

EAST TENNESSEE STATE UNIVERSITY
BOARD OF TRUSTEES
AUDIT COMMITTEE

MINUTES

April 23, 2021
Johnson City, Tennessee

The ETSU Board of Trustees Audit Committee met at 8 a.m. on Friday, April 23 at the Model Mill, 602 Sevier Street, the new home of ETSU's Alumni Association and Advancement offices. The meeting was livestreamed.

I. Call to Order

Committee Chair Melissa Steagall-Jones called the meeting to order at 8:01 a.m.

II. Roll Call

Secretary Adam Green called roll and confirmed to Trustee Steagall-Jones that a quorum was present. Committee members present were Melissa Steagall-Jones, Ron Ramsey, Scott Niswonger, and Dorothy Grisham.

III. Minutes of the Audit Committee Meeting from February 19, 2021

The minutes from the February 19, 2021 Audit Committee meeting were reviewed. Trustee Ramsey moved for them to be approved and Trustee Grisham seconded the motion. The motion passed unanimously.

IV. Annual Review of Audit Policies

Ms. Rebecca Lewis discussed the Internal Audit Policy and the Preventing and Reporting Fraud, Waste, and Abuse Policy. She reported that no changes have been made to these policies since the last review. The Audit Charter requires that these policies are reviewed annually. The committee had no questions or concerns about the two policies

Ms. Lewis noted that ETSU is still under the Conflict of Interest Policy of TBR. A committee was formed to revise this policy, and feedback has been sent to Kay Lennon-McGrew from ETSU University Counsel. She hopes to have a revised policy ready for review by fall.

The audit committee is also required to review the University's Code of Conduct. At the present time, ETSU has not issued a Code of Conduct but discussion have been held regarding the need. Ms. Lewis hopes the Code of Conduct as well as the

Conflict of Interest Policy to both be ready by the September audit committee meeting.

V. Revisions to the FY 2019-20 Audit Plan

Ms. Lewis reported that three audits have been added to the plan since the last meeting. These include Women's Basketball Expenditures and Men's Basketball Expenditures. It is normal practice to require an audit anytime a head coach leaves their position. Also added to the plan is the follow-up to the State Audit Report. Ms. Lewis noted that her office did delete the NACHA (National Automated Clearing House Association) audit from the audit plan. This has been required by the bank in the past but is no longer required. If Financial Services wants her staff to complete this audit in the future, she is happy to do so at their request since the regulations are still in effect. This audit deals with ACH transfers.

Trustee Ramsey made a motion to approve the revisions to the audit plan; Trustee Grisham seconded the motion. The motion passed unanimously.

Ms. Lewis stated that her office had completed one audit and two investigations. Additional information on the audits is available in the audit committee materials.

VI. Audit Work Performed February 2021-March 2021

A. Memorandum of Investigations: Ms. Lewis discussed one investigation which served as the follow-up to a recent theft in Central Receiving. The majority of the items stolen were recovered. Her team reviewed the additional controls that have been put in place to help prevent similar instances from occurring and, according to Ms. Lewis, it appears management has made significant improvements.

Trustee Grisham asked about the types of items that were stolen, which did include vehicles. Those vehicles were recovered.

B. Completed Audit Heat Map: The Internal Audit Heat Map was included in the materials.

VII. Review of Audited Financial Statements from the Comptroller of the Treasury

For this report, Ms. Lewis turned the meeting over to ETSU's Chief Financial Officer, Dr. B.J. King.

Dr. King explained that the Financial and Compliance Audit report for fiscal year 2019-20 is performed by the Comptroller of the Treasury (Division of State Audit). An exit conference was held on February 28 via zoom. A link to the published report was sent to all the board members by State Audit. According to Dr. King, the university received an unqualified opinion, and no audit adjustments were required.

ETSU did receive a finding regarding inadequate internal controls over three areas. A summary of the finding was included in the committee materials. Two items were

identified during a comprehensive review of information technology and systems audit conducted prior to the financial and compliance audit. The third item was identified by management, and an internal audit report was provided to the financial and compliance audit team. All areas of inadequate internal controls have been remedied, and the corrective action plan has been filed with the Comptroller's office.

A summary of comparative information from FY19 to FY20 is presented in the Management's Discussion and Analysis provided to the committee. Dr. King presented highlights of the report, which included:

- Current assets increased 27%; cash increased \$8.9 million;
- Accounts receivable also increased primarily due to CARES Act funding (\$3.7 million);
- Capital assets increased primarily due to Martin Center construction and D.P. Culp Student Center renovation;
- Deferred outflows decreased in 2020 due to changes in the pension plan;
- Current liabilities were up due to unearned revenue primarily in grants and contracts, and because the institution bonded three capital investments (Martin Center, Culp Center, Millennium Center) in FY20;
- Noncurrent liabilities decreased due to OPEB liability, net pension liability, a Perkins Loan fund decrease and a TSSBA debt increase due to Martin Center and Culp Center;
- Deferred inflows increased related to pensions and OPEB;
- Net investment in capital assets increased due to the Martin Center and the Culp Student Center;
- In operating revenues, tuition and fees increased due to an average 2.3% fee increase and increases in other non-mandatory fees;
- Grants and contracts increased mainly due to several new private grants, including two grants totaling \$3.2 million;
- Auxiliary revenues decreased due to the pandemic in fiscal year 2020;
- With operating expenses, salaries benefits increased in fiscal year 2020 due to a 2.0% across the board pay increase and an increase in compensated absences;
- Other services expenses increased with professional and administrative services and supplies;
- Scholarships and fellowships increased largely due to the emergency grants to students under the CARES Act;
- Depreciation increased slightly due to the completion of several renovation projects in the previous year.
- In terms of non-operating revenue and expenses, state appropriations increased 5% in FY20. This includes an increase in outcomes funding and salary increase of \$1.3 million;

- Non-operating grants and contracts increased during 2020 due to the receipt of CARES Act funding totaling \$9.1 million;
- Interest on capital asset-related debt increased with Martin Center and Culp Center;
- Other non-operating revenue increased with insurance recoveries from flood damage experienced in Lamb Hall fall 2019;
- Capital appropriations decreased \$15 million due to funding for Martin in the prior year; and
- Capital gifts decreased due to large gifts recognized in the previous year Millennium Center and Pedestrian Sky Bridge in FY19.

VIII. Recommendation Log Status as of March 31, 2021

A. Recommendation Log:

Ms. Lewis highlighted the Recommendation Log and noted that her team has performed several follow up reviews of prior audit findings since the last Audit Committee meeting. Those are noted in blue on the Recommendation Log and indicated corrective actions have been taken.

IX. Other Business

There were no other business items to discuss.

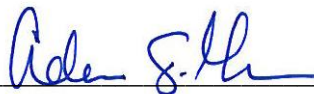
X. Executive Session to Discuss Active Audits and Enterprise Risk Management

Trustee Steagall-Jones announced the committee will move into executive session and noted that no action will be taken in executive session. Trustee Ramsey made a motion to move into executive session, and the motion was seconded by Trustee Dorothy Grisham. The motion passed unanimously.

XI. Adjournment

The meeting adjourned at 8:20 a.m.

Respectfully submitted,



Adam Green
Secretary of the Board of Trustees

Approved by the Board of Trustees at its September 17, 2021 meeting.