



Middle Tennessee State University Board of Trustees Audit and Compliance Committee

Tuesday, August 20, 2024

MEC Meeting Room – 2nd Floor
Miller Education Center
503 East Bell Street
Murfreesboro, Tennessee 37130



**Middle Tennessee State University
Board of Trustees
Audit and Compliance Committee**

Tuesday, August 20, 2024

AGENDA

Call to Order and Opening Remarks

Roll Call

Approval of Minutes (Action)Tab 1

Annual Report for Audit and Consulting Services (Action).....Tab 2

Quarterly Report – Internal Audit Results (Information).....Tab 3

Results of External Reviews (Information)Tab 4

Non-Public Executive Session – Discussion of Cyber Security, Risk Assessments
(Confidential Materials) and Audits/Investigations (Information)

Adjourn Non-Public Executive Session

Public Session – Risk Assessment Reporting (Action)Tab 5

Closing Remarks

Adjourn Public Session



**Middle Tennessee State University
Board of Trustees**

Audit and Compliance Committee

Action Item

DATE: August 20, 2024

SUBJECT: **Approval of Minutes**

PRESENTER: Tom Boyd
Committee Chair

BACKGROUND INFORMATION:

The Audit and Compliance Committee met on May 21, 2024. Minutes from the meeting are provided for review and approval.

**MIDDLE TENNESSEE STATE UNIVERSITY
BOARD OF TRUSTEES**

**AUDIT AND COMPLIANCE COMMITTEE
MINUTES**

The Audit and Compliance Committee met on Tuesday, May 21, 2024 in the MEC Meeting Room in the Miller Education Center at Middle Tennessee State University.

Call to Order and Opening Remarks

Committee Chair Tom Boyd called the meeting to order at 3:05 p.m. and welcomed everyone in attendance.

Roll Call

The following Committee members were in attendance: Trustees J.B. Baker, Tom Boyd, Pete DeLay, Bill Jones, Christine Karbowiak, Steve Smith, Pam Wright, Michael Wade, Mary Martin, and Molly Mihm. A quorum was declared present.

President Sidney McPhee participated in the meeting electronically. Alan Thomas, Vice President for Business and Finance; Yvette Clark, Vice President for Information Technology and Chief Information Officer; Sarah Sudak, Interim Vice President for Student Affairs; James Floyd, University Counsel and Board Secretary; Kim Edgar, Assistant to the President and Chief of Staff; and Leah Ladley, Chief Audit Executive were also in attendance.

Approval of Minutes - Action

The first agenda item was approval of the minutes from the February 27, 2024 Audit and Compliance Committee meeting. Trustee DeLay moved to approve the minutes from the February 27, 2024 meeting and Trustee Wright seconded the motion. A roll call vote was taken and, with all Committee members voting "Aye," the motion to approve the minutes from the February 27, 2024 meeting of the Audit and Compliance Committee carried unanimously.

Report on Independence of Chief Audit Executive – Information

The report on the independence of the Chief Audit Executive was presented by Mrs. Ladley. The Audit and Compliance Committee Charter, Section IV.D.1 requires the Audit and Compliance Committee to “ensure the Chief Audit Executive’s administrative reporting relationship to the President is independent.” There were no issues with independence to report. The Global Audit Standards require certain communications regarding the internal audit function’s independence confirmation, the results of the internal quality assessment; reported on January 26, 2024, and the need to escalate instances of management’s excessive acceptance of risk; no instances have been identified.

Results of External Reviews – Information

Mrs. Ladley presented the results of two external reviews. The Tennessee Department of Finance & Administration, Office of Criminal Justice Programs (OCJP) issued a monitoring report regarding Middle Tennessee State University (MTSU) STOP contract. The OCJP identified two findings. While MTSU had multiple policies containing portions of the required verbiage, MTSU did not have a STOP specific policy. The second finding was there is no process to provide an accurate accounting of time spent on the OCJP funded project for personnel funded less than 100% by the grant. A corrective action plan was submitted by MTSU Police Department on March 13, 2024, and was approved by OCJP on April 26, 2024.

Tennessee Department of Safety and Homeland Security (TDOSHS), Tennessee Highway Safety Office (THSO) issued a compliance report regarding MTSU High Visibility Enforcement of Tennessee Traffic Safety Laws. Contractual compliance and testing of Activities Allowed and Unallowed resulted in no issues of noncompliance.

Quarterly Report – Results of Internal Audit Reports – Information

Mrs. Ladley reported an investigation was completed which resulted in strengthening the system of internal controls by enhancing handbook guidance related to international group travel with students. The updated status of the Internal Audit Plan for Fiscal Year 2024 was included for the Committee’s review.

Non-Public Executive Session

The Committee adjourned the public session at 3:11 p.m. and entered non-public executive session at 3:13 p.m. to discuss security plans, cybersecurity, audits, and investigations. The non-public executive session adjourned at 4:08 p.m.

Respectfully submitted,

Audit and Compliance Committee

DRAFT



**Middle Tennessee State University
Board of Trustees**

Audit and Compliance Committee

Action Item

DATE: August 20, 2024

SUBJECT: **Annual Report for Audit and Consulting Services**

PRESENTER: Leah Ladley
Chief Audit Executive

BACKGROUND INFORMATION:

TCA 49-14-102 along with the MTSU Board of Trustees Bylaws and Policy on Board Committees requires an annual comprehensive report on the internal audit function be submitted for the Committee's review. The report is submitted for the Committee's review.

MTSU Policy 70, Internal Audit, Section VII.C. requires approval of the audit plan by the Audit and Compliance Committee. The Internal Audit Plan for Fiscal Year 2025 is included on page eight of the annual report and is presented to the Committee for approval.



AUDIT AND CONSULTING SERVICES

Annual Report Fiscal Year 2024

July 31, 2024

MTSU Board of Trustees
Audit and Compliance Committee

Dr. Sidney A. McPhee, President
Middle Tennessee State University
1301 East Main Street
Murfreesboro, TN 37132

Trustees and Dr. McPhee:

Enclosed is the annual report for Audit and Consulting Services for FY24. A yearly report of audit work is required by TCA 49-14-102 and the Bylaws and Policies of the MTSU Board of Trustees. The Board Committee policy requires a comprehensive report on the internal audit function to the Board through the Audit and Compliance Committee at a stated meeting. The report includes the status of the FY24 annual audit plan, noting the audits and their current state.

The annual report also includes a report disclosing our student success efforts, an update on fraud awareness activities and investigations, and a summary report on the financial resources of Audit and Consulting Services. The report also includes the proposed annual audit plan for FY25.

The FY25-26 Strategic Plan for Audit and Consulting Services is also included in the annual report.

This report fulfills the annual reporting requirements and provides information to the Board of Trustees concerning the FY24 accomplishments of Audit and Consulting Services. This report is intended solely for the internal use of Middle Tennessee State University and the MTSU Board of Trustees. It is not intended to be and should not be used for any other purpose.

Respectfully submitted,



Leah Ladley, CPA, CIA, CFE, CRMA
Chief Audit Executive

**Middle Tennessee State University
Audit and Consulting Services
FY24 Annual Report**

Introduction:

TCA 49-14-102 and the Bylaws and Policies of the MTSU Board of Trustees require an annual report of audit work. The Board Committee policy requires a comprehensive report on the internal audit function to the Board through the Audit and Compliance Committee at a stated meeting.

Audit Accomplishments:

Audit and Consulting Services completed three audits required by the State of Tennessee and four investigations carried over from prior fiscal years. The auditors completed follow-ups on the progress of the implementation of recommendations on eight audits between the periods of 2017 and 2024. In January 2024, our office completed the IIA – Self Assessment and implemented new audit management software in June 2024. Additional information is located on page three and the updated audit plan for FY24 is located on page four.

Student Success:

The auditors were invited to speak to students in an Accounting Systems course in Spring 2024. This allowed us to contribute to MTSU’s Quest for Student Success and share our expertise and real-world experiences with students. We intend to continue engaging with students in the future to promote the internal audit career path. Additional information is located on page five.

Fraud Awareness:

When allegations of improper or dishonest acts by an employee, outside contractor, or vendor are received, an investigation is required. Four reviews were opened during the year. Four audit memos were issued from prior year investigations and one report was issued by the TN Comptroller’s Office. Four projects in progress will be included on the FY 2025 audit plan. Additional information is located on page six.

Resources:

The proposed budget for FY25 is \$532,955. The budget and actual expenses for the past two years are located on page seven.

Planned Audits for FY25:

Along with the audits in progress and required audits, the planned audits for 2025 include two risk-based projects. Audits are selected for the plan from a risk assessment that includes sources such as management's evaluation of risk (Enterprise Risk Assessment), prior involvement with processes or departments, new and evolving requirements (regulations and policies), and higher education trends. The proposed audit plan for FY25 is located on page eight.

Strategic Plan 2025 – 2026:

The Strategic Plan outlines Audit and Consulting Services values, mission, and vision statements. With the SWOT analysis, the CAE develops plans to address the weaknesses and threats using the strengths and opportunities of the office. The strategic plan is the final component of the FY24 Annual Report.

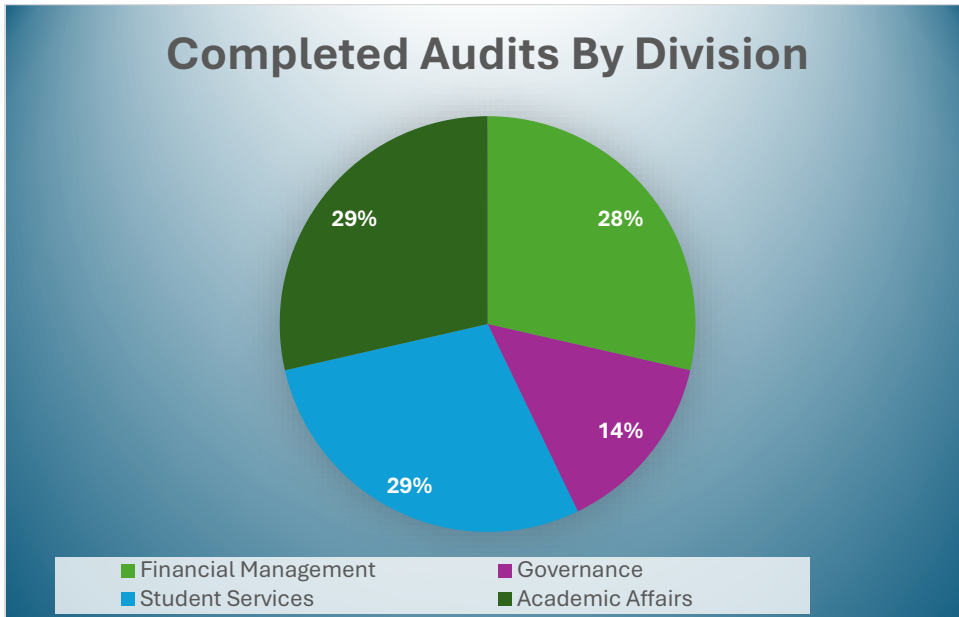
Audit and Consulting Services Accomplishments

The accomplishments of Audit and Consulting Services for FY24 include the following:

- **Completed 3 Audits, required by the State of TN and 4 investigations carried over from prior fiscal years:**

Type	Area	Name of Audit	Date of Audit Report
R	FM	Year-End Inventory FY2023	8/23/2023
R	FM	Cash Counts FY2023	8/22/2023
R	GV	FY23 Audit of President's Office Expense	11/15/2023
I	SS	INV1702	12/19/2023
I	AA	INV1705	1/29/2024
I	AA	INV1801	2/29/2024
I	SS	INV2304	1/24/2024

*See Audit Plan 2024 for the legend explaining the type and area of audits.



- **Completed follow-up on the progress of the implementation of recommendations on eight audits between the periods of 2017 and 2024.**
- **In addition to completing audits, investigations, and recommendation follow-ups, our office completed our IIA - self-assessment in January 2024 and implemented new Audit Management Software in June 2024.**

**Middle Tennessee State University
Internal Audit Plan
Fiscal Year Ended June 30, 2024
as of June 30, 2024**

Type	Area	Audit Project	Current Status	Report Date
R	FM	Year-End Inventory FY23	Completed	8/23/2023
R	FM	Cash Counts FY23	Completed	8/22/2023
R	GV	FY23 Audit of President's Office Expenses	Completed	11/15/2023
R	AT	Football Attendance 2023	NCAA Eliminated Requirement	Canceled
I	SS	INV1702	Completed	12/19/2023
I	AA	INV1705	Completed	1/29/2024
I	AA	INV1801	Completed	2/29/2024
I	SS	INV2201	Comptroller's Office issued report	8/23/2023
I	SS	INV2304	Completed	1/24/2024
I	AA	INV2403	referred to Comptroller's Office	
I	FM	INV2404	In Progress - initiated April 2024	
I	FM	INV2405	In Progress - initiated April 2024	
I	AT	INV2406	In Progress - initiated in June 2024	
P	GV	IIA - Self Assessment	Completed	1/26/2024
F	GV	State Audit Assistance/Follow-Up	Project Throughout Year	
C	GV	General Consultation/Risk Assessment	Project Throughout Year	
I	GV	Unscheduled Investigations	As needed	
R	FM	Cash Counts FY24	In Progress	
R	FM	Year-End Inventory FY24	In Progress	

Audit Types:

A - Risk-Based (Assessed)
 C - Consulting
 F - Follow-up Review
 I - Investigation
 M - Management's Risk Assessment
 P - Project (Ongoing or Recurring)
 R - Required
 S - Special Request

Area = University Division

AA - Academic Affairs
 AD - Advancement
 AT - Athletics
 FM - Financial Management
 GV - Governance/Executive Office
 IT - Information Technology
 MC - Marketing and Communications
 SS - Student Services

STUDENT SUCCESS

“The Quest for Student Success 2025 focuses on student success marked by a deeper, broader, and more equitable academic and student life experience that extends learning beyond graduation. Students who learn how to learn, how to ask the right questions, and how to take risks and learn from their mistakes succeed personally and professionally.” ~ Quest for Student Success 2025

“Forty-three percent of chief audit executives and senior internal audit leaders are concerned with finding qualified candidates as they struggle with a lack of access to the talent they need to conduct the expanding tasks of internal audit”, according to Protiviti’s 2023 Next Generation Internal Audit survey.

Audit and Consulting Services is fortunate to be at the forefront of talent development and can play a vital role in the Middle Tennessee State University community.

We were honored to engage in educational activities to support and enhance our accounting student’s MTSU experience. In March 2024, our auditors were invited to participate in the Accounting Department’s academic program. As part of our involvement, Leah Ladley and Cyndee Ray served as guest speakers for an MTSU Accounting Systems course (ACCTG 4510/5510).

We discussed our journeys and how we became internal auditors during the presentation. By sharing our expertise and real-world experiences, we provided students with insights into the critical role of internal auditors and highlighted the various facets of internal auditing. Our presentation highlighted the skill sets necessary for success in internal auditing, from analytical thinking to effective communication, while emphasizing the importance of ethical practices in the profession. The students engaged with questions about the profession and left the presentations with the knowledge of internal audit as a viable and rewarding career path.

We intend to continue engaging with students in the future to promote the internal audit career path.

FRAUD AWARENESS

The University is committed to the responsible stewardship of resources. It is required by state law to provide a means by which employees, students, or others may report suspected or known improper or dishonest acts. Audit and Consulting Services manages the reporting process by which students, employees, taxpayers, or other citizens may confidentially report suspected illegal, improper, wasteful, or fraudulent activity. (TCA 49-14-103)

The “Fraud Awareness” brochure explains the reporting expectations and options for any individual who suspects improper or dishonest acts involving university employees, outside contractors, or vendors. The “Fraud Awareness” information and an online reporting form is available on the Audit and Consulting Services webpage.

When Audit and Consulting Services receives allegations of improper or dishonest acts by an employee, outside contractor, or vendor, an investigation is required. The investigation or review aims to determine if the allegation or concern is substantiated or unsubstantiated and if there are any internal control weaknesses or risks that management should address. An audit report is issued if the allegation or concern is substantiated and corrective action is needed. A review is administratively closed with a memo to the file if the concern is unsubstantiated or referred to management or there are no recommendations for corrective action.

Below is an accounting of the reviews pertaining to concerns of possible improper or dishonest acts:

Fiscal Year	2023-2024	2022-2023	2021-2022
Audit reviews from prior FY	5	4	4
Add: New reviews opened during FY	4	4	7
Less: Reports Issued	(5)	(1)	(1)
Less: Administratively Closed	-	(2)	(6)
Reviews in Progress at end of FY	4	5	4

Four reports were issued for investigations initiated by previous internal audit leaders, with three of these investigations leading to improvement in the system of internal controls. The fifth report was issued from an investigation completed by the TN Comptroller’s Office.

The projects in progress will be included in the FY25 annual audit plan.

RESOURCES

As defined in the MTSU Audit and Compliance Committee Charter, the Audit and Compliance Committee is responsible for ensuring Audit and Consulting Services has adequate resources in terms of staff and budget to effectively perform its responsibilities. The following is the estimated budget for 2024-2025 compared to the actual expenses of the prior two fiscal years.

	Estimated Budget (1)	Actual Expenses (2)	Actual Expenses
	2024 - 2025	2023 - 2024	2022 - 2023
Salaries	\$ 380,088	\$ 232,643	\$ 216,760
Benefits	138,484	97,462	104,327
Total Salaries and Benefits	<u>\$ 518,572</u>	<u>\$ 330,105</u>	<u>\$ 321,087</u>
Travel	5,000	1,026	-
Operating Expenses	9,383	27,494	4,291
Total Budget/Expenses	<u><u>\$ 532,955</u></u>	<u><u>\$ 358,625</u></u>	<u><u>\$ 325,378</u></u>

(1) The Estimated Budget for FY 2024 -2025 will be finalized in October 2024.

(2) The Actual Expenses for FY 2023 - 2024 include the purchase of Audit Software.

The 2024-2025 budget for Audit and Consulting Services includes funding for two unfilled audit positions.

**Middle Tennessee State University
Internal Audit Plan
Fiscal Year Ended June 30, 2025
as of August 1, 2024**

Type	Area	Audit Project	Current Status	Report Date
R	FM	Year-End Inventory FY24	Complete	7/29/2024
R	FM	Cash Counts FY24	Complete	7/24/2024
R	GV	Audit of President's Office	In Progress	
I	AA	INV2403	referred to Comptroller's Office	
I	FM	INV2404	In Progress - initiated April 2024	
I	FM	INV2405	In Progress - initiated April 2024	
I	AT	INV2406	Complete	7/23/2024
A	FM	P-Card Compliance Review	Identified	
C	FM	Cash Processes in Select Areas	Identified	
F	GV	State Audit Assistance/Follow-Up	Project Throughout Year	
C	GV	General Consultation/Risk Assessment	Project Throughout Year	
R	FM	Cash Counts FY25	Scheduled	
R	FM	Year-End Inventory FY25	Scheduled	

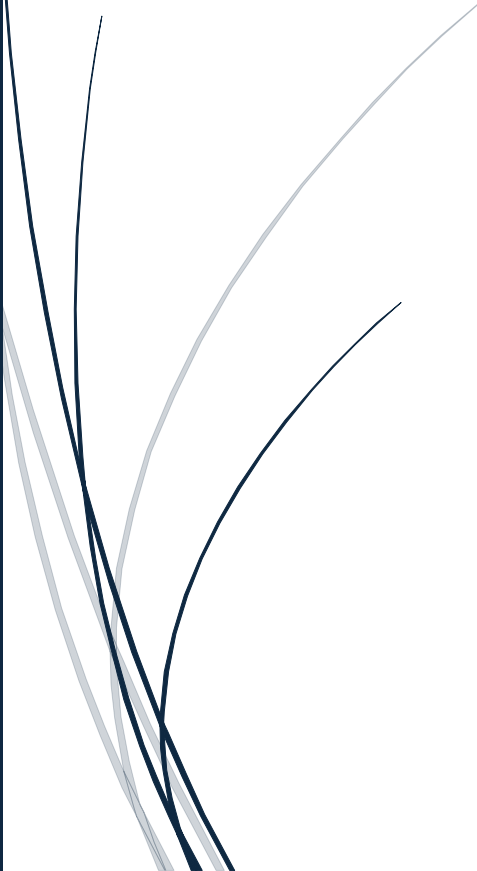
Audit Types:		Area = University Division		
A - Risk-Based (Assessed)		AA - Academic Affairs		
C - Consulting		AD - Advancement		
F - Follow-up Review		AT - Athletics		
I - Investigation		FM - Financial Management		
M - Management's Risk Assessment		GV - Governance/Executive Office		
P - Project (Ongoing or Recurring)		IT - Information Technology		
R - Required		MC - Marketing and Communications		
S - Special Request		SS - Student Services		



August 2024

Audit and Consulting Services

Strategic Plan FY25 - 26



LEAH LADLEY, CPA, CIA, CFE, CRMA
CHIEF AUDIT EXECUTIVE
MIDDLE TENNESSEE STATE UNIVERSITY

Page 21
Audit and Compliance Committee
August 20, 2024

Values:

- Integrity
- Honesty
- Objectivity
- Collaboration
- Confidentiality
- Competency
- Compliance

Vision:

To be the cornerstone of accountability and the trusted partners in excellence, we will serve our community members by providing insightful analysis in our value-added assurance audits and advisory services aligned with our core values and the highest professional and ethical standards.

Mission:

Our mission is to foster a culture of accountability and excellence within the university community by providing risk-based and objective assurance, advisory, and investigative services. We collaborate with university stakeholders to:

- Identify and mitigate risks,
- Enhance internal controls and governance processes,
- Promote fraud awareness and responsible stewardship of university resources,
- Drive continuous improvement through insightful analysis, effective communication, and practical advice.

Background:

Middle Tennessee State University (MTSU) internal audit function was formed in 1967. In 2017, the Governor of the State of Tennessee appointed a Board of Trustees, and the internal audit function began reporting to the Audit and Compliance Committee. The current Chief Audit Executive joined MTSU in November 2023. The department currently has 4 audit positions and an administrative support person. With recent retirements of leadership, there are 2 vacancies.

Audit and Consulting Services: 2024 SWOT Analysis (Partial)		
	Strengths	Weaknesses
Internal Origin	<ul style="list-style-type: none">• Positioning and Support• Professionalism• Certifications• Rapport	<ul style="list-style-type: none">• Department Size• Use of Technology• Audit Plan Completion
	Opportunities	Threats
External Origin	<ul style="list-style-type: none">• Co-Sourcing• Technology• Students	<ul style="list-style-type: none">• New Requirements in Standards• Resource Constraints• Unpredictable Nature of Investigations

Addressing weaknesses and threats using strengths and opportunities:

- Enhancing our current staff in two ways will increase our ability to accomplish our mission:
 - We will allocate current resources to create an internship or graduate assistant role. This will provide opportunities for student development while offering our internal auditor additional supervisory experience. The results will include enhanced student involvement and professional growth within our team.
 - We will select and engage a specialized third-party audit firm for our IT audits. This decision is driven by the need for expert analysis from continually updated professionals on the latest IT risks, trends, and strategies. Funding for these engagements will be shifted from our vacant position, and each engagement topic and scope will be determined by MTSU staff.

By incorporating student workers, we are developing future professionals and addressing our immediate resource constraints cost-effectively. Engaging a third-party auditor for IT audits ensures we have the specialized expertise necessary to manage the complexities of modern technology environments, thereby improving our overall audit quality.

- We have recently implemented audit management software, which enhances our auditing capabilities by streamlining processes and improving reporting and accuracy. It also enhances our recruiting potential by demonstrating our commitment to innovative practices. Our use of data analytics to advance our operations further is an area for future improvements. By finding and applying the correct tool for our environment, we can perform detailed analyses on projects, refine risk assessments, and monitor controls more effectively, thereby enhancing the value of our audit functions.

Our continued integration of audit management software is pivotal in streamlining our processes, improving efficiency, and providing a robust framework for our audit activities. This software integration lays the groundwork for our future initiative in data analytics, which will further refine our audit processes, offering deeper insights and more predictive capabilities.

In conclusion, our strategic plan for internal audit is designed to optimize our resources, strengthen our audit function, and ensure that we remain compliant with the Global Internal Audit Standards and are well-positioned to meet future challenges.

Estimated Timeline:

- FY24
 - Initial implementation of audit management software.
- FY25
 - Refine audit management software.
 - Explore and prepare to initiate:
 - Internship requirements
 - GA requirements
 - Third-party IT audit firms.
- FY26
 - Explore data analytics and potential data integration opportunities.



**Middle Tennessee State University
Board of Trustees**

Audit and Compliance Committee

Information Item

DATE: August 20, 2024

SUBJECT: **Quarterly Report – Internal
Audit Results**

PRESENTER: Leah Ladley
Chief Audit Executive

BACKGROUND INFORMATION:

MTSU Policy 70 Internal Audit section IX.F requires significant results of internal audit reports be presented to the Audit and Compliance Committee quarterly.

Since the last meeting of the Audit and Compliance Committee, the following audit projects were completed:

1. A review of an anonymous hotline complaint was completed, which resulted in an unsubstantiated allegation. An audit memo was issued to the TN Comptroller's Office.
2. Cash Counts for FY24 were completed with no reportable issues.
3. Inventory for FY24 was completed with no reportable issues.



**Middle Tennessee State University
Board of Trustees**

Audit and Compliance Committee

Information Item

DATE: August 20, 2024

SUBJECT: **Results of External Reviews**

PRESENTER: Leah Ladley
Chief Audit Executive

BACKGROUND INFORMATION:

There have been no reports received from any external agencies since the last committee meeting.



**Middle Tennessee State University
Board of Trustees**

Audit and Compliance Committee

Action Item

DATE: August 20, 2024

SUBJECT: **Risk Assessment Reporting**

PRESENTER: Drew Harpool
Assistant Vice President
Office of Compliance and Enterprise
Risk Management

BACKGROUND INFORMATION:

Section 9-18-104 of the Financial Integrity Act requires institutions of higher education to prepare and provide a management assessment of risk to the State of Tennessee's Commissioner of Finance and Administration and to the Comptroller of the Treasury by December 31 annually.

For 2024, the university-wide risk and control activities were updated for Business & Finance and Academic Affairs.

Similar to MTSU's risk assessment reporting of 2023, the risk assessment documents are designated as confidential and are discussed in the non-public executive session of the Committee. The university-wide risk assessment reports for 2024 are presented to the Committee for approval prior to the reports' submission to the State.