

THE UNIVERSITY OF TENNESSEE  
BOARD OF TRUSTEES

MINUTES OF THE AUDIT AND COMPLIANCE COMMITTEE

December 7, 2015  
Nashville, Tennessee

The Audit and Compliance Committee of The University of Tennessee Board of Trustees met at 10:30 a.m. CST on December 7, 2015, 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 and Compliance Committee members were present:

Mr. D. Crawford Gallimore  
Mr. Waymon Hickman, external member  
Mr. Brad Lampley  
Ms. Sharon Pryse  
Mr. Tommy Whittaker

Ms. Jansen announced the presence of a quorum of the Committee. Members of the administrative staff were also present.

Mr. Charles Peccolo, Chief Financial Officer, recognized Waymon Hickman for his service on the Investment Advisory Committee, the Audit Committee, and for his years of service as a Trustee. Chair Gallimore recognized Mr. Peccolo for his years of service to the University.

III. APPROVAL OF MINUTES FROM LAST MEETING

Chair Gallimore asked for any corrections to the August 24, 2015, minutes. Hearing none, Mr. Hickman moved approval of the minutes as presented and Trustee Whittaker seconded. The motion carried unanimously.

#### IV. APPROVAL OF INTERNAL AUDIT AND COMMITTEE CHARTERS

Ms. Jansen presented the Internal Audit Charter (Exhibit 1) and the Audit and Compliance Committee Charter (Exhibit 2) for approval. She commented on the updates incorporated as recommended by the peer review team. Trustee Pryse moved approval of the charters as presented, and Trustee Whittaker seconded. The motion carried unanimously.

#### V. UNIVERSITY'S FINANCIAL RISK ASSESSMENT

Ms. Judy Burns, Associate Director, and Ms. Sherry Davis, Senior Auditor, of the Office of Audit and Compliance (OAC), discussed the requirements of the Committee's charter to review the risk assessment annually. They presented an overview of the Risk Assessment (Exhibit 3).

#### VI. INFORMATION SECURITY UPDATES

Mr. Brent Hobby, Information Security Officer for UT System Administration (UTSA), Mr. Robert Ridenour, Chief Information Officer for UT Institute of Agriculture (UTIA), and Mr. Scott Gordy, Chief Information Officer for the Institute for Public Service (IPS), presented information security updates for their campuses.

Mr. Hobby presented UTSA updates (Exhibit 4). Chair Gallimore questioned Mr. Hobby about significant risks. He replied that e-mail scams have increased but is encouraged because UT's awareness program seems to be working. While no empirical evidence exists, his office is receiving more calls about suspicious e-mails, suggesting that employees are being more cautious.

Trustee Pryse inquired about penetration testing. Mr. Hobby explained that the University conducts regular penetration testing based on risk to the systems. She asked whether work was conducted on the fraudulent e-mails, specifically wire transfer scams. Mr. Hobby responded that the University has received warnings from the FBI and the scams are becoming very sophisticated. For wire transfers, the security team works with the Treasurer's Office to make sure that, when people receive requests, confirmation processes are in place. Mr. Peccolo commented that there are internal processes requiring documentation, multiple reviews, and confirmation to prevent users from falling for e-mail scams. Mr. Hobby stated he does not want to encourage paranoia but encourages good processes and continues to focus on awareness.

Mr. Gordy presented the update for IPS (Exhibit 5). Chair Gallimore asked about security awareness training at the institute. Mr. Gordy stated there has been good response to the training and many users noted they had no idea about some of the risks presented. He believes the awareness training has helped start conversations and that users now have a better understanding of risks.

Mr. Ridenour presented the information security update for UTIA (Exhibit 6). Chair Gallimore questioned whether the change in data centers had an impact on staffing. Mr. Ridenour responded that the data center changes did not result in a change in headcount. Managing the servers was just part of the staff members' duties. Now, the staff manage the servers remotely.

Chair Gallimore inquired whether the budget was sufficient to address issues. Mr. Ridenour stressed that leadership has been supportive of security and explained some of the funding his area received to support security initiatives.

Chair Gallimore asked about the security awareness campaign to educate end users. In addition to the security awareness campaign, Mr. Ridenour expanded on the security team's efforts to focus on users with access to moderate data, e.g., Health Insurance Portability and Accountability Act (HIPAA), Payment Card Industry (PCI), and Family Educational Rights and Privacy Act (FERPA) data. The goal is to help those users know how to protect moderate data.

Written reports for UT Knoxville (Exhibit 7), UT Chattanooga (Exhibit 8), UT Health Science Center (Exhibit 9), and UT Martin (Exhibit 10) were included in the materials.

## VII. INFORMATION SECURITY FOLLOW-UP

Mr. Jim Purcell, IT Audit Manager in OAC, presented an overview of the follow-up work conducted on the security assessment (Exhibit 11).

## VIII. INSTITUTIONAL COMPLIANCE

Mr. Mark D. Smith, Director of Environmental Health and Safety, presented the UT Emergency Management Update (Exhibits 12 and 13).

Chair Gallimore inquired about contingency plans in the event of a natural disaster and questioned whether the University understands the priorities. He highlighted the delivery of services if water or electricity was not available. Mr. Smith indicated much planning has been done on campuses to address

emergencies with the goal of getting services up and running quickly, including working with the local community. For example, the Knoxville campus would work with the Knoxville Emergency Management Agency (KEMA). If KEMA is not able to provide resources (e.g., generators, water, portable buildings), the University would work with the state and the Tennessee Emergency Management Plan. Contingency plans also exist for relocating through a memorandum of understanding with the Tennessee Board of Regents (TBR) schools. If needed, the University could utilize TBR locations for classroom space or other services. Finally, if needed, FEMA could be involved in bringing resources.

Following a full and frank discussion regarding the University's preparedness for situations similar to the floods in South Carolina, Trustee Pryse suggested it was more likely for a particular dorm to be impacted rather than an entire campus and it would be the University's responsibility to relocate students. Mr. Smith agreed and mentioned the University had to vacate a dorm because of a power outage occurring a year or two ago. Plans worked well, and students were provided temporary housing for 24 to 48 hours.

Trustee Lampley asked about servers in the event of a natural disaster. Mr. Purcell responded that each campus has a basic plan for recovery. During recent audits, findings were noted and improvements are underway. He commented that Knoxville and systemwide applications have a backup site in Atlanta. Mr. Smith added that he has seen a priority plan indicating which systems to address first in the event that all systems are down.

Mr. Ron Maples, Controller, updated the Committee on OMB's Uniform Guidance (Exhibit 14). Mr. Peccolo commended Mr. Maples for his work to align UT policy with the Uniform Guidance.

Ms. Jansen referenced the written report from the Office of Institutional Compliance (Exhibit 15).

## IX. EXTERNAL QUALITY ASSURANCE REVIEW

Ms. Jansen presented the peer review results (Exhibit 16). The team concluded that OAC 'generally conforms' (the top rating). The peer review team also provided recommendations, which are being addressed.

## X. 2015 AUDIT PLAN

Ms. Jansen presented the update on the 2015 audit plan (Exhibit 17). Trustee Pryse inquired about the audit cycle. Ms. Jansen explained that the plan is a calendar-year plan and is based on a risk assessment, not cyclical. The risk assessment includes several qualitative factors, including the financial risk assessment conducted by the Chief Business Officers, interviews conducted across the system and at campuses, and input from OAC team members conducting work throughout the year. Departmental audits are based on quantitative risk factors including expenditures, procurement card activity, equipment transactions, and time since last audit.

Trustee Pryse asked how often a department or process is audited, such as every 5 years. Ms. Jansen explained that the plan is not based on a cycle and that it would be impossible to audit every facet of the University within a certain period of time. Some areas might be audited every 2 years and others every 15, depending on risk factors. In addition, audits include both functions, or processes across departments, and departments. Since the plan includes both types of audits, some areas receive audit coverage in multiple ways. Trustee Pryse questioned whether an audit of travel is conducted annually. Ms. Jansen explained that travel is not audited annually, but travel could be included in departmental audits or as a process audit for a campus.

Trustee Lampley followed up, asking how an audit moves from consideration to started. Ms. Jansen explained that, once the plan is created, the OAC leadership team meets at least once a month to review and prioritize projects to determine when to start work. Many peer audit departments have a goal of completing 70 percent of the audit plan. In a perfect world, the team would complete all projects in a year; however, that will never happen. In addition, projects are added or deleted from the plan during the year because of changing risks and Board and management requests.

## XI. 2016 AUDIT PLAN AND COMPLIANCE WORK PLAN

Ms. Jansen presented the audit plan (Exhibit 18). Trustee Pryse moved approval of the 2016 audit plan as presented and Mr. Hickman seconded. The motion carried unanimously.

The compliance work plan was presented (Exhibit 19). Trustee Pryse moved approval of the 2016 compliance work plan as presented and Trustee Whittaker seconded. The motion carried unanimously.

XII. STAFF CONTINUING PROFESSIONAL EDUCATION

Ms. Amy Wilegus, Director of the Office of Audit and Compliance, presented information on continuing education for OAC staff members (Exhibit 19).

XIII. TRAVEL EXCEPTION REPORT

A written report was submitted by Mr. Peccolo regarding travel exceptions (Exhibit 20). No exceptions were noted.

XIV. 2015 DISCRETIONARY EXPENDITURE REPORT

A written report was submitted by Mr. Peccolo regarding discretionary expenditures (Exhibit 21).

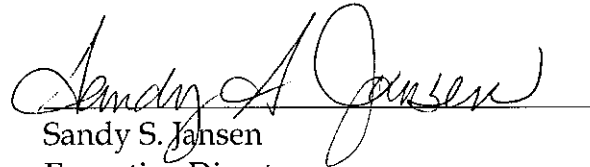
XV. OTHER BUSINESS

The Chair called for any other business to come before the Audit and Compliance Committee. There was none.

XVI. ADJOURNMENT

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

Respectfully Submitted,



Sandy S. Jansen  
Executive Director  
Office of Audit and Compliance