until a permanent replacement is hired to take on the role. Program-specific accreditation is overseen by department chairs or specified personnel within each college.

As a result of our interviews and review of how supporting documentation is organized and stored, Internal Audit noted some opportunities for the University to strengthen its ability to manage accreditation activities and ensure continuity of access to information when responsibilities change.

- Internal Audit worked with Information Technology to expand HLC accreditation file share access to members of executive management and the acting HLC ALO. This will ensure continuity of access to accreditation documentation in the event of changes in the ALO and executive management.
- Provost Khayum suggested the University should implement an annual communication to the campus community regarding the accreditation cycle. This could be accomplished by providing a brief update at the fall or spring employee meetings and will need to be initiated by Dr. Khayum's successor and the University's HLC ALO.
- The number of peer reviewers on staff has declined from seven to three over the years due to retirements. Executive management should encourage additional administrators and faculty to become HLC qualified peer reviewers. This is not only beneficial in supporting the University's accreditation efforts, but also creates visibility for USI with HLC and other institutions when those individuals participate in peer reviews. This will need to be promoted by Dr. Khayum's successor.
- Internal Audit created a documentation inventory template for the ALO to assist with assignment of responsibilities and managing the collection of accreditation documentation for the comprehensive reaccreditation evaluation. Use of the template is not required but was provided as a tool to assist with management of the reaccreditation process.
- Internal audit worked with the chair of the Social Work Department and the chair of Art and Design to ensure program-specific accreditation documents are stored on a University network file share accessible by others within their respective colleges.

No additional action or response is required.

Bradley V. Will
Director of Internal Audit

Kendra Groeninger
Internal Audit Manager

Distribution: Dr. Darrin Sorrells
Dr. Mohammed Khayum
Dr. Shelly Blunt
Steve Bridges
Dr. Ronald Rochon

Report No. USIA23-2
May 30, 2023

Advisory Services
Purchasing Card Review

Introduction

Our report of the advisory services performed by Internal Audit related to purchasing card (P-card) usage, processes, and procedures is presented below. We would like to thank Jina Platts, Jeff Sickman, Susanne Stanley, Tricia Tieken, and Jeff Sponn who contributed positively to our results.

Background Information

The University has issued credit cards (P-cards) to full-time employees who have purchasing responsibilities within their departments. The P-card is intended as a complementary purchasing and payment mechanism to the traditional requisition, purchase order, and accounts payable process. P-card usage can simplify the purchasing and payment process while reducing the time for receipt and payment of goods and services.

As a result of turnover and vacancies within Accounts Payable and throughout the institution, the University is looking for ways to be more efficient and streamline payment processing. One opportunity for efficiency that management is considering is expanding use of the P-card to streamline how certain vendors are paid and generate additional revenue in the form of rebates. However, non-compliance with P-card processes and procedures by some employees is an impediment to expanding P-card use.

In an effort to assist management with addressing these issues, provide additional insight as to which departments are having the most difficulty complying with current policy, and understanding the cardholders' challenges, Internal Audit performed an advisory engagement to review P-card issuance processes, training, usage, receipt submission, and the expense allocation process. The engagement approach included interviews with Procurement and Business Office personnel, review of the P-card policy and recorded online training, review of user access to the PNC ActivePay system, analysis of P-card alerts, and review of survey results from cardholders and their proxies regarding use of the P-card and reporting requirements.

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

- Understand the process for requesting and issuing P-cards
- Review the P-card policy and cardholder training
- Review user access to the PNC ActivePay P-card system for appropriateness
- Understand expense allocation procedures, the receipt upload process, and cardholder reminders
- Identify common issues, challenges, and themes by analyzing alert rules and reports
- Obtain feedback from cardholders and their proxies regarding their experience with the P-card program

Conclusion

The results of our review indicate that the University has a well-developed P-card policy and process for requesting and issuing P-cards. A detailed cardholder guide and system user guide are available on the Procurement website for cardholders to reference. In addition, there is a good training video provided to new cardholders explaining the proper use of the card and reconciliation procedures for P-card transactions. While these items provide a solid foundation for the P-card program, our review identified improvement opportunities in the areas of cardholder training, streamlining procedures related to fraud reporting and uploading credit card receipts, proxy assignments, and developing an additional quick reference guide.

Management will take or has taken the following actions:

- Providing targeted training to P-card cardholders who rely on a proxy to submit receipts and complete expense allocations
- Publicizing the P-card training video as reference for existing cardholders
- Streamline the process for cardholders to report fraudulent charges
- Investigating a mobile application for cardholders to upload P-card receipts
- Limiting the number of cardholders assigned to a single proxy
- Developing a decision tree or reference guide to assist cardholders in determining whether to use the P-card

No additional action or response is required.

Bradley V. Will
Director of Internal Audit

Kendra Groeninger
Internal Audit Manager

Distribution: Jina Platts
Jeff Sickman
Susanne Stanley
Jeff Sponn
Steve Bridges
Dr. Ronald Rochon

Report No. USIA23-2
May 30, 2023

Advisory Services Report
Purchasing Card Review

Improvement Opportunities and Responses

Providing targeted training to P-card cardholders who rely on a proxy to submit receipts and complete expense allocations

Issue: Based on an internal survey of 110 USI P-card cardholders, approximately 25 of the respondents (23%) indicated that they rely on a proxy, typically an administrative associate, to upload credit card receipts and complete expense allocations on their behalf. Furthermore, a review of activity reports over seven months indicates that some of these cardholders may not understand the importance of providing receipts and explanations of business purpose to their proxy for upload and expense allocation.

Risk: The failure by cardholders to provide their proxies with receipts and explanations of business purpose in a timely manner creates inefficiencies for both the proxy and accounts payable personnel. Extra effort is required to track the information down and properly allocate expenses to the appropriate general ledger accounts.

Response: The Business Office intends to provide targeted training to P-card cardholders who rely on a proxy to submit receipts and business purpose explanations. The training will focus on cardholder responsibilities and the importance of timely submitting receipts and business purpose explanations, rather than how to enter the information into the system. The delivery of the training is contingent upon filling the vacant accounts payable manager position. Therefore, the target date for completion is six months following the hire date of the accounts payable manager.

Publicizing the P-card training video as reference for existing cardholders

Issue: Several survey respondents who have been long-term P-card cardholders or proxies indicated that they were trained in person and were either unaware of the training video or had never watched it.

Risk: The lack of awareness of the training video means that cardholders who may want or need refresher training on allowable use of the card, how to upload receipts, and how to allocate expenses are missing out on a valuable resource.

Response: The Business Office will publicize the P-card training video to all cardholders and proxies on an annual basis to remind them of its availability for review. An email to all active cardholders and proxies containing a link to the video will serve as the first reminder and will be provided by January 31, 2024.

Streamline the process for cardholders to report fraudulent charges

Issue: The P-card training video includes a segment outlining the process that cardholders should follow to report fraudulent charges on their card. The video states that the cardholder should contact PNC Bank and subsequently contact three other individuals within the University.

Risk: Requiring cardholders to contact three internal individuals to report similar information regarding potential fraud is not efficient.

Response: Procurement will work with the accounts payable manager to create a more streamlined process for reporting fraudulent charges. The process will be developed with the accounts payable manager in a timeframe to be determined following the position being filled.

Investigating a mobile application for cardholders to upload P-card receipts

Issue: Based on an internal survey of 45 individuals who serve as a proxy for P-card cardholders, about 50% indicated that collecting receipts was the biggest challenge for them in their role. This response was consistent with information obtained from a review of activity reports over seven months that reflects approximately 16% of transactions were missing receipts. While the University has a mobile application available for uploading travel card receipts, there is currently not a mobile application for capturing and uploading P-card receipts.

Risk: Making a mobile application available for capturing and uploading P-card receipts should improve the efficiency of receipt collection and submission, making it easier for the cardholders to capture their receipts and providing a centralized location for proxies to access and submit the receipts to accounts payable.

Response: Procurement has identified two options for a mobile application that would allow cardholders and proxies to upload P-card transaction supporting documents. Selection and implementation of a solution will be coordinated with the accounts payable manager in a timeframe to be determined following the position being filled.

Limiting the number of cardholders assigned to a single proxy

Issue: Based on an internal survey of 45 individuals who serve as a proxy for P-card cardholders and review of proxy assignments in the PNC ActivePay system, there are at least six individuals who are assigned as a proxy to more than nine cardholders. Two of the proxies were performing that role for approximately 30 cardholders.

Risk: Depending on the volume of P-card transactions, the diligence and timeliness of the cardholders in providing receipts and explanations of business purpose, as well as other job responsibilities that the proxies must perform, it may not be reasonable to expect a proxy to manage nine or more cardholders.

Response: The Business Office will work with the departments to determine an appropriate number of cardholders for each proxy based on staffing and transaction volume and explore ways to make the proxies' responsibilities more manageable. The target date for completion is six months following the hire date of the accounts payable manager.

Developing a decision tree or reference guide to assist cardholders in determining whether to use the P-card

Issue: In an effort to improve efficiency and reduce costs associated with purchasing products and services, Procurement and Accounts Payable are evaluating changes to policy and procedure to increase use of the P-card for purchases of certain types and dollar amounts.

Risk: Cardholders may struggle to remember the types of products and services, vendors, and transaction amounts for which the P-card should be used.

Response: The Business Office will work with Procurement to develop a reference guide that outlines parameters cardholders should use to determine the appropriate method of purchase based on product/service type, vendor, and transaction amount. The guide should serve as a tool to help cardholders quickly determine whether the P-card is the preferred method of payment. Due to the current vacancy in the accounts payable manager position, the Business Office has targeted December 1, 2024, as the date that development of the reference guide will begin.

Report No. USIA23-3
July 14, 2023

Audit Report
Archie's Book Bundle Fee Assessment

Results at a Glance

Audit Objectives:	***RISK MITIGATION***			
	Adequate Controls & Practices	**Opportunity for Minor Improvement**	**Opportunity for Moderate Improvement**	**Opportunity for Significant Improvement**
Verify that Archie's Book Bundle fees were accurately assessed to students based on enrolled credit hours				
Verify that students' opt-out choice was applied to their account and the students were not assessed the book bundle fee				

Introduction

Our report of the internal audit of Archie's Book Bundle fee assessment is presented below. We would like to thank Emily Henson, Dave Alexander, and other University personnel who contributed positively to our results.

Background Information

The University of Southern Indiana (USI), in partnership with Barnes & Noble College Booksellers, its campus store management services provider, launched a course material and textbook rental program in the Fall of 2022. The program is referred to as Archie's Book Bundle (ABB). The objectives of the ABB program include providing undergraduate students with course materials and textbooks at a lower cost than purchasing or renting them elsewhere and to ensure students have their required course materials on the first day of classes.

Undergraduate students are automatically enrolled in ABB. Students may opt out of ABB by completing the Archie's Book Bundle Opt-Out Form by the required opt-out deadline for each academic term. Students that remain enrolled in ABB are assessed a fee based on each student's enrolled credit hours for the academic term. For academic year 2022-2023, the fee was $24 per enrolled credit hour. Students who opt out of ABB within the required opt-out timeframe are not assessed a fee for the program.

Given the ABB program was new in academic year 2022- 2023 and its impact on both undergraduate students and the University, management requested Internal Audit perform a review of the fee assessment and opt-out process.

This report is based on a review of students eligible to participate in ABB for the Fall 2022 and Spring 2023 semesters. The audit approach included identifying and testing the population of undergraduate students eligible to participate in the program and recalculating the fees assessed based on enrolled credit hours multiplied by the published per credit hour rate. If no fees were assessed, Internal Audit verified the student had opted out of the program.

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

- Verify that Archie's Book Bundle fees were accurately assessed to students based on enrolled credit hours
- Verify that students' opt out choice was applied to their account and the students were not assessed the book bundle fee

Conclusion

In general, the results of our audit procedures indicate adequate controls and practices with respect to accurate assessment of ABB fees and proper application of student opt-outs from the program.

No additional action or response is required.

Bradley V. Will
Director of Internal Audit

Kendra Groeninger
Internal Audit Manager

Distribution: Emily Henson
Jeff Sickman
Steve Bridges
Dr. Ronald Rochon

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.	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. Revised Response: UA determined it was not feasible to utilize Banner functionality to automate admission decisions. UA will meet with IT to determine feasibility of custom programming and priority in the work queue. UA will reconvene with IT by September 30, 2021, to discuss automation options related to applicants who provide both GPA and test scores for admission decisions. UA met with IT in January 2022 to discuss automation options based on GPA and transcript type. Targeted rollout is March 31, 2022. Revised Response: Initial automation to be based on GPA and SAT or ACT test scores. Revised Response: Automation will be incorporated into rollout of new CRM system.	January 2, 2019 Feasibility meeting: September 30, 2019 Revised: March 31, 2020 November 30, 2020 September 30, 2021 March 31, 2022 Revised: September 30, 2022 August 31, 2023	Initial meeting held in November 2020 Follow-up meeting held in February 2021 Closed with rollout of new CRM system

University of Southern Indiana
Audit Recommendations Matrix
Calendar Year 2019

AUDIT NAME OBSERVATION	RISK RATING	RECOMMENDATION	RESPONSE	TARGET	STATUS
Employment, Payroll, and Benefits					
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.	8/1/2021 Revised: 7/1/2024	
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 Revised: Summer 2023 Phase 2: Spring 2021 Revised: Fall 2023 Spring/Summer 2024 Phase 3: Fall 2021 Revised: Summer 2024 Fall 2025	Phase 1: Completed

University of Southern Indiana
Audit Recommendations Matrix
Calendar Year 2020

AUDIT NAME OBSERVATION	RISK RATING	RECOMMENDATION	RESPONSE	TARGET	STATUS
Bonds Payable Post-issuance Compliance					
1. While the University works closely with bond legal counsel regarding bond compliance issues, post-issuance compliance guidelines or procedures have not been formally documented.	Moderate	Work with the University's bond legal counsel to formalize and document guidelines or written procedures associated with post-issuance bond compliance.	Finance and Administration will work with bond counsel to formalize and organize our efforts in documenting post-issue bond compliance. This project will start in fall 2020 with a completion expected by the end of January 2021.	January 31, 2021 Revised: March 31, 2021 January 31, 2022 May 31, 2022 December 31, 2022 June 30, 2023 June 30, 2024	
2. In order to comply with federal tax law, the University must measure private business use in each facility financed with tax exempt bonds. The University does not have a formal process for measuring and reporting private business use.	Moderate	Work with Special Events and Scheduling Services to obtain reporting of facility usage by third parties. This information should be used to measure private business use and create reporting for management to monitor and evaluate usage at least on an annual basis.	Business Office personnel will work with Special Events and Scheduling Services to obtain facility usage by third parties and document this usage. This project will start in fall 2020 with a completion expected by the end of January 2021.	January 31, 2021 Revised: March 31, 2021 January 31, 2022 May 31, 2022 December 31, 2022 June 30, 2023 June 30, 2024	
Public Safety Clery Act Reporting					
2.Vendor provided fields for performing queries and generating reports in the Omnigo system do not include the specific Clery location (i.e. on-campus housing or on-campus other location), making it difficult to review and identify which incidents were reported as occurring in housing or in other on-campus locations.	Moderate	Request that Omnigo add the specific Clery location (i.e. housing or on-campus other) to the fields available for querying and reporting. Generate reports by incident type and location as of the Annual Security and Fire Safety report date and retain the reports to provide an audit trail for internal and external reviewers.	Public Safety has contacted Omnigo and requested they create a report that will separate specific Clery locations for each incident. Additionally, Public Safety will generate reports by incident type/location to validate all statistical reports generated from the Omnigo software. All reports generated for statistical purposes will be saved to provide an appropriate audit trail.	Contact vendor: October 31, 2020 Generate reports by incident type and location: October 1, 2021 Revised: October 1, 2022 October 1, 2023	Completed

University of Southern Indiana
Audit Recommendations Matrix
Calendar Year 2021

AUDIT NAME OBSERVATION	RISK RATING	RECOMMENDATION	RESPONSE	TARGET	STATUS
Student Account Adjustments					
1. The current process for processing adjustments relies on email notifications, which can make it challenging to ensure that all adjustments are properly authorized, appropriate supporting documentation is obtained, and the adjustments are properly recorded.	Moderate	Consider the development of a Qualtrics form to streamline and standardize adjustment requests.	The Controller and Bursar will develop a matrix detailing the University positions that may authorize different types of adjustments and the supporting documentation required. The Bursar will develop a Qualtrics form for the initiation of adjustment requests.	Matrix of authorizers: March 31, 2022 Revised: December 31, 2022 June 30, 2023 Qualtrics form: July 31, 2022 Revised: June 30, 2023 November 30, 2023	

University of Southern Indiana
Audit Recommendations Matrix
Calendar Year 2022

AUDIT NAME OBSERVATION	RISK RATING	RECOMMENDATION	RESPONSE	TARGET	STATUS
Athletics Ticketing System Controls					
4. The verification of printed season tickets to the count in the AudienceView system is not formally documented by the staff accountant and the associated season-ticket revenue is not reconciled to Banner until the conclusion of the basketball season.	Moderate	Formally document the completion of the reconciliation of printed season ticket packets to the ticketing system and reconcile to season ticket revenue prior to distribution of the tickets.	Effective for the 2022-2023 basketball season, the staff accountant will document the verification of the pre-printed season ticket count and will also reconcile sales revenue in Banner to sales reports from AudienceView as of September 30 (following the renewal deadline); as of December 31 (following the completion of most sales activity); and as of March 31 (following the conclusion of the season).	Verification of season tickets: September 30, 2022 Reconciliations: September 30, 2022 December 31, 2022 March 31, 2023	Completed
Payment Card Industry (PCI) Compliance Assessment					
1. Departments responsible for payment processing did not have a formal written policy regarding handling debit and credit card information.	Moderate	Draft and disseminate an institutional security policy that addresses proper handling of credit and debit card information.	The Chief Information Security Officer (CISO) will draft an institutional PCI compliance policy for distribution and dissemination to all departments with responsibility for handling credit and debit card information. The policy will be reviewed by the Business Office to ensure it complements payment acceptance procedures developed by the Bursar.	September 30, 2022 Revised: February 28, 2023 September 29, 2023	
2. The University does not have formal documented payment acceptance procedures and training for personnel processing payments.	Moderate	Develop payment acceptance procedures and training for University personnel responsible for handling payments.	The Bursar will develop payment acceptance procedures for dissemination to University personnel responsible for handling payments and work with the CISO to coordinate and provide training on the PCI security policy and payment acceptance procedures.	September 30, 2022 Revised: February 28, 2023 September 29, 2023	
4. Over the years, the University has relied on its card processing vendors and its financial institution partners to make any necessary compliance assertions to the card associations on its behalf.	Moderate	Complete appropriate self-assessment questionnaires on an annual basis as required by PCI Data Security Standards.	The CISO will work with the University Controller and Bursar to address the items noted by Internal Audit during the compliance assessment with a target to complete the required self-assessments and attestation of compliance by November 1, 2022.	November 1, 2022 Revised: February 28, 2023 September 29, 2023	
Federal Enrollment Reporting Compliance Assessment					
5. The NSC Clearinghouse Academy training suggests institutions should request and review the SCHE10 report from NSLDS. The report compares data reported to the Common Origination and Disbursement system to data in NSLDS.	Moderate	Inquire with NSC to determine how to review the SCHE10 report.	The Associate Registrar will inquire with NSC support personnel by October 1, 2022, regarding how to work the SCHE10 report.	October 1, 2022 Revised: May 1, 2023 October 1, 2023	
Institutional and Outside Scholarship Controls					
1. The current process for posting outside scholarships to student accounts involves manual manipulation of scholarship data by the Associate Bursar prior to uploading and posting the awards to student accounts.	Moderate	Investigate alternatives for posting outside scholarships to eliminate the need for manual manipulation by Bursar Office personnel.	The Associate Director of Student Financial Assistance will inquire of some peer institutions regarding the processing methods they use for posting outside scholarships. If no effective processing alternatives are identified, SFA will work with Information Technology and the Bursar's Office to implement a feed or upload eliminating the need for manual intervention.	March 31, 2023 Revised: December 15, 2023	

University of Southern Indiana
Audit Recommendations Matrix
Calendar Year 2023

AUDIT NAME OBSERVATION	RISK RATING	RECOMMENDATION	RESPONSE	TARGET	STATUS
Purchasing Card (P-Card) Review					
1. Review of activity reports indicates that some cardholders may not understand the importance of providing receipts and explanations of business purpose to their proxy for upload and expense allocation.	Moderate	Provide targeted training to P-card cardholders who rely on a proxy and have exhibited a pattern of failing to submit receipts and business purpose explanations.	The Business Office intends to provide targeted training to P-card cardholders who rely on a proxy. The delivery of the training is contingent upon filling the vacant accounts payable manager position. The target date for completion is six months following the hire date of the accounts payable manager.	Six months after hire of accounts payable manager	
2. Several survey respondents who have been long-term P-card cardholders or proxies indicated that they were trained in person and were either unaware of the P-card training video or had never watched it.	Low	Publicize the P-card training video to all cardholders and proxies on an annual basis to remind them of its availability for review.	The Business Office will publicize the P-card training video to all cardholders and proxies on an annual basis to remind them of its availability for review. An email to all active cardholders and proxies containing a link to the video will serve as the first reminder and will be provided by January 31, 2024.	January 31, 2024	
3. The P-card training video includes a segment outlining the process that cardholders should follow to report fraudulent charges on their card. The video states that the cardholder should contact PNC Bank and subsequently contact three other individuals within the University.	Low	Streamline the process for cardholders to report fraudulent charges by developing a Qualtrics form that cardholders could fill out, which could be routed to the appropriate internal recipients. The training video should also be updated to reflect the streamlined process.	Procurement will work with the accounts payable manager to create a more streamlined process for reporting fraudulent charges. The process will be developed with the accounts payable manager in a timeframe to be determined following the position being filled.	TBD - based on hire of accounts payable manager	
4. There is currently not a mobile application for capturing and uploading P-card receipts, which increases the risk that receipts are not submitted timely.	Moderate	Investigate potential options for utilizing a mobile application for collection and submission of P-card receipts.	Procurement has identified two options for a mobile application for uploading P-card transaction supporting documents. Selection and implementation of a solution will be coordinated with the accounts payable manager in a timeframe to be determined following the position being filled.	Investigation: Completed Implementation: TBD - based on hire of accounts payable manager	
5. There are at least six individuals who are assigned as a proxy to more than nine cardholders. Two of the proxies were performing that role for approximately 30 cardholders.	Moderate	Work with the departments to determine an appropriate number of cardholders for each proxy based on staffing and transaction volume and explore ways to make the proxies' responsibilities more manageable.	The Business Office will work with the departments to determine an appropriate number of cardholders for each proxy. The target date for completion is six months following the hire date of the accounts payable manager.	Six months after hire of accounts payable manager	
6. As the University changes policy and procedure to increase use of the P-card for purchases of certain types and dollar amounts, cardholders may struggle to remember the types of products and services, vendors, and transaction amounts for which the P-card should be used.	Moderate	Work with Procurement to develop a decision tree or reference guide that outlines parameters cardholders should use to determine the appropriate method of purchase based on product/service type, vendor, and transaction amount.	The Business Office will work with Procurement to develop a reference guide that outlines parameters cardholders should use to determine the appropriate method of purchase. Due to the current vacancy in the accounts payable manager position, the Business Office has targeted December 1, 2024, to begin development of the reference guide.	December 1, 2024	

University of Southern Indiana
Annual Audit & Advisory Services Plan
Calendar Year 2023

QUARTER BEGINNING	AUDIT AREA	DESCRIPTION	HOURS
January 2023	Purchasing Card	Risk assessment and review of processes and controls over purchasing card usage	200
	Academic Accreditation	Review procedures and controls for monitoring and maintaining academic accreditation	220
	Internal Control Documents for Financial Statement Audit	Documentation of accounting and financial reporting controls for state auditors	125
April 2023	Barnes & Noble First Day Complete	Review controls over the student opt-in/opt-out process and fee assessment	75
	University Risk Management Committee	Facilitation of University Risk Management Committee activities	150
	Investments	Review investment management agreements and compliance with policy	200
	Housing & Residence Life	Review new residential management software user access and controls over billing and residence contracts	200
	Facility Operations Storeroom	Physical inventory observation	50
July 2023	Uncollectible Account Analysis	Analyze uncollectible student accounts for common themes and trends	150
	Athletics	Name, Image, & Likeness (NIL) compliance review	150
	Federal Student Financial Aid	Review administration of federal student aid for compliance with federal requirements governing Title IV student aid programs	250
	IT Security Initiatives	Monitor progress on security findings from prior IT security and privacy audits & coordinating follow-up to past external audit reviews	200
October 2023	External Audit Support	Support for external auditors performing federal financial aid audit and state aid agreed upon procedures	100
	Registrar - Degree Conferral	Review controls over academic degree conferral	220
	Drug Free Schools and Communities Act	Review institutional policies and procedures for compliance with regulatory requirements	200

Total Hours	**2,490**
Hours Available	2,530
Hours available for unscheduled audits	40

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

WELLNESS CENTER

Empire Contractors Inc. – General Contractor

CO 010 $19,325
Casework Revisions, third floor electrical and data changes, casework locks, change concrete mixture to include fiber mesh.

HEALTH PROFESSIONS

Empire Contractors Inc. – General Contractor

CO 002 $46,902
HVAC hot water valve replacement, dental area under slab waste pipe replacement, change concrete mixture to include fiber mesh.

CO 003 $189,934
Replaced the Dark Room with a Mechanical Room to move the air compressors and vacuum pumps, used by Dental, closer to the point of use per supplier’s advice.
Installed mechanical and electrical to, in, and from the room, mostly under the floor slab.
Cut and replaced floor slab as needed.
Equip a storage room to be an X-ray room.
Change the Viewing Room, with computers for viewing X-rays, to a locker room.
Change a storage room to a Viewing Room, with computers.
Added a drinking fountain to Dental area.
Due to the complexity and amount of mechanical and electrical work for the new Mechanical Room, the work had to be started immediately to minimize the effect these changes had on the scheduled completion dates for Dental areas.
Changed piping in lower level to allow for a bariatric lift.
Added wireless access point in lower level.