DRAFT – SUBJECT TO COMMITTEE APPROVAL

OLD DOMINION UNIVERSITY
BOARD OF VISITORS

AUDIT COMMITTEE
Thursday, June 8, 2017

MINUTES

The Audit Committee of the Board of Visitors met on Thursday, June 8, 2017 at 8:01 a.m. in Committee Room A (Room 2203) of Broderick Dining Commons on the Norfolk campus. Present from the Committee were:

Frank Reidy, Vice Chair
Mary E. Maniscalco-Theberge '78
Robert M. Tata '86

Other Board of Visitors members present were:

None

Absent were:

Fred Whyte, Chair
Carlton F. Bennett '72
Donna L. Scassera
Lisa B. Smith *(ex-officio)*

Also present were:

President John R. Broderick
Mary Deneen
Velvet L. Grant
David F. Harnage
LaToya Jordan
Casey Kohler
Jacob Mair
R. Earl Nance
Ellen J. Neufeldt
Melanie O'Dell
Amanda G. Skaggs
Deb Swiecinski
James D. Wright

Mr. Reidy, Vice Chair, called the meeting to order at 8:01 a.m. Dr. Maniscalco-Theberge moved to approve the minutes from the April 7, 2017 meeting. Mr. Tata seconded the motion and the minutes were unanimously approved by all members present and voting. *(Maniscalco-Theberge, Reidy, Tata)*

COO David Harnage introduced LaToya Jordan, APA Project Manager and Jacob Mair, APA In-Charge, from the Office of the Auditor of Public Accounts. Ms. Jordan presented the results of the University's financial audit for the year ending June 30, 2016.

Ms. Jordan reported that Old Dominion University received an unmodified audit opinion, the best possible rating, on the University's financial statements ending June 30, 2016. Two issues were found and identified to be significant deficiencies in internal controls. Both were related to compliance surrounding controls in student financial aid. The first is return of Title IV calculations. The federal government requires that calculations be performed for any student that withdraws during the course of the semester. The calculation determines how much of the aid was earned. The amount earned determines how much must be returned. It was determined that there was a small issue with these calculations. This was brought to management's attention and management concurred with the finding and the issue has been addressed.

The second issue related to enrollment reporting. For any student that receives aid, the Department of Education requires that their enrollment status be reported. The issue was that when students unofficially withdrew for the semester, this information was not communicated in a timely manner. This was brought to management's attention and again management concurred with the finding and the issue has been addressed.

Dr. Maniscalco-Theberge questioned how the University determines when an individual unofficially withdraws. Ms. Jordan advised that it is determined by when the University is made aware that a student has stopped attending class. This date determines when students must begin the repayment of federal funds. COO Harnage noted that regulations surrounding financial aid are not always precise. Ms. Jordan added that this past April, additional guidance was issued on enrollment reporting due to a large number of compliance issues surrounding this topic at institutions of higher education around the country.

Ms. Jordan stated that within the course of audits they look for fraudulent activity. None was found, but two significant audit adjustments were identified. These were discussed with management and they were posted to the financial statements. She noted that the most significant one related to the Constant Center. Management of the facility is done by a third party, Global Spectrum. Historically, at year end Global Spectrum sent their financial statements to the University. At that time, management posted the net profit. It was determined that in addition to the net profit, the University should also post gross revenues and expenses. This related only to external activities held at the Constant Center. The cash and liabilities associated with the activity also should be reflected on the financial statements. This was discussed with management and it has been posted accordingly.

Outside of the items noted, her office concurred with management's application of accounting principles. There were no related control deficiencies. There were no management recommendations. She also reviewed the basis used for accounting estimates and agreed that the amounts appeared to be reasonable and the basis for the estimates also appeared to be reasonable. There were no material alternative accounting treatments identified. There were no unusual transactions. There were no disagreements with management about disclosures. She closed by thanking the staff for their work over the last few months.

COO Harnage acknowledged and thanked Mary Deneen and Melanie O'Dell for their work on the 2016 financial audit.

Amanda Skaggs, Internal Audit Director, updated the Audit Committee on the department's internal audits in progress. She noted that since the Committee met about six weeks ago, a number of the same projects are still underway. Her office is in the final reporting phase for the Facilities Management and Confucius Institute audits and reports should be available at the next meeting. They are currently in the fieldwork stage of three audits. In Accounts Receivable, the department is looking at IT and operations. In General Accounting, the office is partnering with the Auditor of Public Accounts to review bank reconciliation, contracts, and grant reimbursement. She also noted that the Banner Document Management System audit is in the field work stage. In the audit planning stage are Institutional Equity and Diversity, the Reidy Center for Bioelectrics and the Darden College of Education.

Other current initiatives include consulting engagements with one of the colleges. There are three investigations underway involving one from the Fraud, Waste and Abuse Hotline and two internal investigations. Ms. Skaggs noted that there was a retirement in the department and as a result, a search was recently conducted to replace the retired staff member. The new hire will start at the end of the month and the individual will bring over ten years of internal audit experience to the University.

Next, Ms. Skaggs reviewed the Annual Risk Assessment which determines where to best focus audit efforts. The process started this spring by meeting with members of management. The Internal Audit department validates the list of departments and processes to ensure the audit universe is complete and accurate. They discuss the current audit plan and any recommendations that are outstanding as well as process changes, strategic goals, key personnel changes, new systems and new legislative and/or regulatory changes. Offices are given risk-assessment matrix guidance to complete their matrixes. There are ten different risk drivers. They look at compliance requirements and resources, reputational impact, financial impact, operational impact, process evaluation (including the expected effectiveness of existing controls), health and safety impact and strategic goal alignment. The results of the matrix are used to determine a score which, in turn, is used to compare processes across the University and within respective VP areas.

The top-rated areas and their vulnerabilities include:

- Transportation and Parking Services – Large revenue and expenditures
- Procurement Services – Contracts and Purchase Cards
- College of Health Sciences – Non-personnel and health information in the Dental Hygiene and Physical Therapy Clinics
- NCAA Compliance Risk – Potential impact on the institutional reputation
- Human Resources – Benefits, ER, compensation, recruitment and training
- Registrar's Office – Reputational and accreditation risks, final grades and associated changes and degree conferring

A complement to this program is the University-wide System Risk Assessment. As part of this process, they validate the inventory of systems and consult with Procurement Services for any new IT contracts the University may have. They also consult with ITS for any new system-risk assessments along with the University's updated Business Impact Assessment (BIA). This process identified systems across campus. They worked to ascertain the different data elements in the system to determine if it has personally identifiable information, financial information,

educational records, employee records or health data. From there, they are ranked based on three criteria including confidentiality, integrity and availability. If any of the systems ranked high in any of the three categories, they are deemed sensitive. Forty systems were identified as sensitive.

Next, Ms. Skaggs discussed the information used in determining a proposed audit plan. The risk assessment is a large component of this. It also includes conversations with the Auditor of Public Accounts and the internal control auditor that resides within the Office of Finance. Finally, balanced coverage is important so that the audit plan focuses on the state of internal controls across many areas and a variety of VP divisions. As next year's proposed plan was developed, a review of the current year's plan was conducted to determine if any changes were needed.

Ms. Skaggs then provided an update on the status of the 2017 Audit Plan. There were a total of 21 audits that were started or completed with the exception of five general audits. The exceptions were due to special projects requests and investigations that were initiated during the year. Ms. Skaggs requested to modify the 2017 plan to remove two of the general audits and carry over three audits because the Internal Audit Office was down one auditor for four months of the current year. She recommended carrying over NCAA Compliance, Confucius Institute, and Human Resources audits. She noted that eligibility was on this year's NCAA Compliance audit plan; however, the NCAA conducted their own review within the last two months. The report has been completed and will be reviewed to determine if there any remaining items that need attention. With regard to the Confucius Institute, the staff is still working on the 2015 calendar. This is an annual engagement and would like to complete the 2015 calendar before starting 2016. She also recommended removing audits for Study Abroad in International Programs and Educational Accessibility because the risk is low compared to other areas.

Next, Ms. Skaggs discussed proposed audits for FY18. They are as follows:

General Audits*

- College of Health Sciences
- Department of Human Resources
- NCAA Compliance
- Office of the President FY 2017 Annual Audit

**Some of these were rated high in the annual risk assessment process.*

IT and Integrated Audits

- Card Center Information Technology – Information Technology
- Transportation and Parking Services – Operations, Technology Components
- Procurement Services – General and Construction Contracts and Purchase Cards - Operations, Technology Components
- Office of the University Registrar – Operations, Technology Components

Wrap-Up of Prior Year Audits

- Accounts Receivable
- Banner Document Management System
- General Accounting
- Institutional Equity and Diversity

- Darden College of Education
- Reidy Center for Bioelectrics

Other Audit Activities

- Fraud Waste and Abuse Hotline
- Agreed Upon Procedures for Confucius Institute
- Audit Follow-Up
- Compliance Calendar Update
- Policy Review Committee
- Audit Software Updates and Reviews
- Quality Assurance Reviews
- Special Requests/Unscheduled Audits

Mr. Reidy presented a resolution that the Audit Committee of the Board of Visitors modify the FY2017 Audit Plan and approve the FY2018 Audit Plan as recommended by the administration. Dr. Maniscalco-Theberge seconded the motion. The plan was unanimously approved by all members present and voting. (*Maniscalco-Theberge, Reidy and Tata)*

Next, Ms. Skaggs provided details on two audit reports as follows:

1: SoBran Facility Operations

SoBran Facility is the lab facility used for research conducted by the University and ODU Research Foundation. The facility is operated by a third party who is compensated by the Research Foundation. Some financial support is provided by the University's Office of Research.

The objectives of the audit were to assess the adequacy of controls in effect over the facility and associated operations, administrative activities in effect over policy, procedures, and contractual relationships.

The audit focused on inherent risks associated with a laboratory environment including access and physical security, operational compliance, administrative policies, procedures and contractual relationships.

The overall risk exposure was high. This rating reflects the relative risk associated with the unit as identified in the University-wide Risk Assessment conducted in FY 2016. It was determined that the system of internal controls in effect over the operation of the facility outsourced to SoBran was adequate during the period of review.

There was one reportable condition.

> **Issue 1: Delineation of Responsibilities**
> The Office of Research, ODU Research Foundation and SoBran share responsibility for the facility's security and operations; however, the duties for which each party is responsible are not clearly defined or assigned.
>
> It was confirmed that the following conditions unnecessarily pose the potential to impede or disrupt normal operations:

1. An executed contract with SoBran does not exist.

2. The division of responsibilities for oversight of the facility between Old Dominion University and the Research Foundation are not clearly defined.

3. Oversight responsibilities for the facility are not defined within any Old Dominion University job description.

4. The process for granting and removing access to the facility and periodic access reviews are undocumented.

Dr. Maniscalco-Theberge asked how no service contract could exist. It was noted that there was confusion as to which organization was responsible for the contract.

Recommendation:
Clearly define the responsibilities for which each party is responsible to assist in ensuring that all functions are carried out as expected.

1. The current arrangement with the vendor warrants a formally-executed contract to establish service levels.

2. Expectations of the Office of Research and ODU Research Foundation should be documented in an agreement addressing funding for the facility, responsibility for research protocols, required inspections, contract execution/renewal, financial reporting, fixed-asset inventory, accreditation, vendor management and access to the facility.

3. Any ODU positions with significant operational responsibilities should have their job duties updated to reflect these.

4. The Office of Research should develop written procedures related to administering facility access to include requisition, approval and removal, and require the results of periodic access reviews to be documented. It is important to establish the expected timeframe for removing an individual's access once there is no longer a business need.

2: Batten College of Engineering and Technology

The objective of this audit was to determine whether proper internal controls exist and are functioning as intended and whether compliance with policies and procedures existed at the time of the audit.

Areas of focus included budgetary items, expenses (including Purchase Card and travel), use of restricted funds, assets, position descriptions, centers/institutes and college-managed room access.

The overall risk exposure is high. The rating of high reflects the relative risk associated with the unit, as identified in the University-wide Risk Assessment conducted in FY 2016.

It was determined that the system of internal controls in effect over the College was adequate during the period of review. There were two reportable conditions.

Issue 1: Lack of Financial Controls and Transaction Documentation
There was a lack of internal control related to financial oversight of the College's Banner accounts. If budgets are not properly monitored, reconciled, reviewed and approved, there are risks for overdrawn accounts and misappropriated funds. The College manages over 40 budget accounts representing a $20M budget.

The following conditions were noted:

1. Lack of monthly reconciliations. None of the monthly reconciliations of the College's accounts were complete, reviewed, and approved.

2. Lack of monitoring. Audit Staff were unable to determine what monitoring was previously performed due to lack of knowledge of remaining staff after turn over, lack of documentation, and lack of written departmental policies and procedures.

3. High volume of transfer activity. Over 75% of the endowment accounts had transfer activity. Endowment accounts are restricted to specific disciplines in most cases and some are more restrictive than others. The documentation for transfers maintained does not provide sufficient information to determine if funds were properly spent according to restrictions.

4. Non-compliance with purchase card policies. One cardholder was missing proper sign-off on half of the reconciliations for a one-year period, lost receipt forms were used frequently and comments to note business purpose for transactions were not consistently noted.

Recommendation:
Improve financial controls and transaction documentation.

1. Perform monthly reconciliations of all College's Banner accounts.

2. Produce and analyze variance reports noting reasons for differences over established thresholds.

3. Analyze endowment accounts to determine whether funds were ultimately spent in accordance with any restrictions.

4. Follow all purchase card policies.

Issue 2: College-Managed Room Access
A formalized process for ensuring that only authorized individuals have access to the College-managed rooms did not exist.

Background: Most access is managed centrally. ITS services online-door access to exterior access of buildings during non-business hours utilizing the University-issued ID card technology. Facilities Management is responsible for managing physical key access. Certain interior rooms in Kaufman Hall have restricted access which is managed by College employees. In order to protect expensive equipment, the College has either swipe card machines or number combinations and locks on doors.

Recommendation:
Establish a clear process for granting, terminating, monitoring and auditing access to include written policies and procedures.

COO Harnage noted that the Batten College of Engineering and Technology has a new dean in place who requested an audit upon her arrival so that she could determine the issues facing the College. Many issues were inherited by the new dean. Policies and procedures were in place, but were not followed by the previous leadership. He recommended that once the audit is completed and the audit issues have been corrected, a new audit should be requested by the Audit Committee in the future to ensure that these conditions are being managed.

It was noted that an October 1 date was set for corrective action and follow up by the Office of the Internal Auditor.

Dr. Maniscalco-Theberge noted that this is her last meeting and thanked Ms. Skaggs for her professionalism and hard work. Ms. Skaggs thanked Dr. Maniscalco-Theberge for being so engaged during her tenure on the Committee.

There being no further business, the meeting was adjourned at 8:51 a.m.