DRAFT – SUBJECT TO COMMITTEE APPROVAL

OLD DOMINION UNIVERSITY
BOARD OF VISITORS

AUDIT COMMITTEE
Thursday, December 8, 2016

MINUTES

The Audit Committee of the Board of Visitors met on Thursday, December 8, 2016 at 8:01 a.m. in the Board of Visitors Room on the Norfolk campus. Present from the Committee were:

> Fred Whyte, Chair
> Frank Reidy, Vice Chair
> Carlton R. Bennett, Esq. '72 *(ex-officio)*
> Mary E. Maniscalco-Theberge '78
> Robert M. Tata '86

Other Board of Visitors members present were:

> None

Absent were:

> Donna Scassera

Also present were:

President John R. Broderick	Ellen Neufeldt
Giovanna Genard	Thomas Odom
Candice Goodin	Amanda G. Skaggs
Velvet L. Grant	Deb Swiecinski
Casey Kohler	Rusty Waterfield
Donna W. Meeks	James D. Wright
R. Earl Nance	

The Chair called the meeting to order at 8:01 a.m. Dr. Maniscalco-Theberge moved to approve the minutes from the September 22, 2016 meeting. Mr. Reidy seconded the motion and the minutes were unanimously approved by all members present and voting. *(Maniscalco-Theberge, Reidy, Tata, Whyte)*

Mr. Whyte opened the meeting as the new committee chair by reading the charter of the Board of Visitors Audit Committee (see attachment) and reflected on the importance of the Committee's work to protect the reputation and integrity of the University. He noted that within the last five years, there have been no major audit findings; however, if there are findings, they must be

discovered and addressed. He congratulated the University's administration for its work to ensure clean audits.

Mr. Whyte requested a copy of the audit department's organization chart. Additionally, he noted that the next five-year external review is due in 2019 and asked how audit activity is determined. Ms. Skaggs, internal audit director, explained that the department is subject to audits that are coordinated by the Office of the State Inspector General (OSIG). The last one was conducted in 2014. As a part of this process, the University Internal Audit department completes self-assessments yearly which includes reviewing internal processes and ensuring compliance with updated standards. When the five-year external review is done, audit materials are given to a team assembled by the OSIG's office for review. After it is completed, the team issues a formal report which is shared with the Audit Committee.

Dr. Maniscalco-Theberge suggested that in addition to the organizational chart, it would be helpful if Ms. Skaggs shared with Mr. Whyte the same Audit Committee background materials that she was provided.

Mr. Whyte observed that there were a few procedural items from a previous audit that were noted in the last minutes and inquired if the Committee will be informed of the corrective action taken in subsequent Audit Committee meetings. Ms. Skaggs explained that part of the internal audit process includes a response from management that documents corrective action. Management also designates the party responsible for the corrective action and provides a projected completion date. When this date arrives, the audit staff contacts the responsible party for a status check. If the action has been completed, then the audit staff member validates the completion. All audits which require follow-up are documented, then on an annual basis, a report is shared with the Audit Committee.

Ms. Skaggs was invited to give her report and she began by discussing the seven audits currently underway. The first is the Accounts Payable/Vendor Payments audit. This focused on the segregation of duties and the state's Prompt Payment requirements along with how the vendor table was maintained and 1099 reporting was conducted. Also reviewed were general controls over payments to ensure that payments were properly authorized and approved. The tax-debt set-off process was also reviewed. This report will be available at the next Committee meeting.

Second, the audit staff is in the detailed test-work stage of the Operational Data Store audit. This is an information technology review that includes assessing access controls, data management, security, change management, business continuity and asset management.

Third, an audit of the University's Confucius Institute is underway. This organization receives funding from China. Recently, the granting agency notified the University that the institute must be audited annually. This year's audit will begin with calendar year 2015.

Fourth, is the Batten College of Engineering and Technology (BCET), where audit staff is in the detailed test-work stage of assessing the college's financials. This review will include expenses, small purchase charges, reconciliation, travel and overall budget management. In addition, a review will be conducted of restricted funds and each of the centers that report through BCET.

At this point, Ms. Skaggs reminded the Committee of the four audit stages:

1) Planning Stage – This includes formally notifying the department of the upcoming audit. Next, an entrance conference ensures that the department understands the objectives and scope of the audit. At this point, the auditors are looking at timelines and budget management, identifying potential risks and controls, conducting background work including reviewing prior audit reports, searching the web, and contacting the Auditor of Public Accounts to discuss any concerns this agency may have.

2) Preliminary Survey Stage – In this phase, auditors obtain detailed information about controls and processes, ask internal control questions, and hone in on the focus of the audit's detailed test work. At the end of the phase, a detailed audit program is created and approved by the internal audit director.

3) Fieldwork Stage – This is where the auditors perform detailed tests of controls. At the completion of the tests, auditors document their findings and meet with members of the department to formally communicate final findings and draft a report.

4) Reporting Stage – During this time, the audit report is issued to the department. The report includes management's response so that the department has input on the audit engagement. Once management has noted their corrective action plan, the report is issued to the President's Office.

Mr. Reidy inquired about the amount of time that an audit takes from start to finish. Ms. Skaggs noted that it depends upon the engagement and the demands and constraints of the department being audited. She also noted that it is difficult to complete an audit in three months and that six months is standard as auditors may be working on three to four audits simultaneously.

Audits five and six include Facilities Management and the SOBRAN Facility Contract. (SOBRAN manages a portion of the University's lab space.) Both audits are in the preliminary survey stages and auditors are working to obtain risks and controls information.

The seventh and final audit involves Accounts Receivable. This is in the planning stage of an integrated audit. The IT audit manager will be paired with a senior auditor to obtain a more comprehensive look at the areas of cashiering, billing, and TouchNet.

Ms. Skaggs informed the Committee that the Internal Audit Office also offers consulting expertise. Departments can request a review of a specific function in their area. The project will be evaluated based on departmental requests and any time the audit staff has available. Currently, the office has two consulting engagements. She also noted that her office is responsible for updating the University-wide Compliance Calendar. With this project, notices are sent to vice presidents who review their compliance requirement submissions. They identify the position responsible for completing the compliance tasks and this information is published on the University's website. Areas are encouraged to use the Compliance Calendar for performance management which ensures that the assigned tasks will be completed.

Dr. Maniscalco-Theberge inquired if the University is responsible for completing a Statement of Assurance for the Commonwealth. This document declares that the institution has various financial controls in place. Deb Swiecinski explained that in the Commonwealth, the Agency Risk Management Internal Control Standard (ARMICS) contains a similar requirement and the President is required to sign a statement as part of the annual submission for ARMICS.

Next, Ms. Skaggs discussed the annual audit of the Office of the President and Special Events, an integrated audit of Distance Learning, and the annual report on the Status of Past Audit Recommendations.

1: Office of the President and Special Events

The objectives of this audit were to determine if: 1) spending was in compliance with applicable state and University policies; 2) expenditures were reasonable and appropriate for the function of the President's Office; and, if 3) expenditures were properly recorded and documented. The overall risk rating was low. This is an inherent risk rating based on the most recent annual assessment. The conclusion was that the system of internal controls over the Office of the President was strong during the period of review. The department is functioning in accordance with state and university policies, and there were no audit findings. The audit scope was from July 1, 2015 to June 30, 2016. Categories of expenditures reviewed included travel, memberships, entertainment (i.e. dinners and receptions), petty cash and purchase card, special campus events and general office expenditures.

With regard to non-personnel expenditures, a five-year graph showed increases in this area in 2012 which were the result of hiring the chief operating officer and a one-time expense for a security study. In 2015, funds were spent for a consultant for the provost and vice president for academic affairs search. Both increases were reasonable given the function of the President's Office. Graphs related to special events expenditures including receptions, community and small events showed that these have been trending downward over the last five years. Travel graphs also showed a downward spending trend. President Broderick noted that the NCAA covers his travel expenses for related committee work and Conference USA pays a portion of his travel expenses as well. It was also noted that the report does not include travel by car.

2: Distance Learning

The objective of this audit was to assess the efficiency and effectiveness of the design and operation of internal controls and operating procedures in effect over the administration and delivery of Distance Learning. The overall risk rating was high. The conclusion was that the system of internal controls in effect over Distance Learning was adequate during the review period. Areas of focus included financial, proctoring, satellite-location employees, instructor training and feedback, fixed assets, accessibility, web application security, system maintenance, contract execution and monitoring, network access controls, system risk assessment, endpoint security-privileged access, business continuity and disaster recovery and baseline standards. For this engagement there were five reportable conditions.

First, it was found that the department was not adhering to fixed-asset policies and procedures. It was observed that: 1) surplus procedures were not being followed for obsolete assets; 2) an asset was identified on loan to an outside organization without proper documentation; and, 3) items were in use off-campus on a continuous basis without the proper documentation. As corrective action, it was recommended that the department dispose of assets for which there is no longer business necessity; perform periodic inventories of assets and follow procedures to correct any discrepancies including a change in ownership or physical location; and, complete authorization use forms when items are in use for two or more weeks by an outside organization or by an employee at an offsite location.

Dr. Maniscalco-Theberge inquired about the existence of a fixed-asset policy at the University. Ms. Skaggs responded that fixed-asset inventories are conducted every two years. The policy asks departments to verify the use and existence of items that have been documented. As a part of the internal audit process, a few high-value items are selected from the fixed-asset report and must be visually accounted for during the audit.

The second finding was that there was a lack of alignment with the University's tuition and fee schedule. It was observed that: 1) rates charged for video production and graphic design services do not agree with the approved University tuition and fee schedule; 2) the schedule does not contain all of the services provided by Distance Learning; 3) the fees do not match charges for the items listed in the schedule; and, 4) when reduced fees were charged, there was no documentation to support the reason for the reduction. Recommendations included using a process whereby departments update the rate schedule to reflect the approved and published rates and submit any desired changes during the annual budget cycle. With regard to reduced fees, in-kind gifts were cited as the cause so it was recommended that the department seek approval for the reduction and provide and retain supporting documentation when fees are reduced or used as in-kind gifts.

The third finding related to partner location petty-cash reconciliations. It was determined that reconciliation activities were not consistently performed. Additionally, a sampling of 12 locations revealed that 25% of them did not perform the required reconciliations on a monthly basis. It was recommended that the budget unit director monitor partner locations to ensure that monthly reconciliations are performed.

The fourth finding dealt with web accessibility compliance. It was determined that scans of the personal learning environment and vs.odu.edu websites indicated instances of compliance issues related to Section 508 of the Rehabilitation Act of 1973. These were largely due to missing alternative text, empty buttons, and labeling. It was recommended that all webpages under the control of Distance Learning be scanned with an industry-recognized tool and any significant issues reported be corrected to achieve compliance.

The last finding dealt with IT governance and risk management. There are multiple issues and recommendations. First, the CISCO Telepresence System is the virtualized environment used to capture, record and broadcast content to ODU students. It was found that baseline configurations did not exist for the purpose of defining change, so it was recommended that a baseline configuration be created and updated as necessary. The audit also found that the management

console for this system was not configured to employ a profile to enforce password length and complexity. This means that a password for this account could be as simple as a single lowercase letter. Additionally, all user accounts had been granted full administrative access which is not consistent with the principle of least privilege. It was recommended that the department revise account access and password profiles to comply with the principle of least privilege and password strength as defined by ODU's Information Technology 04.2.0 Account Management Standard.

Mr. Whyte raised a question related to the general IT environment from the September 22, 2016 minutes of the Audit Committee related to contractual data backups. The minutes stated that "contractual provisions do not unequivocally establish the service provider's responsibility to conduct data backups at specific intervals necessary to meet established recovery point objectives." He believes that this should be standard in every third-party hosted IT contract. Ms. Skaggs responded that the Procurement Office has created a hosted-technology addendum so this is now required for all IT contractors; however, in the StarRez system referenced in the minutes, there were a couple inconsistencies about which organization was responsible - - ODU or the vendor. The recommendation was to clearly state the responsible party as well as times for backup.

Next, Kaltura Video Platform is the information technology solution used to archive and store content. This contract requires that the vendor submit third-party security assessment reports for the University to review. These reports were not being submitted and there was no follow up on the part of the contract administrator to request them. As a result, it has been recommended that the contract administrator request reports and review them for any significant issues that the University may need to address.

With regard to general IT environment, there were three issues noted including: 1) system maintenance vulnerabilities; 2) lack of risk assessments; and, 3) lack of business continuity planning. As it pertains to system maintenance, vulnerabilities were recorded as critical within all CLT and PLE information technology assets. The audit looked at sequential months and there was no evidence of periodic evaluation and remediation. The recommendation is that asset scanning vulnerability reports should be evaluated or remediated, mitigated or formally accepted on a cycle basis that is timely enough to mitigate vulnerabilities. It was also observed that formal risk assessments for sensitive systems had not been properly documented or kept up-to-date. It was recommended that risk assessments be conducted, reviewed and updated annually per University ITS standards. Lastly, there was no documented business continuity plan for the current operating environment and no annual testing of the plan. The recommendation is that the department create a business continuity plan and that annual testing be conducted.

Dr. Maniscalco-Theberge asked when the Audit Committee could expect to hear about the status of the audit results provided at today's meeting as well as how compliance is handled. Ms. Skaggs responded that a comprehensive status report will be provided at the December 2017 Audit Committee meeting with staff following up throughout the year. If individuals are non-compliant, the internal auditor speaks with the department head and then the vice president over the department. Due date extensions are formally recorded in the Internal Audit Office's software.

3: Status of Prior Audit Recommendations

The following legend was provided for the Status of Prior Audit Recommendations Report:

Complete   =   Actions taken completely address the concerns cited in the audit point and recommendations made or were rectified to the extent reasonably possible.

In Progress   =   Corrective action is actively taking place; some aspect may be complete; however, additional steps need to be completed to rectify all of the main concerns of the original issue.

Planned   =   An action plan has been decided upon, but has not yet commenced or only minimally begun.

Unsatisfactory =   Corrective action not started; actions taken do not effectively address the concerns of the audit point, compensatory controls are weak or absent, and residual risk is significant.

Risk Accepted =   No or limited actions taken. Management has accepted the noted level of residual risk.

Ms. Skaggs noted that there were 45 outstanding audit issues and recommendations. (See charts below.) Twenty-one have been completed, 16 are in progress and eight are planned. Most of those noted as planned have a completion date that is not yet due. She also noted that 46% of the recommendations have been completed. Of special note this year, Counseling Services resolved all five of their audit recommendations without an executive director. She pointed out that it is rare to engage a department that is not often audited and to have the department resolve all five recommendations upon first follow-up.

She also noted that some of the departments with longstanding unresolved audit recommendations have effectively accepted the risk. They are now looking at ways to resolve outstanding issues or to finalize actions with these departments.

Audit Recommendations Completed this Period

Audit Title	Audit Report Date	Issues Remaining	Complete this Period	Remaining as of 11/30/16
Virtual Computing Environment	4/15/2014	1	1	0
Continuity of Operations Planning	7/29/2014	1	1	0
Desktop Computing	2/25/2015	2	2	0
Banner Database	11/6/2015	1	1	0
College of Continuing Education and Professional Development	11/13/2015	1	1	0
Office of Counseling Services	4/14/2016	5	5	0

Audit Recommendations in Progress

Audit Title	Audit Report Date	Issues Remaining	Complete this Period	Remaining as of 11/30/16
International Student and Scholar Services	5/17/2012	1	0	1
Foundation Relationships/Transactions	5/24/2013	1	0	1
Housing and Residence Life	12/3/2014	3	1	2
Monarch Physical Therapy	5/29/2015	2	0	2
Office of Admissions	4/28/2015	4	2	2
Athletic Sports Campus and Tennis Center	6/30/2015	1	0	1
ARMICS/Banner Key Controls	9/23/2015	2	1	1
Revenue Contracts	10/30/2015	2	0	2
Campus Network	1/25/2016	1 (1*)	0	1
Sensitive Federal/State Data IT Compliance	3/25/2016	4 (2*)	2	2
Virginia Modeling and Simulation Center	3/7/2016	1	0	1
Strategic Communication and Marketing	5/6/2016	2	0	2
NCAA Compliance Recruitment, Title IX and Advising	8/22/2016	4 (3*)	3	1
Third-Party Hosted Systems	9/19/2016	6 (5*)	1	5
Indicates Not Yet Due				

Mr. Tata inquired about lessons learned from the funds labeled for "strategic investments" at UVA, how their Board of Visitors missed the funds during audits, and any legislation resulting from this. He also asked if this is an area that would involve the internal audit department. Ms. Skaggs responded that it depends upon where the funds are held. University foundations are separate entities and do not fall under the Internal Auditor Office's purview. Ms. Swiecinski added that the University is required annually to submit a report to the Department of Public Accounts about funds that are available in local banks. After the UVA incident, universities are

now required to submit a report to the State Council of Higher Education in Virginia (SCHEV) that lists all unrestricted accounts. This information was reviewed by the Auditor of Public Accounts and a report was issued. She noted that the upcoming legislative session would reveal any legislation as it relates to this matter. Questions also arose about where large sums could be stored within a University's financial system. Ms. Swiecinski stated that at Old Dominion, the Office of Finance would have information on where unrestricted funds lie within University accounts. A number are local auxiliaries that are committed monies, but the state views these as local funds. This is the information that was reported to SCHEV.

Dr. Maniscalco-Theberge asked whether an unrestricted fund audit would capture questionable activity. Ms. Skaggs explained audit coverage. Each department has at least one budget associated with it. Audits do not cover all university budgets at once. They look at different areas during audits that over time collectively display a broader picture. During these audits, both restricted and unrestricted funds are reviewed. Many audits are covered this way. The scope of the audit includes looking at a budget and how it is being spent. If funds are restricted, the audit looks at departmental restrictions and the donor's wishes associated with foundation funds.

President Broderick noted that the University has specific accounts that pay for various items and gave an example of a new residence hall. Funds in that account could not readily be moved to cover athletic needs. He noted that the same holds true for auxiliaries. Reports are issued yearly to provide fund balances and the fund balances are always within the prescribed guidance of what SCHEV deems as appropriate. He further noted that mechanisms are in place so that the Board of Visitors is aware of what those are and what the University is planning to do with the funding.

Ms. Skaggs noted that the Budget Office was audited two years ago to review how funds flow. When audits are done at the department level, fund distribution can be cross checked.

Mr. Whyte congratulated Ms. Skaggs on a positive audit track record at Old Dominion University.

There being no further business, the meeting was adjourned at 9:02 a.m.

Charter for the Board of Visitor's Audit Committee

The Audit Committee helps the Board fulfill its financial oversight and compliance responsibilities. The Committee is responsible for (1) oversight of financial reporting and financial statement matters and any critical accounting and reporting issues; (2) reviewing annually the audited financial statements with internal auditors, determining that the administration has been open and has acted in good faith in connection with the audit; and (3) oversight of the internal audit function, including receiving reports and approval of the annual audit plan. Members of the Audit Committee should have some basic knowledge of generally-accepted accounting procedures and financial reporting and controls. Members of the Audit Committee may serve on the Administration and Finance Committee; however, a majority of the Audit Committee may not serve on the Administration and Finance Committee. The Committee may also receive reports from the University Auditor on matters of economy, efficiency and effectiveness of operations and internal controls.