

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

**March 7, 2024**

The Finance/Audit Committee of the University of Southern Indiana Board of Trustees met on Thursday, March 7, 2024, in the Griffin Center on campus. Present were Committee Chair John M. Dunn, and Trustees Fouad L. Hamami '25, Christine H. Keck, and Ronald D. Romain '73. Also in attendance were President Ronald S. Rochon, Vice President for Finance and Administration Steven J. Bridges '89 M'95, and Vice President for Development David A. Bower.

Chair Dunn called the meeting to order at 9:34 a.m.

**1. REVIEW OF COMPLETED AUDITS AND APPROVAL OF THE ANNUAL AUDIT PLAN**

Mr. Dunn called on Vice President Bridges for a report of completed audits and approval of the annual Audit Plan. Mr. Bridges introduced Director of Internal Audit Brad Will, who reviewed the completed audits from 2023 and other activities conducted by the Internal Audit Department. He referred the Trustees to Attachment A, a detailed report of the following audits, and reviewed the objectives, conclusions, and recommendations of each audit:

- Investment Policy Compliance
- Name, Image, & Likeness (NIL) Policy Compliance
- Federal Student Aid Compliance

Mr. Will gave an overview of the status of audit recommendations from 2019, 2020, 2021, 2022, and 2023. He reviewed the proposed Internal Audit and Advisory Services Plan for calendar year 2024 in Attachment A. The plan is developed based on information gathered from University Risk Management initiatives, risk discussions with various members of management, and consideration of other risk factors such as materiality, the complexity of processes, staffing, legal/regulatory compliance requirements, control environment, and reputation risk. The 2024 plan is a blend of traditional audit activities and advisory services identified as being impactful for the institution. Advisory services include:

- Uncollectible Accounts Analysis
- Facilitation of University Risk Management Committee activities
- Conflict of Interest Disclosures
- Changes to Personal Information

Traditional audit activities include:

- Drug Free Schools and Communities Act Compliance
- Administrative Appeals
- Registrar Degree Conferral
- Physical Inventory of the Facilities storeroom
- Review of the new Housing and Residence Life residential management software
- Athletics Grant-in-Aid
- Federal student aid
- External audit support
- Authorized Driver Recertification

On a motion by Mr. Romain, seconded by Ms. Keck, the Annual Audit Plan for Calendar Year 2024 was approved.

## **2. REPORT OF CONSTRUCTION CHANGE ORDERS ISSUED BY THE VICE PRESIDENT FOR FINANCE AND ADMINISTRATION**

Mr. Dunn called on Vice President Bridges for a report. Mr. Bridges noted Attachment B contains change orders related to the Wellness Center project and the Health Professions Phase III project that do not exceed the \$50,000 approval authority by the Vice President for Finance and Administration and therefore are informational only. The changes listed are not uncommon with renovation projects as unexpected elements often surface during the project work. The Wellness Center changes are all items that USI determined would improve the look and functionality of the building. Although they were not part of the original design, these additions were positive enhancements. The Health Professions Phase III additions included more casework that was deemed necessary for operations and the medical gas alarm panel is a risk management enhancement. USI has encountered some challenges in the Science Center recently and deemed the alarm will help prevent those types of issues in the Health Professions building.

## **3. UNIVERSITY INVESTMENT POLICY STATEMENT APPROVAL**

Mr. Dunn called on Vice President Bridges to review the Investment Policy Statement for the University in Attachment C. Mr. Bridges stated he was bringing forward the University Investment Policy to correct some versioning errors with the prior policy to this committee. The changes he reviewed are the intended policy elements and reflect the actions that USI is currently taking.

First, to avoid confusion USI is no longer adding the work proposed to the investment policy but instead providing Trustees with the policy and asking for approval. This is more consistent with other items USI brings forward to the committee.

Secondly, USI modified its document to spell out "percentage" instead of using the symbol and spell out the word "million" rather than use the numbers, which is consistent with our approach in these cases in other official documents. There were some other minor capitalization and spelling adjustments, but the majority of the language remained the same.

A change on page 7 under number 6 to modify the language to U.S. dollar-denominated notes and bonds of a corporate business entity publicly issued in the U.S. domestic market where the indebted corporate business entity has 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. Also, on page 7 under number 7 USI changed the language in the first sentence to read Mortgage Pass-Through Securities (included TBAs, Commercial Mortgage-Backed Securities (CMBS) and non-agency MBSs) rated AA-Aa-or better by Standard & Poor's Fitch's or Moody's are authorized for use.

On page 10 USI eliminated the sentence in a) that stated, the maturity of individual fixed income issues shall be restricted to 10 years. Making only 3 to 5 years the term. In b) removed the sentence stating, 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. Making the term between 1 and 3 years.

On a motion by Mr. Dunn, seconded by Mr. Hamami, the Investment Policy Statement for the University was approved.

## **4. UNIVERSITY INVESTMENTS UPDATE**

Mr. Dunn called on Vice President Bridges who noted USI added Neil Heppler to the March meeting to provide a presentation for the University investments so as not to combine with the September VEBA investment presentation. The University investments are a separate pool of funds and significant enough to warrant a standalone presentation. Mr. Bridges called on Mr. Neil Heppler Co-President with Fourth Street Performance Partners and the investment advisor for the University investment portfolio for a report for the period ending December 31, 2023, as well as some context about the current market and with their specific business.

Mr. Heppler reviewed USI's investment portfolio performance summary noting the returns are presented net of investment management fees. He reviewed the investment portfolio performance summary table for the quarter, fiscal YTD, one year, and since inception (July 31, 2021). Asset allocation for investments is comprised of intermediate fixed income (75.5%), certificates of deposit and cash (21.5%), short-duration investments, and government bonds (3%). The target for intermediate funds is 80% and the target for short

duration asset allocation is 20%. The market value of investments on December 31, 2023, totaled \$108,788,799. The estimated 12-month cash yield equaled \$3,385,831 or 3.0%. The estimated yield to maturity is 4.1%. Mr. Heppler concluded his report by reviewing the current economic indicators including disinflationary trends, treasury yield spread; tremendous moves in the yield curve; and future fed funds rate expectations.

There being no further business, the meeting adjourned at 10:25 a.m.



## **UNIVERSITY OF SOUTHERN INDIANA**

### Internal Audit Report

Prepared by

Bradley V. Will, CPA  
*Director of Internal Audit*

Kendra Groeninger  
*Internal Audit Manager*

Report No. USIA23-4  
 October 12, 2023

## Audit Report Investment Policy Compliance

### 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 investment manager and consultant contracts comply with the VEBA Trust Investment Policy and Unrestricted Funds Investment Policy				
Verify investment asset allocations are within policy guidelines and investment assets comply with policy restrictions				
Assess compliance with policy to evaluate the performance and continuity of investment managers and periodically review the investment policy				

#### Introduction

Our report of the internal audit of investment policy compliance is presented below. We would like to thank Steve Bridges and Jeff Sickman, as well as Neil Heppler and Andy Dunlap with Fourth Street Performance Partners, who contributed positively to our results.

#### Background Information

The University of Southern Indiana (USI), in conjunction with and oversight of the Finance/Audit Committee of the Board of Trustees, has established two investment policies governing the investment of restricted trust fund assets and unrestricted University funds. The Voluntary Employees' Benefit Association (VEBA) Trust Investment Policy was originally established in 1995 and periodically amended by the Finance/Audit Committee to define the attitudes, philosophy, and goals for investing the assets of the VEBA Trust and the investment guidelines for investment managers. The Investment Policy for Unrestricted Funds was established in September 2019 to define the investment objectives and policies, governance principles, and roles and responsibilities for the management and oversight of any marketable securities of unrestricted funds held by USI.

Old National Trust Company serves as the trustee for the VEBA Trust and utilizes a combination of eight investment/fund managers to invest the trust assets, which had an approximate market value of \$26.9 million as of June 30, 2023. For the unrestricted funds, USI utilizes six investment management groups, two for investment of short-term fixed income assets and four managers responsible for intermediate fixed income investments. The unrestricted fund investments had an approximate market value of \$113.1 million as of June 30, 2023. Fourth Street Performance Partners (FSPP) serves as the investment consultant to the University for

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both the VEBA Trust investment portfolio and the University unrestricted funds investment portfolio. In its role as consultant, FSPP provides analysis and recommendations to the Finance/Audit Committee and University management related to the performance of the investment portfolio managers and adherence to investment policy asset allocations and restrictions.

This report is based on a review of investment policies, investment management contracts, and investment assets for both the VEBA Trust and unrestricted fund investment portfolios as of June 30, 2023. The audit approach included reviewing investment manager and investment consultant contracts for provisions requiring compliance with the investment policies, reviewing investment portfolio allocations, reviewing a sample of investment assets for compliance with investment authorizations and exposure restrictions, and assessing compliance with portfolio performance reporting, investment manager evaluations, and periodic investment policy reviews.

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

- Verify that investment manager and investment consultant contracts comply with the VEBA Trust Investment Policy and Unrestricted Funds Investment Policy
- Verify investment asset allocations are within policy guidelines and investment assets comply with policy restrictions
- Assess compliance with policy to evaluate the performance and continuity of investment managers and periodically review the investment policy

#### Conclusion

The results of our audit procedures indicate opportunity for minor improvement with respect to investment manager and consultant contracts and adequate controls and practices with respect to compliance with investment policy requirements for investment asset allocations, exposure restrictions, evaluation of investment managers, and periodic investment policy reviews.

Management will take or has taken the following actions:

- Executing a formal contract for VEBA Trust Investment consulting
- Amending the Old National Wealth Management Agreement to clarify that USI is the contracting party
- Amending the Fifth Third investment management agreement to clarify investments prohibited by policy
- Amending the Johnson Asset Management (JAM) contract Exhibit 1 to incorporate the University's investment policy
- Updating the investment policy and implementing a secondary review to correct and prevent unintended policy changes

No additional action or response is required.

Bradley V. Will  
Director of Internal Audit

Kendra Groeninger  
Internal Audit Manager

Distribution: Jeff Sickman  
Steve Bridges  
Dr. Ronald Rochon  
Neil Hepler, Fourth Street Performance Partners

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## Investment Policy Compliance Audit Report

### Control Issues and Responses

#### Executing a formal contract for VEBA Trust Investment consulting

**Issue:** There is currently not a formal contract between the University and FSPP for investment consulting related to the VEBA Trust.

**Risk:** The lack of a formal agreement outlining the investment consulting services increases the risk that both parties do not understand their roles and responsibilities related to the services being performed.

**Response:** The Vice President for Finance and Administration will execute an investment consulting agreement with FSPP by February 29, 2024, for services related to the VEBA Trust investment portfolio.

#### Amending the Old National Wealth Management Agreement to clarify that USI is the contracting party

**Issue:** The Old National Wealth Management (ONWM) Agreement for managing a portion of the unrestricted fund investments does not reference USI. The agreement uses the term "Principal" and names Steve Bridges and Jeff Sickman in that role.

**Risk:** Although the contract includes the position titles held by Steve Bridges and Jeff Sickman on the signature page, the absence of any reference to USI creates an appearance that the individuals signing have an ownership interest in the investment assets.

**Response:** The Vice President for Finance and Administration will execute an amendment with ONWM by May 31, 2024, to clarify that USI is owner of the investment assets and that he and Jeff Sickman are acting on behalf of the University.

#### Amending the Fifth Third investment management agreement to clarify investments prohibited by policy

**Issue:** The Fifth Third Bank investment management agreement for managing a portion of the unrestricted fund investments contains a provision allowing the managers to purchase certain types of investments prohibited by the University investment policy (e.g. short sales, forward contracts, options, and derivative transactions).

**Risk:** Although the University investment policy is referenced in the contract, the contractual provision that contradicts the policy may lead to investment manager confusion and result in investment assets purchased in violation of the policy.

**Response:** The Vice President for Finance and Administration will execute an amendment with Fifth Third Bank by May 31, 2024, to clarify that the University's investment policy shall control with respect to the investment assets which are prohibited.

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**Amending the Johnson Asset Management (JAM) contract Exhibit 1 to incorporate the University's investment policy**

**Issue:** The JAM investment management agreement for managing a portion of the unrestricted fund investments includes Exhibit 1, which is JAM's standard intermediate fixed income guidelines, which are slightly different from the USI investment policy.

**Risk:** Differences between the investment guidelines reference in the agreement and the University investment policy may lead to investment manager confusion and result in investment assets purchased in violation of the policy.

**Response:** The Vice President for Finance and Administration will execute an amendment with JAM by May 31, 2024, to incorporate the University's investment policy into the agreement.

**Updating the investment policy and implementing a secondary review to correct and prevent unintended policy changes**

**Issue:** The University's Investment Policy for Unrestricted Funds, which was approved by the Board of Trustees in September 2023, contained some unintended changes due to a version control issue with the Word document. Specifically, the investment grade corporate exposure policy requirement was changed from, "Not more than 60% of an investment manager's portfolio" to "Not more than 50% of an investment manager's portfolio."

**Risk:** The absence of adequate version control over the investment policy may lead to unintended changes that have an adverse impact on the achievement of investment objectives.

**Response:** The Vice President for Finance and Administration will present an updated investment policy to the Board at its meeting on March 7, 2024. In addition, going forward management will coordinate with FSPP to conduct a secondary review of investment policy drafts prior to Board approval.



Report No. USIA23-5  
 November 14, 2023

## Audit Report Name, Image and Likeness (NIL) Policy Compliance

### Results at a Glance

Audit Objectives:	RISK MITIGATION			
	Adequate Controls & Practices	Opportunity for Minor Improvement	Opportunity for Moderate Improvement	Opportunity for Significant Improvement
Evaluate the University's NIL policy for compliance with the NCAA Interim NIL Policy				
Assess the adequacy of NIL training and communication provided to coaches, athletic department staff, and student athletes				
Evaluate the adequacy of communication to athletics boosters regarding NCAA Interim NIL rules				
Review NIL deals for student athletes for compliance with NCAA rules				

#### Introduction

Our report of the internal audit of Name, Image and Likeness (NIL) compliance is presented below. We would like to thank Alex Eaton, who contributed positively to our results.

#### Background Information

The National Collegiate Athletic Association (NCAA) adopted the Interim Name, Image and Likeness (NIL) Policy, effective July 1, 2021. The policy allows student athletes to benefit from their NIL without impacting their NCAA eligibility. While detailed rules specific to NIL deals were not included in the policy, it reiterated the requirements of other NCAA rules prohibiting pay-for-play and recruiting inducements. In roughly two years following the adoption of the interim policy, the NCAA has issued additional question and answer documents, memos, and other guidance documents on the role of third-party entities (boosters or NIL entities) and institutional staff member involvement in NIL activities.

Although NCAA rules regarding NIL are somewhat vague and the NCAA has indicated under the Interim policy that it will not monitor for violations of institutional NIL policies, they have been clear that member institutions are still required to apply and report potential violations of other NCAA legislation. Specifically, according to the New Interim Policy Key Takeaways published by the NCAA, an institution is required to complete due diligence on the appropriateness of an NIL activity if circumstances surrounding the activity suggest additional review necessary to certify student athlete eligibility and/or demonstrate compliance with rules prohibiting pay-for-play or inducements to enroll.

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November 14, 2023

This report is based on a review of the University's NIL policy, training for student athletes and athletic department personnel, communication to boosters, and procedures for student athlete disclosure and athletic compliance review of NIL activities. The audit approach included reviewing the NIL policy for compliance with the NCAA Interim NIL Policy, NCAA New Interim Policy Key Takeaways, and Institutional Involvement guidance issued in October 2022. We also reviewed athletics department communication with boosters for inclusion of components from the Guidance Regarding Third Party Involvement issued by the NCAA in May 2022.

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

- Evaluate the University's NIL policy for compliance with the NCAA Interim NIL Policy
- Assess the adequacy of NIL training and communication provided to coaches, athletic department staff, and student athletes
- Evaluate the adequacy of communication to athletics boosters regarding NCAA Interim NIL rules
- Review NIL deals for student athletes for compliance with NCAA rules

#### Conclusion

The results of our audit procedures indicate adequate controls and practices with respect to the University's NIL policy being compliant with the NCAA Interim Policy and adequacy of communication to athletics boosters. We noted opportunity for minor improvement with respect to NIL training and communication and the review of NIL deals.

Management will take or has taken the following actions:

- Developing and implementing additional NIL training and communication for student athletes
- Requiring student athletes to provide a copy of NIL agreements or disclose the terms of NIL arrangements

Given the uncertainty of the legal and regulatory landscape surrounding NIL, the absence of enforcement actions, and the expected evolution of the Interim Policy over the next few years, athletic department compliance personnel will need to continue to monitor the rules and guidance offered by the NCAA and the impact of state and federal legislation on NIL compliance requirements.

No additional action or response is required.

Bradley V. Will  
Director of Internal Audit

Kendra Groeninger  
Internal Audit Manager

Distribution: Alex Eaton  
Jon Mark Hall  
Steve Bridges  
Dr. Ronald Rochon

Report No. USIA23-5  
November 14, 2023

## **NIL Policy Compliance Audit Report**

### **Control Issues and Responses**

#### **Developing and implementing additional NIL training and communication for student athletes**

**Issue:** Student athletes receive NIL training along with other NCAA rules compliance training as part of pre-season NCAA rules education. However, NIL deals may arise at any time throughout the course of the year.

**Risk:** The absence of additional NIL training or communication increases the risk that athletes fail to report their NIL deals in accordance with University policy and that a student athlete unknowingly violates NCAA rules.

**Response:** The associate director of athletics will develop additional NIL training and communication tools for student athletes. These items may include informational posters placed strategically throughout athletic facilities, emails, or text messages to student athletes reminding them of their obligation to report NIL deals to the athletic department and the NCAA rules prohibiting pay-for-play and recruiting inducements. The training and communication tools will be implemented by August 2024.

#### **Requiring student athletes to provide a copy of NIL agreements or disclose the terms of NIL arrangements**

**Issue:** The USI NIL policy requires student athletes to disclose any NIL activities to USI Athletics through the Icon Source application. However, it is not clear what level of disclosure is required and whether the athletes must disclose the terms of their NIL deal or provide a copy of the agreement. The policy also does not contain any specific consequences for an athlete's failure to disclose NIL activities.

**Risk:** The lack of specific requirements for disclosing NIL deals and consequences for failure to disclose increases the risk that the University is unable to meet its monitoring obligations under NCAA rules.

**Response:** The associate director of athletics will modify the University NIL policy to include specific disclosure requirements regarding NIL deals, as well as consequences for student athletes who fail to comply with the policy. The policy will be updated and NIL activity review procedures formalized by August 2024 in conjunction with new NCAA policy that goes into effect August 1, 2024.

Report No. USIA23-6  
 December 6, 2023

## Audit Report Federal Student Aid Compliance

### Results at a Glance

Audit Objectives	RISK MITIGATION			
	Adequate Controls & Practices	Opportunity for Minor Improvement	Opportunity for Moderate Improvement	Opportunity for Significant Improvement
Compliance with Institutional Eligibility Requirements				
Compliance with Federal Student Financial Assistance General Eligibility Requirements				
Compliance with Federal PELL Grant Requirements				
Compliance with Federal Campus-Based Program Requirements				
Compliance with Federal Direct Loan and PLUS Loan Requirements				
Compliance with other federal requirements contained in the Compliance Supplement				
Fiscal Operations Report and Application to Participate (FISAP) Completed Accurately and Submitted Timely				
Policies, Procedures and Other Issues				

#### Introduction

Our report of the internal audit of USI federal student aid compliance is presented below. We would like to thank Joanna Riney, Cathy Nickens, and the Student Financial Assistance (SFA) staff, Angel Nelson and Registrar's Office staff, and Business Office personnel who contributed positively to our results.

#### Background Information

The federal student aid programs are authorized under Title IV of the Higher Education Act (HEA) of 1965, as amended, and administered by the U.S. Department of Education Federal Student Aid office. They include federal grants, loans, and work-study programs.

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SFA is responsible for monitoring the eligibility of prospective financial aid recipients, verifying certain applicant data as required by the Department of Education, determining the best combination of aid to meet each student's financial need, applying federal aid to student accounts within regulatory timeframes, and identifying over-awards and student withdrawals that require the return of federal funds. Business Office personnel are responsible for the drawdown, accounting, and return of federal student aid funds to the Department of Education, the administration of credit balances created from the application of federal student aid to student accounts, and preparation of the Fiscal Operations Report and Application to Participate (FISAP). The Registrar's Office is responsible for reporting the enrollment status of students receiving federal student aid to the National Student Loan Data System through the National Student Clearinghouse. Compliance with federal student aid regulations is critical because violations may jeopardize the institution's participation or reduce the institution's authorized level of participation in federal student aid funding.

Federal student aid compliance is reviewed annually by Internal Audit, as well as by the State Board of Accounts in conjunction with federal audit requirements. The previous internal audit was performed and reported on in December 2022, at which time Internal Audit noted adequate controls and practices for each of the audit objectives.

This report is based on the review of federal student aid activity for the fall 2022, spring 2023, and summer 2023 academic terms. The audit approach consisted of reviewing SFA procedures and controls, reviewing federal student aid regulations, interviews with USI SFA, Business Office, and Registrar's Office management and staff, and analysis of student records for the fall 2022, spring 2023, and summer 2023 academic periods. State grants and other non-federal aid were reviewed when those funds were awarded to students in the audit sample.

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

- Evaluate compliance with the Institutional Eligibility Requirements
- Evaluate compliance with the Federal Student Financial Aid General Eligibility Requirements
- Evaluate compliance with Federal PELL Grant Requirements
- Evaluate compliance with Federal Campus-Based Program Requirements
- Evaluate compliance with Federal Direct Loan & PLUS Loan Requirements
- Evaluate compliance with other federal requirements contained in the Compliance Supplement
- Determine whether the FISAP has been completed accurately and submitted on time
- Evaluate policies, procedures, and other issues not impacting compliance

#### Conclusion

In general, the results of our audit procedures indicate that the administration of USI federal student aid is in compliance with federal requirements governing the Title IV student aid programs. **Adequate controls and practices exist for each of the audit objectives** evaluated **except for compliance with enrollment reporting requirements** contained in the Compliance Supplement, **for which we noted opportunities for minor improvement.**

Management will take or has taken the following action:

- Updating the enrollment status effective dates for students impacted by the Banner system defect and monitoring the Ellucian Community for notifications of Banner Student module defects

No additional action or response is required.

Bradley V. Will  
Director of Internal Audit

Kendra Groening  
Internal Audit Manager

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December 6, 2023

Distribution: Joanna Riney  
Cathy Nickens  
Troy Miller  
Angel Nelson  
Sandy Frank  
Dr. Jason Hardgrave  
Jeff Sickman  
Steve Bridges  
Dr. Ronald S. Rochon

Report No. USIA23-6  
December 6, 2023

## Federal Student Aid Compliance Audit Report

### Control Issues and Responses

#### **Updating the enrollment status effective dates for students impacted by the Banner system defect and monitoring the Ellucian Community for notifications of Banner Student module defects**

**Issue:** A product defect in the Banner Student module that arose in February 2023, caused incorrect enrollment status effective dates to be reported to the National Student Loan Data System (NSLDS) for students that experienced an enrollment status change during the Spring 2023 semester. The defect reported the effective date of the enrollment status change as the first day of the Spring term, rather than the date of the actual change in status.

**Risk:** Although the defect only impacted 160 student records (2.3%) out of more than 6,950 records, incorrect reporting of the effective dates for a student's enrollment status can impact the student's loan deferment and repayment terms.

**Response:** The defect was resolved by the software vendor in June 2023, and the associate registrar has submitted updates for the 160 student records impacted by the defect to properly reflect the correct effective date of the students' enrollment status change. In addition, the associate registrar has increased the number of records selected for review from the enrollment file, making sure to review some students who had a reduction or increase in enrollment status, as well as some who had withdrawn. Lastly, the associate registrar has subscribed to the Ellucian Community Forum for the Banner Student module to monitor for system defects that may impact enrollment reporting in the future.

University of Southern Indiana  
 Audit Recommendations Matrix  
 Calendar Year 2019

AUDIT NAME	RISK RATING	RECOMMENDATION	RESPONSE	TARGET	STATUS
<b>Employment, Payroll, and Benefits</b>					
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	RISK RATING	RECOMMENDATION	RESPONSE	TARGET	STATUS
<b>Bonds Payable Post-issuance Compliance</b>					
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	

University of Southern Indiana  
 Audit Recommendations Matrix  
 Calendar Year 2021

AUDIT NAME	RISK RATING	RECOMMENDATION	RESPONSE	TARGET	STATUS
<b>Student Account Adjustments</b> 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.	<p>The Controller and Bursar will develop a matrix detailing the University positions that may authorize different types of adjustments and the supporting documentation required.</p> <p>The Bursar will develop a Qualtrics form for the initiation of adjustment requests.</p> <p>Revised Response:            The Bursar's Office has determined that the time and effort required to develop a Qualtrics form outweigh the potential benefits.</p>	<p>Matrix of authorizers:            March 31, 2022</p> <p>Revised:            December 31, 2022            June 30, 2023            June 30, 2024</p> <p>Qualtrics form:            July 31, 2022</p> <p>Revised:            June 30, 2023            November 30, 2023            Discontinued effort</p>	

University of Southern Indiana  
 Audit Recommendations Matrix  
 Calendar Year 2022

AUDIT NAME	RISK RATING	RECOMMENDATION	RESPONSE	TARGET	STATUS
<b>Payment Card Industry (PCI) Compliance Assessment</b>					
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	Completed
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	Completed
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	Completed
<b>Federal Enrollment Reporting Compliance Assessment</b>					
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	Completed
<b>Institutional and Outside Scholarship Controls</b>					
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 August 1, 2024	

University of Southern Indiana  
Audit Recommendations Matrix  
Calendar Year 2023

AUDIT NAME	RISK RATING	RECOMMENDATION	RESPONSE	TARGET	STATUS
<b>Purchasing Card (P-Card) Review</b>					
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.  Revised Response: Accounts Payable will work with its P-card monitoring vendor throughout 2024 to identify risks and target training based on those risks.	Six months after hire of accounts payable manager  Revised: Ongoing throughout 2024	
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.  Revised Response: Accounts Payable will work with its P-card monitoring vendor throughout 2024 to identify risks and target training based on those risks.	January 31, 2024  Revised: Ongoing throughout 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.  Revised Response: AP will address through evaluation of a potential new P-card program.	TBD - based on hire of accounts payable manager  Revised: July 2025	
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.  Revised Response: AP will address through evaluation of a potential new P-card program.	Investigation: Completed  Implementation: TBD - based on hire of accounts payable manager  Revised: July 2025	
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  Revised: Ongoing throughout 2024	
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  
Audit Recommendations Matrix  
Calendar Year 2023

AUDIT NAME	RISK RATING	RECOMMENDATION	RESPONSE	TARGET	STATUS
<b>Investment Policy Compliance</b>					
1. There is not a formal contract between the University and Fourth Street Performance Partners (FSPP) for investment consulting related to the VEBA Trust.	Moderate	Execute an investment consulting agreement with FSPP for services related to the VEBA Trust investment portfolio.	The Vice President for Finance and Administration will execute an investment consulting agreement with FSPP by February 29, 2024, for services related to the VEBA Trust investment portfolio.	February 29, 2024	Completed
2. The Old National Wealth Management (ONWM) Agreement for managing a portion of the unrestricted fund investments does not reference USI. The agreement uses the term "Principal" and names Steve Bridges and Jeff Sickman in that role.	Low	Execute an amendment with ONWM to clarify that USI is owner of the investment assets.	The Vice President for Finance and Administration will execute an amendment with ONWM by May 31, 2024, to clarify that USI is owner of the investment assets and that he and Jeff Sickman are acting on behalf of the University.	May 31, 2024	
3. The Fifth Third Bank investment management agreement for managing a portion of the unrestricted fund investments contains a provision allowing the managers to purchase certain types of investments prohibited by the University investment policy (e.g. short sales, forward contracts, options, and derivative transactions).	Moderate	Execute an amendment with Fifth Third to clarify that the University's investment policy shall control with respect to the investment assets which are prohibited.	The Vice President for Finance and Administration will execute an amendment with Fifth Third Bank by May 31, 2024, to clarify that the University's investment policy shall control with respect to the investment assets which are prohibited.	May 31, 2024	
4. The Johnson Asset Management (JAM) investment management agreement for managing a portion of the unrestricted fund investments includes Exhibit 1, which is JAM's standard intermediate fixed income guidelines, which are slightly different from the USI investment policy.	Low	Execute an amendment with JAM to incorporate the University's investment policy into the agreement.	The Vice President for Finance and Administration will execute an amendment with JAM by May 31, 2024, to incorporate the University's investment policy into the agreement.	May 31, 2024	
5. The University's Investment Policy for Unrestricted Funds, which was approved by the Board of Trustees in September 2023, contained some unintended changes due to a version control issue with the Word document.	Moderate	The absence of adequate version control over the investment policy may lead to unintended changes that have an adverse impact on the achievement of investment objectives.	The Vice President for Finance and Administration will present an updated investment policy to the Board at its meeting on March 7, 2024. In addition, going forward management will coordinate with FSPP to conduct a secondary review of investment policy drafts prior to Board approval.	March 7, 2024	
<b>Name, Image and Likeness (NIL) Policy Compliance</b>					
1. NIL training provided as part of pre-season NCAA rules education may not correspond with the timing of NIL deals which may arise at any time throughout the course of the year.	Moderate	Develop additional NIL training and communication tools for student athletes reminding them of their obligation to report NIL deals to the athletic department and the NCAA rules prohibiting pay-for-play and recruiting inducements.	The associate director of athletics will develop additional NIL training and communication tools for student athletes reminding them of their obligation to report NIL deals and the NCAA rules prohibiting pay-for-play and recruiting inducements. The training and communication tools will be implemented by August 2024.	August 1, 2024	
2. The USI NIL policy is not clear regarding the level of disclosure required and whether the athletes must disclose the terms of their NIL deal or provide a copy of the agreement. The policy also does not contain any specific consequences for an athlete's failure to disclose NIL activities.	Moderate	Modify the University NIL policy to include specific disclosure requirements regarding NIL deals, as well as consequences for student athletes who fail to comply.	The associate director of athletics will modify the University NIL policy to include specific disclosure requirements regarding NIL deals, as well as consequences for student athletes who fail to comply with the policy. The policy will be updated and NIL activity review procedures formalized by August 2024 in conjunction with new NCAA policy that goes into effect August 1, 2024.	August 1, 2024	
<b>Federal Student Aid Compliance</b>					
1. A product defect in the Banner Student module caused incorrect enrollment status effective dates to be reported to the National Student Loan Data System (NSLDS) for students that experienced an enrollment status change during the Spring 2023 semester.	Moderate	Update the enrollment status effective dates for students impacted by the Banner system defect and monitor the Ellucian Community for notifications of Banner Student module defects.	The associate registrar has submitted updates for the student records impacted by the defect. In addition, the associate registrar has increased the number of records selected for review from the enrollment file, making sure to review some students who had a reduction or increase in enrollment status. Lastly, the associate registrar has subscribed to the Ellucian Community Forum for the Banner Student module to monitor for system defects.	January 26, 2024	Completed

**University of Southern Indiana  
Annual Audit & Advisory Services Plan  
Calendar Year 2024**

<b>QUARTER BEGINNING</b>	<b>AUDIT AREA</b>	<b>DESCRIPTION</b>	<b>HOURS</b>
January 2024	Uncollectible Account Analysis	Analyze uncollectible student accounts for common themes and trends	150
	Drug Free Schools and Communities Act	Review institutional policies and procedures for compliance with regulatory requirements	200
	Administrative Appeals	Review institutional policies and procedures related to student appeals and application of policy for consistency	100
	Internal Control Documents for financial statement audit	Documentation of accounting and financial reporting controls for state auditors	125
April 2024	University Risk Management Committee	Facilitation of University Risk Management Committee activities	100
	IT Security Initiatives	Monitor progress on security findings from prior IT security and privacy audits & coordinating follow-up to past external audit reviews	200
	Registrar - Degree Conferral	Review controls over academic degree conferral	220
	Conflict of Interest Disclosures	Review process for educating and obtaining Conflict of Interest disclosures to comply with state and federal requirements	150
	Facility Operations Storeroom	Physical inventory observation	50
July 2024	Housing & Residence Life	Review new residential management software user access and controls over billing and residence contracts	200
	Athletics Grant-in-Aid	Evaluate NCAA compliance	240
	Federal Student Financial Aid	Review administration of federal student aid for compliance with federal requirements governing Title IV student aid programs	250
October 2024	External Audit Support	Support for external auditors performing federal financial aid audit and state aid agreed upon procedures	100
	Changes to Personal Information	Review policies and procedures for name changes, SSN changes, etc. across departments	220
	Authorized Driver Recertification	Review controls over driver recertifications	200

<b>Total Hours</b>	<b><u>2,505</u></b>
Hours Available	2,553
Hours available for unscheduled audits	48

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

**WELLNESS CENTER**

**Empire Contractors Inc. – General Contractor**

**CO 013** Concrete Frames \$ 16,982

Additional concrete for structure, more accent painting and wall protection.

**CO 014** East Wall Connection, Door Hardware, Terra Cotta \$ 18,639

Covered an unexpected opening near the existing exterior wall.  
Replaced exterior wall lighting with bollards.  
Added access control on the door to Health Clinic.

**CO 015** North Side Pole Lighting, Cross Bracing \$ 29,363

Added lighting to the sidewalk leading to the new building.  
Built a storage room to cover structural cross-bracing exposed in a corridor.

**HEALTH PROFESSIONS – PHASE III**

**Empire Contractors Inc – General Contractor**

**CO 08** Med Gas Alarm Panel \$ 49,908

Added medical gas panel for Sim Labs and Dental Lab.

**CO 09** Casework Additions \$ 49,698

Additional casework for 4 labs.

# UNIVERSITY OF SOUTHERN INDIANA

## 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>
<b>Intermediate Fixed Income Securities</b> (Duration between 3-5 years)	<b>70%</b>	<b>80%</b>	<b>100%</b>
<b>Liquid/Short Term Fixed Income</b> (Duration between 1-3 Years)	<b>0%</b>	<b>20%</b>	<b>30%</b>

## 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.

- 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** – U.S. dollar-denominated notes and bonds of a corporate business entity publicly issued in the U.S. domestic market where the indebted corporate business entity has 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 60 percent of any investment manager's fixed income portfolio.

7. **Mortgage-Backed Securities** – Mortgage Pass-Through Securities (including TBAs, Commercial Mortgage-Backed Securities (CMBS), 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 or 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.



- b) The duration of any short-term fixed income portfolio shall be between one year and three years.

## **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: \_\_\_\_\_ Date \_\_\_\_\_  
Chair, Finance/Audit Committee  
University of Southern Indiana

Last approved by USI Board of Trustees on 09/07/2023