THE UNIVERSITY OF TENNESSEE
BOARD OF TRUSTEES

MINUTES OF THE AUDIT COMMITTEE

December 18, 2012
Nashville, Tennessee

A meeting of the Audit Committee of the Board of Trustees of The University of Tennessee was held at 10:00 a.m., CST, December 18, 2012, in the offices of Bradley Arant Boult Cummings in Nashville, Tennessee.

I.   CALL TO ORDER

       Mr. D. Crawford Gallimore, Chair, called the meeting to order.

II.   ROLL CALL

       Ms. Sandy S. Jansen, Executive Director, called the roll, and the following Audit Committee members were present:

                 Mr. D. Crawford Gallimore
                 Mr. Waymon Hickman, external member
                 Mr. Douglas A. Horne
                 Mr. Don C. Stansberry Jr., ex officio
                 Mr. Tommy Whittaker

       Ms. Jansen announced the presence of a quorum of the committee. Other members of the administrative staff were also present.

III.   APPROVAL OF MINUTES FROM LAST MEETING

       Trustee Gallimore asked for any corrections to the May 8, 2012, minutes. Hearing none, Trustee Stansberry moved approval of the minutes as presented. Trustee Whittaker seconded the motion, and it carried unanimously.

IV.   PRESENTATION BY MR. WAYMON HICKMAN

       Mr. Hickman and Mr. Mark Paganelli, Executive Director of Administration and Finance, presented a plaque to Mr. Arthur A. Hayes, director for the Division of

State Audit, for his years of service to the State of Tennessee and his guidance to the Audit Committee.

V.   COMMENTS FROM MR. ARTHUR A. HAYES, DIRECTOR OF STATE AUDIT

Mr. Arthur Hayes provided comments on his history with the Audit Committee and introduced the incoming state audit director, Ms. Deborah Loveless, CPA. She has been with the Comptroller's Office 33 years.

VI.   APPROVAL OF INTERNAL AUDIT AND AUDIT COMMITTEE CHARTERS

Ms. Jansen presented the internal audit and Audit Committee charters for approval to comply with the Institute of Internal Auditors' professional standards and the provisions of the Audit Committee charter. Based on a review of the charters, no changes were recommended.

Trustee Stansberry moved approval of both the internal audit and Audit Committee charters as presented (Exhibit 1). Trustee Hickman seconded the motion, and it carried unanimously.

VII.   UNIVERSITY'S FINANCIAL RISK ASSESSMENT

Ms. Jansen presented the risk assessment which had been updated by the chief financial officer and chief business officers in 2012. They provided updates to reflect the changes in the university's operating environment. The changes were highlighted for review (Exhibit 2).

VIII.   INSTITUTIONAL COMPLIANCE UPDATE

Mr. Bill Moles, Director of Institutional Compliance, provided an update on the activities and a summary of the 2012 accomplishments.

UT Knoxville risk assessment: The UT Knoxville compliance committee finalized the first wave of recommendations. The recommendations included implementing training courses in safety and sponsored projects accounting and modifications to IRIS (the university's financial and human resources system). In addition, Dr. Taylor Eighmy, Vice Chancellor for Research, was appointed as the new campus compliance committee chairman in October 2012.

UT Health Science Center (UTHSC) risk assessment: The compliance risk assessment was completed for UTHSC. Ms. Francine Rogers, Biological Safety

Officer, was appointed as the campus compliance committee chair. The review of the risk assessment results is currently under way.

Code of Conduct: A final draft of the revised Code was developed and shared with constituent employee groups throughout the university. The awareness plan should be launched in early 2013.

Radiation safety investigation: The Institutional Compliance Office completed an investigation of unsafe practices and misuse of university equipment in the UT Knoxville Radiation Safety Office.

Comprehensive review of regulations: A comprehensive review of the regulations included in the campus risk assessments was completed. There were 36 new regulations added and another 257 regulations modified.

Data analytics for sponsored projects: The Institutional Compliance Office began developing a methodology for performing data analytics for sponsored projects, similar to the methodology used by the National Science Foundation (NSF). This project will identify high-risk areas that may be audited by NSF and other agencies using data analytics.

Chair Gallimore asked what issues were outstanding and were still of concern to Mr. Moles. Mr. Moles commented that primary concerns involve the research and safety areas. He commented that some of the greatest risks and largest settlements are in these areas. Risk in the research area is increased because of the decentralized nature of this work. Principal investigators work independently, and the biggest concern is making sure they understand the rules.

Chair Gallimore asked if Audit and Consulting Services (ACS) or Institutional Compliance would be performing inspections. Mr. Moles responded that the inspections on the compliance plan will be handled by the Compliance staff. The current plan is to perform that work at UT Knoxville because the Vice Chancellor for Research requested some inspections for his campus.

Trustee Stansberry asked if Compliance had enough staff to perform the inspections. Mr. Moles responded that there are not many people to perform the work since he has only one staff member. He commented the office is reviewing the feasibility of his staff member focusing approximately 50 percent of her time on inspections and data analytics.

Trustee Stansberry also questioned who would be covering these areas, specifically in Memphis since the system Compliance office has minimal staffing. It was explained that compliance staff within specific areas are responsible for testing compliance. Mr. Mole's team is inspecting the compliance program, checking the checkers, while the compliance team for a specific area tests for compliance on an ongoing basis.

IX.   CODE OF CONDUCT

Ms. Jansen presented the Code of Conduct as an informational item (Exhibit 3). One of the responsibilities defined for the Audit Committee in its charter is to "ensure that the Code of Conduct is easy to access, widely communicated, easy to understand, includes a confidential reporting mechanism, and is enforced."

The Code sets the expectation that employees behave ethically and in compliance with laws, regulations, contractual obligations, and university policies. In 2012, the Code was revised. The Institutional Compliance Office has been working with Human Resources and other UT system administration offices to communicate changes in the revised Code of Conduct. The office is working on an awareness campaign to communicate the new Code and increase employee understanding of the expectations.

X.   2012 ANNUAL AUDIT PLAN STATUS

Ms. Jansen presented the status of the audit plan (Exhibit 4). The internal audit team made progress on the engagements that were in progress from prior years. Twenty-one engagements were completed or will be complete in January.

For required and risk-based engagements, four new engagements were added because of changing risks. Twenty-two of the required or risk-based engagements were issued or will be issued by year-end. The remaining engagements will be carried forward to fiscal year 2013. In addition to the planned audit engagements, 3,350 hours were used to conduct investigations and over 700 hours have been used for other value-added work.

Trustee Stansberry asked Ms. Jansen to report on audits that would not be conducted. Ms. Jansen responded that seven engagements were cancelled.

UT Knoxville: The effort reporting engagement was cancelled because another related engagement was completed this year.

UTHSC: The food services contract engagement was cancelled because the university contracted with a new vendor. The scope of work no longer made sense with a new vendor coming on board. The audit of the Crittenden Pediatric Dental Clinic was cancelled because the auditors were performing follow-up work in that area already.

UT Martin: The campus recreation project was cancelled. This engagement was considered during the risk assessment this year; however, it fell to the bottom of the list. The Banner Student Information System audit was also cancelled. Although there are plans to audit that at some point, the office is moving in a different direction for the next year under the guidance of a new IT auditor who started this year.

UT Chattanooga: The Bursar's Office audit was cancelled. It was cancelled when other risks were considered during the annual risk assessment. This risk was not as significant as other risks on the campus that needed our attention.

Institute for Public Service: The subcontract monitoring project was cancelled. The engagement was considered during the risk assessment for the 2013 plan and fell to the bottom of the list.

XI.   STAFFING STATUS

Ms. Jansen provided an update on staffing. All open positions have been filled. The last open position to be filled was the assistant auditor in Memphis. The new assistant auditor starts in January. While filling the vacant positions, one position, an administrative assistant position, was eliminated.

Trustee Stansberry asked if the Memphis campus is covered adequately. Ms. Jansen responded that the assistant auditor who is starting in January was the last position to be filled. Taylor Cupples was the intern on the Martin campus, and ACS was able to recruit him for the open position in Memphis.

Trustee Stansberry asked if ACS could expand internships to other campuses. Ms. Jansen responded that there are student auditors at the Knoxville campus each year and that it will take some time to prepare for successful internships on other campuses. Chair Gallimore commented that the Audit Committee supports "growing our own" through the use of internships.

XII.   APPROVAL OF 2013 AUDIT PLAN AND COMPLIANCE PLAN

The proposed 2013 audit plan and proposed 2013 compliance work plan were presented for approval. The audit plan outlined the planned audits, both required and risk based, for each campus and institute, as well as engagements anticipated to be in progress at year-end. The compliance work plan detailed work to be conducted by the Institutional Compliance Office in 2013.

Trustee Horne asked about the audit coverage for Athletics. In addition, he asked about the buyout amounts in coaches' contracts. Dr. DiPietro explained that the General Counsel's office has been working with the new coaching contracts to assist the University in managing contracts differently than in the past. He noted that contracts still need to be consistent with the other SEC schools to maintain a competitive posture. In particular, buyouts are consistent with other SEC schools. There was discussion regarding the structure of buyouts in the contracts.

Ms. Jansen explained that ACS has historically conducted NCAA compliance audits each year. This year, Dave Hart, Athletics Director for UT Knoxville, requested that an external firm perform the work. Ms. Jansen explained that she met with Chair Gallimore and Chancellor Cheek about the work. Everyone agreed with the plan as long as it came under the oversight of the Audit Committee. Ms. Jansen indicated that she had visited briefly with State Audit about the engagement and that steps would include approval from the State Comptroller.

Trustee Stansberry asked if ACS would be selecting a firm or if a Request for Proposals (RFP) would be issued. Ms. Jansen responded that an RFP would be issued. Trustee Horne asked General Counsel Mizell if she agreed with that approach. She indicated that she agreed with the approach and that an RFP would be necessary. Dr. DiPietro also indicated that the RFP process allows a measure to evaluate the competency of the firms.

Mr. Hickman moved approval of the 2013 audit plan and compliance plan as presented (Exhibit 5). Trustee Horne seconded the motion, and it carried unanimously.

XIII.   INFORMATION TECHNOLOGY AUDIT

Chair Gallimore presented information on an external information technology security posture engagement.

Chair Gallimore indicated that it had been a number of years since there was a full information technology audit and requested that the Audit Committee consider the need for an external engagement to assess the information technology security posture of The University of Tennessee. Trustee Gallimore also indicated that his company, Hamilton Ryker Federal, had reviewed, on a pro bono basis, the information technology system and made some suggestions. He asked his chief technologist, L.J. Perry, to give a brief overview of what this type of engagement would consist of and how the University would benefit from this audit.

Mr. Perry indicated that this audit would be for all campuses, institutes, and the system administration. Also, the audit would be conducted in a way that would not disturb operations or impact the staff working on the system. This type of audit includes a two-prong approach. The first assessment is called a PRISMA assessment. It is in line with what the University is already doing. A PRISMA assessment looks at nine different areas, draws conclusions, and maps documentation to the people processing the technology. It is one of the few programs that actually provides a score. The deliverables will include a scorecard of the institutes and the campuses.

Mr. Perry commented that it is important that this type of program be continuous and that an assessment of maturity be conducted on an annual basis. The other piece of the assessment relates to the National Institute of Standards and Technology (NIST). He explained that is how the federal government and most entities are mapping their best practices. The assessment will map back the best practices on the security controls. It will identify vulnerabilities and rank them by severity.

Trustee Stansberry questioned how many companies perform this kind of work. Mr. Perry responded that thousands perform this work. In today's world, it is a bit more standardized than it used to be. Ten years ago, there was not the technology or the capabilities to do the things that can be done today. Trustee Stansberry then asked about the time frame for the work. Mr. Perry responded that the first estimate was about 10 weeks but noted that it could go a little longer. He estimated 10 to 20 weeks.

Dr. DiPietro asked Mr. Perry to give the committee some sense of cost. Mr. Perry indicated that he felt like it would cost $1,000,000. Trustee Horne asked if Chair Gallimore was sure there was no way the University could perform the work internally. He indicated his concern with the cost. Chair Gallimore indicated that

the cost is driven by the fact that this work has not been an annual process and that the audit would be the starting point.

Trustee Stansberry asked if this was an annual audit. Chair Gallimore responded that the tools will be used by Information Technology so that it can be done internally on a regular basis. Trustee Stansberry asked Mr. Perry to estimate the cost if done each year. Mr. Perry indicated that, because there would not be a PRISMA assessment, the cost would go down. Chair Gallimore also commented that there would not necessarily be an external audit done every year.

Trustee Stansberry clarified that it would not cost millions each year. Chair Gallimore agreed that it would not be millions and that this engagement would provide UT the opportunity to build into the audit function.

Trustees Horne and Stansberry asked for clarification on exactly what the audit would be doing. Mr. Perry indicated the audit would provide a PRISMA report. There are nine strategic areas included in the review. Those areas are developed by NIST, so it is not something that was just made up. The information technology team is very familiar with PRISMA. PRISMA will allow them to map those nine strategic areas to different functions of the new network, and it will determine the maturity of those functions. At the end of the day, the University will get a report card, a scorecard, of where the maturity is. The second deliverable is similar to a vulnerability assessment. It is where the functionality of everybody's job, the processes, and the technology are mapped to the standards. The vulnerabilities are identified.

Trustee Stansberry asked Mr. Perry to give him an example of something that might turn up in this audit that the University would want to correct. Mr. Perry indicated the audit could uncover all kinds of things, including compliance issues with federal regulations. He did not expect to uncover a lot but explained that there is always something to be uncovered.

Dr. DiPietro asked if the best practice auditors take into account the kind of organization they are auditing and not just security issues around the defense department as compared to The University of Tennessee. Mr. Perry indicated that the auditors start with NIST because it is a logical place to start.

Dr. DiPietro asked if other major universities are using NIST. Mr. Perry responded that other universities are using NIST as well as the International Organization for Standardization (ISO). NIST is probably the best standard

because it was written for the federal government. The University is a state agency, so it is a logical place to start.

Trustee Whittaker asked why the assessment had not been done in the past. Trustee Stansberry indicated that it is coming forward now because Chair Gallimore brought it to the Audit Committee's attention. Ms. Jansen also indicated that some of this work has been done as consulting work and not from an audit perspective. Dr. DiPietro also commented that some work has been completed recently at UT Knoxville.

Trustee Horne asked Bill Moles his opinion of the work. Mr. Moles asked Mr. Perry if the work includes diagnostic tools. Mr. Perry indicated that there is some language to cover that; however, it was written to allow the vendor to match to best practices.

Mr. Moles commented that, from the compliance standpoint, the problems relate to getting our arms around everything and having the tools we need to make sure everything is included.

Trustee Stansberry asked Dr. DiPietro about the engagement. Dr. DiPietro commented that it will be good work but that he worries about the expense side of the work. The administration had been considering a lower expense and had planned on $350,000. Dr. DiPietro commented that he believed ACS should go ahead with the RFP and see where it lands. Chair Gallimore agreed.

Trustee Horne commented that the committee needed to look at this engagement closely. He also indicated that, when the topic had been originally mentioned, he thought the engagement was going to be an internal information technology audit.

Trustee Horne asked where the University was in hiring an information technology director. Dr. DiPietro indicated that the search has been suspended until the audit engagement is complete. James Perry continues to serve as the interim CIO. Information technology at UT is a distributed model, much like some of the other enterprises within UT. It was clear to wait to hire somebody into the job permanently in the face of doing this kind of assessment because it might alter the kind of person that we are looking for or a candidate may want to know about the existing information he or she has to tackle.

Trustee Stansberry moved approval to authorize the administration under the direction of Audit and Consulting Services to issue a Request for Proposals for an

external engagement to assess the information technology security posture of the University of Tennessee (Exhibit 6). Trustee Whittaker seconded the motion, and it carried unanimously.

XIV. DISCRETIONARY EXPENDITURE REPORT

Ms. Jansen presented the discretionary expenditure report (Exhibit 7), noting no expenditures appeared to be for personal benefit or exceeded the scope of authority.

Trustee Horne asked about the consulting on the strategic plan and how the plan was going. Dr. DiPietro indicated he felt things were going very well. Now that the plan is developed, there are implementation teams together with champions on each one the campuses and institutes, who are actually doing the job of implementing the plan and advancing it. A dashboard was presented to the UT Board at its last meeting. The dashboard was not part of the consulting fees and was created internally. Dr. DiPietro commented that when he came to the Board stating he wanted to use a consulting firm, one of his goals was that he did not want to languish getting the plan done. He wanted to be able to complete it in a short time frame and the firm was able to help the university complete the plan quickly and move forward. The consultant's job is done, so while the university spent some resources to do this work, he felt it would not have been as good nor done as quickly if it had been handled internally. The consultants brought an expertise from looking at a number of universities, which was helpful. He commented that he was happy with the job they did.

XV. TRAVEL EXCEPTION REPORT

Ms. Jansen presented the travel exception report (Exhibit 8) and discussed three exceptions noted.

XVI. HOUSING EXCEPTION REPORT

Ms. Jansen presented the housing exception report (Exhibit 9), noting no exceptions.

XVII. OTHER BUSINESS

The chair called for any other business to come before the committee. There was none.

XVIII. ADJOURNMENT

There being no further business to come before the Audit Committee, the meeting was adjourned.

Respectfully Submitted,

Sandy S. Jansen
Executive Director
Audit & Consulting Services