

**BOARD OF TRUSTEES
AUDIT SUBCOMMITTEE
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Carole S. Weimer, *Ex-Officio*
James P. Tressel, *Ex-Officio***

**Tuesday, February 24, 2015
2:00 p.m. or immediately following
previous meeting**

**Tod Hall
Board Meeting Room**

AGENDA

- A. Disposition of Minutes for Meetings Held September 16, 2014; December 9, 2014; and February 9, 2015**
- B. Old Business**
- C. Subcommittee Items**
 - 1. Discussion Item**
 - a. Resolution to Approve Selection of Internal Auditor** **Tab 1**
Neal McNally, Interim Vice President for Finance and Administration, will report.
 - 2. Discussion Items**
 - a. Travel Expense Internal Audit Report** **Tab 2**
Packer Thomas, will report.
 - b. GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*** **Tab 3**
Katrena Davidson, Controller, will report.
 - c. Executive Summaries for Strategic Plan Cornerstones**
Cornerstone Chairs: Ball, Cooper, Fahey and McNally, will report.
- D. New Business**
- E. Adjournment**

AGENDA ITEM: C.1.a.

AGENDA TOPIC: Resolution to Approve Selection of Internal Auditor

STAFF CONTACT(S): Neal McNally, Interim Vice President for Finance & Administration

BACKGROUND: Youngstown State University strives to ensure optimal service quality to students, faculty and staff. Accordingly, YSU has historically used an internal audit function to promote best business practices and manage risk. For over a decade, YSU has outsourced the internal audit function to a private firm, Packer Thomas. With Packer Thomas' contract set to expire on June 30, 2015, YSU has conducted a request for proposals for internal audit services.

SUMMARY AND ANALYSIS: Through the competitive selection process, YSU received proposals from three private accounting firms. A four-person committee consisting of University personnel was established to review and evaluate each proposal. Members of this committee include Dr. Ray Shaffer, chair and professor in the Accounting & Finance Department; Katrena Davidson, Controller; Lisa Reichert, Associate Controller; and Neal McNally, Interim VP.

The committee unanimously determined that each of the three firms has the requisite expertise and resources with which to effectively serve as the University's internal auditor. With each being similarly qualified, a summary of each firm's fee structure appears in the table below.

<u>Firm</u>	<u>Estimated Hours</u>	<u>Year 1 Fee</u>	<u>Fee / Hour</u>		
			<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
HBK	1,900	\$190,000	\$100	\$105	\$111
Packer Thomas	2,000	\$208,800	\$104	\$106	\$108
PWC	Variable	Variable	\$185	\$185	\$185

RESOLUTION:

**RESOLUTION TO APPROVE
SELECTION OF INTERNAL AUDITOR**

WHEREAS, Youngstown State University strives to ensure an environment of managed risk, sound internal controls, and best business practices to serve students, faculty and staff; and

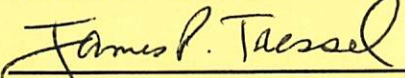
WHEREAS, University management has conducted a thorough analysis of various alternatives to the critical function of internal audit; and

WHEREAS, in an effort to ensure the competitive selection of an internal auditor, University management has conducted a request for proposals; and

WHEREAS, a selection committee comprised of University personnel was established to review and evaluate the three proposals submitted for consideration.

NOW, THEREFORE, BE IT RESOLVED, that the Audit Subcommittee of the Board of Trustees of Youngstown State University does hereby select _____ as its internal auditor for the three year period of July 1, 2015 through June 30, 2018.

RECOMMEND APPROVAL:



James P. Tressel, President

**Board of Trustees Meeting
March 11, 2015
YR 2015-**

AGENDA ITEM: C.2.a.

AGENDA TOPIC: Travel Expense Internal Audit Report

STAFF CONTACT(S): Representatives from Packer Thomas

BACKGROUND: In March 2014, the new Concur travel system was fully implemented. Prior to the Concur system, reimbursement of travel was a very time consuming manual process. The new Concur system automates the process and makes it more efficient. Concur has the ability to provide additional levels of control that are not available in a manual process. For instance, the Travel Service office personnel, travelers and supervisors can easily monitor travel expense reports that are approved and outstanding or have been submitted for reimbursement. Communication between users and the Travel Service department has been improved, as the system leverages with the YSU email system. The timeliness of the submission and reimbursement of travel expense reports has been significantly improved. Per diem rates and mileage reimbursements are automatically calculated within the Concur system. Additionally, if mileage traveled is over 120 miles per day the system will automatically prompt the user to complete the "Car Rental vs Mileage Reimbursement calculator" and may limit reimbursement.

SUMMARY AND ANALYSIS: As is evidenced by this report, management has done a good job in implementing this system and the appropriate internal controls. One issue noted was that there are no routine audit reports being generated by the Travel Service department. Audit reports are reports that should be run on a routine basis to help identify anomalies. Audit reports are instrumental in timely identifying unusual trends in expenses and inappropriate user access rights. Examples of such reports are (this list is not all inclusive):

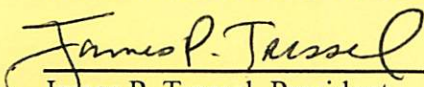
- Travel expenses by expense type
- Total travel expense per department, expense per staff, expense by date, etc.
- Deleted expense reports
- Changes to the travel policy within Concur
- Changes to administration and permission rights for users within Concur
- Comparison of employees with travel cards to list of terminated employees

Management understands our position on this topic and is exploring what reports they deem appropriate to monitor on a routine basis.

We also identified two issues with user access and improper segregation of duties which we discussed with management and they have since made changes to the user access rights to correct the issue.

RESOLUTION: N/A – DISCUSSION ITEM ONLY

REVIEWED AS TO FORM AND CONTENT:


James P. Tressel, President

Youngstown

STATE UNIVERSITY

TRAVEL EXPENSE INTERNAL AUDIT REPORT

January 20, 2015

DISTRIBUTION

Audit Subcommittee: Ms. Delores E. Crawford, Chair
Mr. David C. Deibel, Vice Chair
Mr. Leonard D. Schiavone
Mr. Eric A. Shehadi

Chairman of the
Board of Trustees: Ms. Carole S. Weimer

Management: Mr. James Tressel
Mr. Neal McNally
Ms. Katrena Davidson
Mr. William Wheelock



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TRAVEL EXPENSE INTERNAL AUDIT REPORT

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there won't be a long-run."



Youngstown State University
One University Plaza
Youngstown, Ohio 44555

This report summarizes the results of our internal audit of travel expenses. Please review this report. If you have any questions, please call us at (330) 533-9777.

Management has provided their responses to our findings and those responses are included within this report.

We wish to thank the various University staff that we interviewed and assisted us with this audit as well as the staff of the Travel Services department and the Controller's office for the cooperation that was extended to us during the course of this audit.

Packer Thomas

PACKER THOMAS
January 20, 2015

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OVERVIEW

An audit of the travel expenses recorded within the newly implemented Concur system was recently completed by Packer Thomas. Our procedures were performed as a result of the internal audit scope which was approved by the Audit Subcommittee.

The objectives of our audit were as follows:

- Review current procedures to determine the adequacy of the internal controls
- Determine the effectiveness and efficiency of operations
- Determine compliance with University policy, procedures and other established guidelines
- Test a sample of transactions and verify expenses are appropriate, authorized, and in accordance with University policy
- Extract and analyze data from the travel system

Our consideration of internal controls involved assessing the effectiveness and existence of proper internal controls for the following:

- Management oversight
- Safeguarding of assets
- Reconciliations
- Authorizations
- Monitoring

The procedures performed during our internal audit included interviews with staff who are heavily involved with using the travel expense system and approving travel reports, walkthroughs of the new Concur system, interviews with the Travel Service office personnel, specific testing conducted on various sample sizes, as well as data analysis from the information obtained from Concur. Therefore, our consideration of internal control would not necessarily identify all deficiencies in internal control. However, we have listed below the summary of our findings in three separate categories (as applicable): those that we consider to be issues that require immediate action by management, those that need a timely remedy, and those items for consideration by management based on best practices.

BACKGROUND

In March 2014, the new Concur travel system was fully implemented. Prior to the Concur system, reimbursement of travel was a very time consuming manual process. The new Concur system automates the process and makes it more efficient. Concur has the ability to provide additional levels of control that are not available in a manual process. For instance, the Travel



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Service office personnel, travelers and supervisors can easily monitor travel expense reports that are approved and outstanding or have been submitted for reimbursement. Communication between users and the Travel Service department has been improved, as the system leverages with the YSU email system. The timeliness of the submission and reimbursement of travel expense reports has been improved. Per diem rates and mileage reimbursements are automatically calculated within the Concur system. Additionally, if mileage traveled is over 120 miles per day the system will automatically prompt the user to complete the “Car Rental vs Mileage Reimbursement calculator” and may limit reimbursement. As is evidenced by the few number of findings in this audit report, management has done a good job in implementing this system and the appropriate internal controls.

AUDIT FINDINGS & RECOMMENDATIONS - REQUIRING A TIMELY REMEDY

1. Currently, there are no routine audit reports being generated by the Travel Service department. Audit reports are reports that should be run on a routine basis to help identify anomalies. Audit reports are instrumental in timely identifying unusual trends in expenses and inappropriate user access rights. Examples of such reports are (this list is not all inclusive):
 - Travel expenses by expense type
 - Total travel expense per department, expense per staff, expense by date, etc.
 - Deleted expense reports
 - Changes to the travel policy within Concur
 - Changes to administration and permission rights for users within Concur
 - Comparison of employees with travel cards to list of terminated employees

The lack of audit reports increases the risk of inappropriate expenses and system modifications not being identified in a timely manner or at all. The University should consider producing and analyzing audit reports on a routine basis to monitor travel expenses by category, employee, and/or department. Proper oversight of these transactions would help identify any irregularities and help detect and prevent abuse of the Concur system.

MANAGEMENT RESPONSE

The Concur system has standard reports for travelers and supervisors as well as standard reports for administrators (Travel Services). These reports provide both supervisors and Travel Services the ability to monitor travel. In addition, through the Concur reporting tool, custom reports have been developed by Travel Services for audit purposes. Although many of these administrative reports are generated on a periodic basis, they are not yet currently set-up to be automatically run on a routine basis.



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Travel Services will explore having audit reports set-up on a routine basis and review of such reports incorporated into procedures.

2. In regards to user access rights within the system, there is a lack of segregation of duties. There are two individuals who have both administrator rights in Concur and access within Banner to create and/or edit the vendor master file. These individuals have the ability to create a vendor and also have the check created in Banner without further review. This lack of segregation of duties within the expense payment process creates an increased risk of fraudulent activity and weakens the internal control structure.

A person with administrator rights in Concur should not have the ability to set up a vendor in Banner.

MANAGEMENT RESPONSE

Agreed. We have removed Concur admin roles from the employee in question; and have removed Banner vendor maintenance from the other employee in question.



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AGENDA ITEM: C.2.b.

AGENDA TOPIC: GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*

STAFF CONTACT(S): Katrena Davidson, Controller

BACKGROUND: GASB 68 became effective in FY2015 and will result in significant accounting and reporting changes for Youngstown State University and other governmental employers that participate in cost-sharing, multi-employer defined benefit pension plans, such as OPERS and STRS.

SUMMARY AND ANALYSIS:

- **Accounting Implications:** Governments will be required to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pensions. The Statement enhances accountability and transparency through revised and new note disclosures and required supplementary information. GASB 68 will require YSU to include the proportionate share of the pension systems' unfunded liability on the Statement of Net Position. YSU's share of these liabilities will have a material adverse impact on net position.
- **Pension Funding:** The standard impacts reporting not funding. The responsibility for funding the liability has not changed and remains with OPERS and STRS. The systems are working to reduce the pension system's unfunded liabilities.
- **Financial Ratings:** It is estimated that less than 2% of government entities will be placed under review for possible down grade as a result of the new reporting requirements.
- **SB6:** Changes will be made to SB6 financial reports, to separate GASB reporting changes and overall fiscal status. The liability will not be used when determining fiscal caution, watch or emergency.
- **FY2015 Audit:** Auditor of State is conducting testing of census data of employees covered by the retirement systems for the system auditors. Clarification of impact on external audit is expected after State-wide GASB 68 meeting at end of March that will be geared toward higher education institutions.
- **Resources and Training:** The complexity of implementing the standard continues to be addressed. The University continues to take advantage of resources and training opportunities, including workshops offered by OPERS and STRS.

RESOLUTION: N/A – DISCUSSION ITEM ONLY

REVIEWED AS TO FORM AND CONTENT:


James P. Tressel, President