MINUTES

**JOINT FINANCE/AUDIT COMMITTEE &
ACADEMIC AFFAIRS AND ENROLLMENT MANAGEMENT COMMITTEE**

**UNIVERSITY OF SOUTHERN INDIANA
BOARD OF TRUSTEES**

September 3, 2020

The Finance/Audit Committee and the Academic Affairs and Enrollment Management Committee of the University of Southern Indiana Board of Trustees met in joint session on Thursday, September 3, 2020, virtually via Zoom Video Communications. Present were Finance/Audit Committee Chair Ronald D. Romain ’73; Academic Affairs and Enrollment Management Committee Chair Christine H. Keck; and Trustees Josi M. Barscz ’22; W. Harold Calloway; John M. Dunn; Daniel M. Fuquay; Jeffrey L. Knight; and Christina M. Ryan. Trustee Kenneth L. Sendelweck ’76 was absent. Also, in attendance were President Ronald S. Rochon; Provost Mohammed Khayum; Vice President for Finance and Administration Steven J. Bridges ’89 M’95; Vice President for Marketing and Communications Kindra L. Strupp; Vice President for Development David A. Bower; Vice President for Student Affairs Khalilah T. Doss; and Chief Government and Legal Affairs Officer Aaron C. Trump.

Finance/Audit Committee Chair Ron Romain called the joint meeting to order at 9:35 a.m.

1. REPORT ON THE VOLUNTARY EMPLOYEES’ BENEFIT ASSOCIATION (VEBA) TRUST FUND

Mr. Romain called on Vice President Bridges, who reported that the Voluntary Employees' Benefit Association (VEBA) Trust was created in 1995 to establish a long-term investment vehicle to partially fund future retiree benefit costs for medical, dental, and life insurance. This year marks the third time that USI withdrew funds from the VEBA Trust Fund. Retiree medical claims from July 4, 2019, to May 14, 2020, totaled slightly over $1.22 million.

Mr. Bridges introduced, Neil Heppler, Co-President with Fourth Street Performance Partners and the investment advisor for the VEBA Trust, for an annual report. Mr. Heppler reported on the performance of the VEBA Trust Fund for fiscal year ending June 30, 2020. He explained the dramatic effects that COVID-19 had on the market, noting a recovery in the current quarter that was influenced by the unprecedented fiscal and monetary stimulus by Congress and the Federal Reserve. Mr. Heppler reviewed the Investment Portfolio Performance Summary, Asset Allocations, and Portfolio Risk Statistics. The market value of the Asset Allocations as of June 30, 2020, totaled $24,573,464.

2. VEBA TRUST INVESTMENT POLICY STATEMENT REVIEW

Mr. Romain called on Vice President Bridges for the annual review of the Investment Policy Statement for the VEBA Trust. Mr. Bridges referred the Trustees to Attachment A. He noted there are no changes to the policy recommended this year, however, an annual review and approval is requested.

On a motion by Ms. Keck, seconded by Mr. Knight, approval of the unchanged Investment Policy Statement for the VEBA Trust in Attachment A was approved.

3. UNIVERSITY INVESTMENTS UPDATE

Mr. Romain called on Vice President Bridges, who explained in addition to the work that Neil Heppler presented for the VEBA Trust Fund, the University also engages his firm to assist with University investments. USI continues to finalize the structure of that program and has been liquidating investments as they mature to prepare to fund future investments under this program. Mr. Bridges directed the Trustees to Attachment B, the investment policy proposed for the University by Mr. Heppler last year. This policy was approved and is recommended to continue unchanged for next year. USI plans to bring this to the Board annually for review as it has the VEBA investment policy, and in the future the Board will also receive investment updates. Mr.

Bridges concluded noting for this year USI is simply recommending approval of the unchanged policy from last year.

On a motion by Mr. Dunn, seconded by Mr. Knight, the University Investment Policy in Attachment B was approved.

4. APPROVAL OF RECOMMENDATION FOR 2021-2022 HOUSING RATES

Mr. Romain called on Vice President Bridges for a review of the recommendation for the 2021-2022 housing rates. Mr. Bridges reported student housing at USI includes 580 apartments in 53 buildings and 236 suites in four residence halls, which allow for approximately 2,700 beds. In fall 2020, student housing opened at 73.3 percent occupancy, a reduction from 84.1 percent in fall 2019.

Mr. Bridges proposed a rate increase of $62 per semester for 2021-2022, or approximately two- and one-half percent for the most common occupancy contract; two students per room. The proposed rate will be $2,534 for a double occupancy room. The rate recommendation includes a two- and one-half percent increase for all housing occupancy types. Mr. Bridges noted the extensive work with Student Affairs to maintain programming in the complexes and to maintain a comprehensive maintenance program that keeps USI well positioned in price and quality.

On a motion by Mr. Calloway, seconded by Mr. Knight, a recommendation to the Board of Trustees for approval of the following 2021-2022 housing rates was approved.

FALL OR SPRING SEMESTER		**CURRENT RATE**	**PROPOSED RATE**	**EFFECTIVE DATE**
McDONALD or O'DANIEL APARTMENT				
Two Bedroom:	Two students per bedroom	$2,472	$2,534	7-01-21
	One student per bedroom	4,329	4,437	7-01-21
One Bedroom:	Two students	2,981	3,056	7-01-21
	One student	5,430	5,566	7-01-21
GOVERNORS, NEWMAN, O'BANNON, or RUSTON HALL				
Two Bedroom: Two students per bedroom		$2,472	$2,534	7-01-21
One Bedroom Studio: One student		2,981	3,056	7-01-21

Students who live in housing have $50 in Munch Money added to the housing rates above for use in any dining venue on campus.

SUMMER SESSIONS

Summer session rates are pro-rated to fall and spring semester rates.

5. APPROVAL OF RECOMMENDATION FOR 2021-2022 MEAL PLAN RATES

Mr. Romain called on Vice President Bridges for a review of the recommendation for the 2021-2022 meal plan rates. He noted for the start of the 2020-2021 year, USI had 488 meal plans less than the prior year, a 27 percent decrease. This is a result of on campus undergraduate student enrollment decline, housing capacity restrictions, and the carry-over of $1.1 million dollars from last semester that was unused due to the closing of campus in March (COVID-19) thereby reducing the number of new purchases. USI proposed a $67 increase to $2,302 per semester, a three percent increase that equates to $5.58 per week. USI will use these new dollars to meet what will be inevitable operating increases and increases in food and labor costs.

On a motion by Ms. Barscz, seconded by Mr. Knight, a recommendation to the Board of Trustees for approval of the following 2021-2022 meal plan rates was approved.

FALL OR SPRING SEMESTER	CURRENT RATE	PROPOSED RATE	EFFECTIVE DATE
Red, White, or Blue Eagle Meal Plan	$2,235	$2,302	7-01-21

6. REVIEW OF COMPLETED AUDITS AND ANNUAL AUDIT PLAN

Mr. Romain called on Vice President Bridges who noted that a second Internal Audit report to the committee was added because the volume of information reviewed is difficult to accommodate in a single meeting. Mr. Bridges introduced Director of Internal Audit, Brad Will, for the report. Mr. Will reviewed two audits completed year-to-date. He shared his conclusions and reviewed actions to be taken as a result of the following audits:

- Bonds Payable Post-Issuance Compliance; and
- Travel Expense Approval and Routing.

He also reviewed other audit and advisory activities including Public Safety – Clery Act Compliance; Title IX Policy Review; update of internal control documents for state auditors; monitoring and advising on CARES Act funding compliance; monitoring of COVID-19 return to campus initiatives; and monitoring and advising on IT security initiatives.

Mr. Will referred the Trustees to Attachment C for a review of updated audit recommendations and the 2020 Internal Audit Plan.

7. APPROVAL OF CONSTRUCTION CHANGE ORDERS

Mr. Romain asked Vice President Bridges to review the construction change orders in Attachment D. Mr. Bridges reported these change orders related to the Physical Activities Center Renovation and exceed the $25,000 approval authority by the Vice President for Finance and Administration. One of the changes represent an example of the unexpected in that the corridor flooring was lower than the gym floor in the former PAC arena and required leveling. Mr. Bridges explained although finding the unexpected in renovations is typical, this was out of the ordinary.

On a motion by Ms. Keck, seconded by Ms. Barscz, the change orders in Attachment D were approved.

8. CHANGE ORDERS APPROVED BY VICE PRESIDENT FOR FINANCE AND ADMINISTRATION

Mr. Romain called on Vice President Bridges to review the construction change orders approved by the vice president for Finance and Administration. Mr. Bridges directed the Trustees to Attachment E, a listing of the change orders below the $25,000 limit that do not require Board approval.

9. ENROLLMENT UPDATE

Mr. Romain called on Provost Khayum for a report. Dr. Khayum introduced Mr. Rashad Smith, executive director for Enrollment, to give an update. Mr. Smith reviewed the Fall 2020 student count as of August 31. USI was 125 students from its census goal of 8,690. This status includes new freshmen, transfer, and graduate students and continuing undergraduate and graduate students. Official census will be taken on September 18, 2020.

There being no further business, Chair Romain adjourned the joint committee meeting at 10:21 a.m.

UNIVERSITY OF SOUTHERN INDIANA
VEBA TRUST INVESTMENT POLICY

INVESTMENT POLICY - GENERAL

The purpose of the investment policy (the ”policy”) is to define the attitudes, philosophy, and goals of the Finance/Audit Committee of the University of Southern Indiana Board of Trustees (the “Board of Trustees” or the “Board”) for investing the VEBA (Voluntary Employees’ Benefit Association) Trust Fund (the “Fund”). In addition, the policy defines the investment guidelines that will be provided to the investment managers. These guidelines address the structure necessary to achieve a diversified portfolio, including asset classes, allocation targets, and management styles. This portfolio should be capable of achieving significant long-term returns while maintaining acceptable levels of risk. The policy will further define the measurable industry standards that will be used to monitor and evaluate the performance attained by investment managers. While this policy defines the current guidelines for managing the Fund’s investments, it is intended that it will be reviewed regularly and modified to meet the evolving financial environment.

INVESTMENT PHILOSOPHY

The VEBA Trust Fund was established with the intent of providing a revenue stream that will be utilized to partially fund future costs of the University of Southern Indiana’s (the “University”) post-retirement health benefit plan. Since inception, the assets in the VEBA Trust Fund have been allowed to grow through additional investments, reinvestment of current income from the asset base, and capital appreciation of the asset base. During this time no distributions were taken from the Fund. Beginning in fiscal year 2017-2018, the first annual distribution from the Fund was taken to fund a portion of the University’s post-retirement health benefits. The investment philosophy for this fund will be based upon the goal of maintaining the purchasing power of the Fund into the future by exceeding the rate of inflation by the amount of the distribution rate of the Fund.

Investment decisions for the Fund will be based upon the continuing belief in a free enterprise society supported by publicly owned businesses; therefore, the Fund’s assets should be invested in high quality equity and debt securities of these businesses. It is also recognized that in any economy or over any appreciable time period there will probably be an inflationary loss of purchasing power of the Fund’s assets. Historically, over the extended periods of time, equity investments generally have grown through dividends and appreciation at a faster pace than inflation, and it is expected that such a trend will continue. Consequently, over the long run, equity investments generally provide the best hedge against inflation and a deterioration of the asset base.

The investment objectives of the Fund call for a disciplined and consistent management philosophy that accommodates the occurrence of those events that might be considered reasonable and probable. They do not call for a philosophy that represents extreme positions or opportunistic styles of investing.

The investment portfolio of the Fund will be diversified as to both fixed income and equity holdings. The purpose of diversification is to provide reasonable assurance that no single investment or class of investments will have a disproportionate or significant impact on the total portfolio. The purpose of fixed income investments is to provide a highly predictable and dependable source of income, to reduce the volatility of the total portfolio market value, and, when appropriate, to provide a source of funds for other investments. The purpose of equity investments is to provide current income, growth of income, and appreciation of principal with the recognition that this requires the assumption of greater market volatility and risk of loss.

The Fund will not be directly or internally managed by the Board of Trustees, the Finance/Audit Committee, or University officials. An investment consultant will be utilized to act as a fiduciary in providing information, analysis, and recommendations to University management and the

Finance/Audit Committee on various aspects of the VEBA Trust Fund's investment program. Multiple investment managers will be retained by the fund to manage the assets to (1) provide greater diversification of investment judgment, investment opportunity, and risk exposure, and (2) create a positive influence on performance through independent monitoring of each manager.

Investment managers will be selected from strongly established and financially sound organizations that have a proven and demonstrable record in managing funds with characteristics similar to those of the Fund. Selection will depend upon factors established by the Finance/Audit Committee from time to time. These factors will include the competitive structure of the investment manager's custodial and management fee schedules.

The Finance/Audit Committee has considered the financial implications of a wide range of asset allocation policies, and this policy describes the prudent investment process deemed appropriate. Further, in seeking to fulfill its obligations under this policy, the Finance/Audit Committee shall exercise prudence and appropriate care in accordance with the Uniform Prudent Management of Institutional Funds Act (hereinafter referred to as "UPMIFA" and added to Indiana Public Law as Indiana Code Sections 30-2-12-0.5 through 30-2-12-18).

As summarized for the purpose of this policy, UPMIFA requires that all investment actions and decisions must be based solely on what is in the best interest of the VEBA Trust Fund and conform to fundamental fiduciary duties of loyalty and impartiality. The Finance/Audit Committee is under a duty to the University to manage the Fund's investment assets as a prudent investor would, in light of the assets' purposes, scope, objectives and other relevant circumstances.

UPMIFA further requires the exercise of reasonable care, skill, and caution while being applied to investments not in isolation, but in the context of the portfolio as a whole and as part of an overall investment strategy having risk and return objectives reasonably suited to the Fund. In making and implementing investment decisions, the Finance/Audit Committee has a duty to diversify Fund investments unless, under special circumstances, the purposes of the Fund are better served without diversifying. The Finance/Audit Committee also must act with prudence in deciding whether and how to delegate authority, in the selection and supervision of agents, and incurring costs where reasonable and appropriate.

DISTRIBUTION RATE

Effective July 1, 2014 the University eliminated the post-retirement health care benefit for all new hires and for existing benefits-eligible employees whose age plus years of service as of July 1, 2014 is less than 57 points and whose benefits-eligible service as of July 1, 2014 is less than 10 years. Since the cost of the post-retirement health care benefit will cease to exist in the future, it is not the intent of the University to maintain the VEBA Trust Fund in perpetuity. As funding needs require, especially as the benefit ceases, the corpus of the Fund may be completely spent on post-retirement health care benefits.

For the near-term, University management has determined that an annual target distribution rate of 4.5% from the Fund is a reasonable and prudent use of the investment proceeds to partially fund the University's post-retirement health benefits costs. The distribution rate may vary from year to year depending on the University's funding need. Each year University management will review the funding need for the post-retirement health benefits cost and determine the amount of drawdown needed from the Fund. Setting a target distribution rate of 4.5%, does not preclude University management from exceeding this rate if warranted. Management will report the distribution rate or distribution amount to the Finance/Audit Committee and will review the financial status of the Fund annually with the Finance/Audit Committee.

FUND INVESTMENT OBJECTIVES

The long-term investment objectives of the VEBA Trust Fund are:

(1) To exceed the general rate of inflation by the amount of the distribution rate;

(2) To establish a diversified investment portfolio between fixed and equity securities;

(3) To establish further diversification among various asset classes within the fixed and equity pools; and

(4) To maximize total return utilizing prudent levels of risk.

ASSET ALLOCATION MIX

Historical performance results and future expectations suggest that equities will provide higher total investment returns than fixed-income securities over a long-term investment horizon. Investments in equities also carry with them increased exposure to market volatility and risk of loss of principal. Based upon the time horizon and current distribution rate for future distributions of the VEBA Trust Fund, the investment goals of the Fund, and prudent risk tolerances, the following asset allocation guidelines are deemed appropriate for the investment of Fund assets.

ALLOCATION

Investment Type	Target	Range
Equities	70%	65% - 75%
Fixed Income & Cash	30%	25% - 35%

Investments should not exceed the minimum and/or maximum levels for more than 30 days without the written authorization of the Finance/Audit Committee. University management, in consultation with the investment consultant, has discretion to move within the ranges as an expression of University management and the investment consultant's confidence or concern for the securities markets.

EQUITY ASSET CLASS DIVERSIFICATION

Within the equity portion of the portfolio, the Fund seeks to further diversify among different equity investment approaches based upon market capitalization, geographic domicile and investment style. These investment approaches and their target allocations are presented below.

Asset Class/Style	Target
Equities	
U.S.Large Capitalization	45%
International	13%
U.S. Small/Mid Capitalization	12%
Total Equities	70%

These target allocations are intended to be general guidelines. Movement among the various asset classes from time to time will be considered normal. The asset class target mix percentages are long-term in nature. The Finance/Audit Committee does not believe that short-term market timing will add value to the portfolio over the long run.

INVESTMENT RESTRICTIONS

Any investment manager is specifically prohibited from investing trust assets in the following securities and transactions:

(1) Short sales or purchases on margin
(2) Purchase of options
(3) Direct investments in commodities or real estate
(4) Letter stock or other unregistered securities

(5) Private placements
(6) Bonds rated less than “A”
(7) Foreign debt issues
(8) Derivatives for speculative purposes
(9) Other investments which would appear to violate the fiduciary responsibility of the fund

PERFORMANCE OBJECTIVES

The Finance/Audit Committee will periodically review the performance of the investment managers based upon the performance objectives detailed below. It is generally expected that the performance objectives will be achieved over rolling five (5) year periods.

U.S. Large Capitalization Equity
The annualized total return of large capitalization domestic equity portfolios should equal or exceed the annualized total return generated by the Standard & Poor’s 500 Stock Index, net of fees, and provide positive risk-adjusted returns. Investment managers’ and mutual funds’ returns in this category should exceed the median of a peer group of investment managers or funds utilizing a similar investment style.

International Equity
The annualized total return of international equity portfolios should equal or exceed the annualized total return generated by the Morgan Stanley Capital International Europe, Australia, Far East (EAFE) Index, net of fees, and provide positive risk-adjusted returns. Investment managers’ and mutual funds’ returns in this category should exceed the median of a peer group of international equity mutual funds utilizing a similar investment style.

U.S. Small/Mid Capitalization
The annualized total return of small/mid capitalization domestic equity portfolios should equal or exceed the annualized total return generated by the Russell 2000 Index, net of fees, and provide positive risk-adjusted returns. Investment mangers’ and mutual funds’ returns in this category should exceed the median of a peer group of investment advisors or funds utilizing a similar investment style.

U.S. Intermediate Fixed Income
The annualized total return of domestic intermediate fixed income portfolios should equal or exceed the annualized total return generated by the Bloomberg Barclay’s Intermediate Government/Credit Index, net of fees, and provide positive risk-adjusted returns. Investment managers’ and mutual funds’ returns in this category should exceed the median of a peer group of investment advisors or funds utilizing a similar investment style.

INVESTMENT CONSULTANT RESPONSIBILITIES

An investment consultant will be utilized to act as a fiduciary in providing information, analysis, and recommendations to University management and the Finance/Audit Committee on various aspects of the VEBA Trust Fund’s investment program including the following:

- Strategic and tactical asset and sub-asset class allocation guidance to support the VEBA Trust Fund’s investment portfolio objectives.
- Selection and monitoring of investment managers.
- Reporting of portfolio and investment manager performance relative to agreed upon benchmarks and timeframes. This includes preparation of performance evaluation reports for University management and the Finance/Audit Committee.
- Monitoring the investment managers relative to their organizational structure, investment style, and compliance with this investment policy.

INVESTMENT MANAGER RESPONSIBILITIES

It is expected that the investment managers will assume the following responsibilities in managing the VEBA Trust Fund assets:

- Comply with the provisions of the Investment Advisors Act of 1940.
- Invest the assets with the same care, skill, prudence, and due diligence under the circumstances then prevailing that experienced investment professionals, acting in a like capacity and fully familiar with such matters, would use in like activities.
- Communicate in writing with the Finance/Audit Committee the performance results and current holdings in the portfolio.
- Manage the assets under its care, custody, and/or control in accordance with the investment policy's performance objectives and guidelines set forth herein.

ROLE OF THE FINANCE/AUDIT COMMITTEE

The responsibility of the Finance/Audit Committee of the Board of Trustees is to provide direction for the investment of the financial assets of the University of Southern Indiana VEBA Trust Fund. The specific responsibilities are as follows:

- To establish and maintain policies and guidelines for the investments of the fund assets
- To determine the appropriate allocation ranges among classes of investments
- To engage and terminate the services of investment consultants and managers
- To monitor investment returns and review the performances of investment managers
- To report to the Board of Trustees

MONITORING OF INVESTMENT MANAGERS

The Finance/Audit Committee of the Board of Trustees is responsible for monitoring of the stewardship of the investment managers. From time to time, the Finance/Audit Committee may meet individually with the investment consultant and/or investment managers. During these meetings, the Finance/Audit Committee will focus on reports about:

- Managers' compliance with the investment policies developed by the Finance/Audit Committee
- The most recent economic environment and projected future changes in that environment
- Significant changes in the manager's organization, investment philosophy, and/or key personnel
- Comparisons of the investment manager's results with the appropriate benchmark standards as outlined in the investment policy

UNIVERSITY OF SOUTHERN INDIANA

Proposed Investment Policy Statement

for

Unrestricted Funds

PURPOSE

The purpose of this investment policy statement (the "IPS") is to define the investment objectives and policies for the management and oversight of any marketable securities of unrestricted funds held by the University of Southern Indiana (the "University").

The IPS establishes the governance principles and allocates responsibilities for the investment of these University assets. It will be used as a guideline for the Finance/Audit Committee of the Board of Trustees, University Management and all investment managers overseeing any portion of these assets.

INVESTMENT OBJECTIVES

The primary investment objective for all investments subject to this IPS is to ensure the preservation of asset principal necessary to maintain appropriate liquidity to meet the annual cash needs of the University with a secondary emphasis on maximizing return consistent with the primary investment objective. Additionally, the investment of these assets is subject to and shall comply with Section 30-4-3-3 of the Indiana Code.

ROLES AND RESPONSIBILITIES

Board of Trustees (the "Board")

Under Indiana Code Section 21-29-2-1, the Board of the University is responsible for any establishment and oversight of written policies concerning the investment of funds in the manner provided by Indiana Code Section 30-4-3-3.

Finance/Audit Committee of the Board of Trustees (The "Committee")

The Committee acts in a fiduciary capacity with respect to the University's assets and is accountable to the University Board for overseeing the investment of assets consistent with this Board-approved IPS.

The Committee is responsible for the formulation of the IPS that sets forth the investment objectives and guidelines that govern the activities of the Committee and any other parties to whom the Committee has delegated investment management responsibility for University assets.

The Committee may hire an investment consultant or other advisor to act as a fiduciary in providing information, analysis, and recommendations to the Committee on various aspects of the University's investment program. With the guidance and assistance of the investment consultant, the Committee hires appropriate investment managers to manage portions of these assets.

The Committee is responsible for reviewing this IPS at least once per year. Changes to this IPS can be made only by affirmation of a majority of the Committee and requires approval by the Board prior to implementation.

University Management - Vice President for Finance and Administration

The office of the Vice President for Finance and Administration has day-to-day responsibilities and managerial oversight of any services provided to the University by any investment consultant, investment managers, and custodians. The primary functions of University management, in conjunction with the investment consultant, include:

1. Monitoring University investments and implementing Committee decisions consistent with this IPS.

2. Maintaining appropriate liquidity necessary to meet University spending needs and disbursements.

3. Investment of funds deemed too short-term to be overseen by an investment manager consistent with this IPS.

4. Informing and advising the Committee on financial, economic and political developments that may affect the University.

5. Monitoring custodial and brokerage activity.

Investment Consultant

University management may hire an investment consultant to act as a fiduciary in providing information, analysis, and recommendations to the Committee on various aspects of the University's investment program including the following:

1. Strategic and tactical asset allocation guidance to support the University's investment portfolio objectives.

2. Review of this IPS on an annual basis.

3. Investment manager search data and assistance in the selection and monitoring of investment managers.

4. Reporting of portfolio and investment manager performance relative to agreed-upon benchmarks and timeframes. This includes preparation of performance evaluation reports for University management and the Committee illustrating the risk/return profile of the University's investments and investment managers relative to appropriate indices and peers.

5. Monitoring the investment managers relative to their organizational structure, investment style, and compliance with this IPS. The investment consultant shall report to the Committee any findings that may prevent the portfolio from meeting the objectives of the IPS.

Investment Managers

With the guidance and assistance of the investment consultant, the Committee generally will engage investment managers to implement the investing of assets in various asset classes and to manage the University assets subject to this IPS. Investment managers are required to meet the following criteria:

1. Investment managers must be a bank, insurance company or its affiliate, mutual fund or investment advisor as defined by the Registered Investment Advisors Act of 1940.

2. Investment managers must provide to the investment consultant historical quarterly performance information calculated on a time-weighted basis, based on a composite of all fully discretionary accounts of similar investment style, and reported net and gross of fees.

3. Investment managers must provide detailed information to the investment consultant on the history of the firm, key personnel, key clients, fee schedule, and support personnel.

4. Investment managers must clearly articulate the investment strategy that will be followed and document that the strategy has been successfully adhered to over time.

The duties and responsibilities of each investment manager retained by the Committee shall include the following:

1. Managing University investments under its care, custody, and/or control in accordance with the IPS objectives and guidelines set forth herein and expressed in separate written agreements when deviation is deemed prudent and desirable by the Committee.

2. Exercising investment discretion, including holding cash equivalents as an alternative, within the IPS objectives and guidelines set forth herein.

3. Promptly informing the Committee, University management, and the investment consultant in writing regarding all significant and/or material matters and changes pertaining to the investment of assets, including, but not limited to:

   a) Changes in investment strategy, portfolio structure, tactical approaches, and significant market value of managed assets.

   b) Changes in the ownership, organizational structure, financial condition, and/or professional staff of the firm.

   c) All material legal, SEC, and other regulatory agency proceedings affecting the firm.

4. At the discretion of the Committee, investment managers may vote all proxies and related actions in a manner consistent with the long-term interests and objectives of the University set forth herein. Each investment manager shall keep detailed records of said voting of proxies and related action and will comply with all regulatory obligations related thereto.

5. Each investment manager shall utilize the same care, skill, prudence, and due diligence under the circumstances then prevailing that experienced investment professionals, acting in a like capacity and fully familiar with such matters, would use in like activities.

Custodians

With the assistance of the investment consultant, University management will select one or more custodians to physically, or through agreements with sub-custodians, maintain possession of securities owned by the University, collect dividends and interest payments, redeem maturing securities, and effect receipt and delivery of securities following purchases and sales. Custodians will provide detailed monthly statements to University management and the investment consultant as directed and including all information as determined by the Vice President for Finance and Administration's office as necessary to meet the University's internal accounting requirements. Further, any custodian must be able to provide annual fiscal year-end data deemed necessary by University management to comply with all applicable Governmental Accounting Standards Board statements.

INVESTMENT PERFORMANCE GOALS

The following investment performance goals shall be monitored by University Management on a quarterly basis and by the Committee on at least a yearly basis. It is intended that they be achieved, <u>net-of-investment management fees, over appropriate evaluation periods.</u>

1. The total return is expected to exceed a Balanced Index comprised of 20 percent BofA Merrill Lynch 1-3 Year Government/Corporate Bond Index and 80 percent Barclays U.S. Intermediate Government/Corporate Bond Index.

2. The total return is expected to maintain volatility (beta) of no more than 1.20 times that of the Balanced Index and maintain a positive risk-adjusted performance (alpha).

EVALUATION OF INVESTMENT MANAGERS

Investment managers will be reviewed on an ongoing basis and will be evaluated based upon the following criteria:

1. Continuity of personnel and practices at the firm.

2. Adherence to the philosophy and style which were articulated to the University at, or subsequent to, the time the investment manager was retained.

3. Ability to exceed the investment performance (net-of-investment management fees) of other investment managers who adhere to the same or similar style.

4. Ability to exceed the investment performance objectives (net-of- investment management fees) stated below:

Fixed Income Managers

1. The total return of each manager’s portion of these assets shall exceed that of the manager’s corresponding index: either the BofA Merrill Lynch 1-3 Year Government/Corporate Bond Index or Bloomberg Barclays U.S. Intermediate Government/Corporate Bond Index.

2. Each manager will be evaluated versus a universe of similar fixed income managers and is expected to rank in the top one-third of this universe over most three-year periods.

ASSET ALLOCATION

The allocation of funds among the various investment categories shall be determined by the Committee and monitored by University Management on a quarterly basis to reflect the following structures for each asset pool.

Investment Category	Minimum	Target Mix	Maximum
Intermediate Fixed Income Securities (Duration between 3-5 years)	**70%**	**80%**	**100%**
Liquid/Short Term Fixed Income (Duration between 1-3 Years)	**0%**	**20%**	**30%**

AUTHORIZED INVESTMENTS AND EXPOSURE RESTRICTIONS

1. **Obligations of the U.S. Government and Agencies –** All obligations of the U.S. Government or sponsored agencies are authorized for use.

2. **Money Market Funds –** Shares of any established money market fund which invests only in U.S. Treasury and/or Federal Agency securities and whose assets exceed $250 million or funds managed by Indiana banks which provide insurance for University funds under Indiana Statute by the Public Deposit Insurance fund and registered with the SEC (maximum maturity of one year) are authorized for use.

3. **Certificates of Deposit, Demand/Transaction Deposits, and Time Deposits –** Certificates of Deposit, Demand/Transaction Deposits, and Time Deposits may be purchased from domestic banks and savings and loan associations that are designated by the Indiana state board of finance as a depository for public funds in accordance with Indiana Code Section 5-13-9-5-3.

4. **Commercial Paper –** Commercial paper rated A-1 by Standard & Poor’s or Fitch’s or P-1 by Moody’s and matures within 270 days are authorized for use. With respect to commercial paper that is split rated by the rating agencies (i.e., rated A-1 or P-1 by one or more agency but also rated below these ratings by one or more agency), where all three agencies have a rating on the commercial paper, the middle rating will apply. Where ratings are provided by only two agencies, the lower of the two ratings will apply.

   Outstanding commercial paper of any individual corporation may not exceed $500,000 and the aggregate for any individual industry will be limited to $1 million.

5. **Bankers’ Acceptances –** Bankers’ acceptances are limited to those financial institutions designated as public depositories as described above in paragraph 3.

6. **Investment Grade Corporate Notes and Bonds –** Notes and bonds of a corporate business entity, organized under the law of the United States or any State thereof with a corporate bond rating by Standard & Poor's, Fitch's or Moody's of investment grade (BBB- or Baa-) or above are authorized for use. With respect to corporate bonds or notes that are split rated by the rating agencies (i.e., rated investment grade by one or more agency but also rated below investment grade by one or more agency), where all three agencies have a rating on the security, the middle rating will apply. Where ratings are provided by only two agencies, the lower of the two ratings will apply.

   Outstanding Corporate Notes and Bonds may not constitute more than 50 percent of any investment manager's fixed income portfolio.

7. **Mortgage-Backed Securities –** U.S. Government or agency Mortgage Pass-Through Securities (including TBAs and non-agency MBSs) rated AA-/Aa- or better by Standard & Poor's, Fitch's or Moody's are authorized for use. With respect to mortgage-backed securities that are split rated by the rating agencies (i.e., rated AA-/Aa- or better by one or more agency but rated below AA-/Aa- by one or more agency), where all three agencies have a rating on the security, the middle rating will apply. Where ratings are provided by only two agencies, the lower of the two ratings will apply.

   Outstanding Mortgage-Backed Securities may not constitute more than 20 percent (at the time of purchase) of any investment manager's fixed income portfolio. Outstanding non-agency residential mortgage-backed securities otherwise meeting the criteria of this sub-section shall not comprise more than five percent of any fixed income manager's portfolio.

   In the broadest sense, Mortgage-backed securities are derivative securities. However, for purposes of this Investment Policy Statement, "Whole Loan" Agency Pass-through Securities and Collateralized Mortgage Obligations (CMOs) which do not leverage the exposure of a portfolio to changes in interest rates or prepayment rates will not be considered derivatives. However, structured notes and lower class tranches of Collateralized Mortgage Obligations (CMO's) and securities created by stripping the principal and interest payments from the underlying mortgage-backed security into separate classes (including interest only (IO), principal only (PO), and inverse floating securities) which do leverage the exposure of a portfolio to changes in interest rates of prepayment rates are considered derivative securities and prohibited.

8. **Asset-Backed Securities –** Asset-backed securities rated AA-/Aa- by Standard & Poor's, Moody's or Fitch's or better are authorized for use. With respect to asset-backed securities that are split rated by the rating agencies (i.e., rated AA-/Aa- or better by one or more agency but rated below AA-/Aa- by one or more agency), where all three agencies have a rating on the security, the middle rating will apply. Where ratings are provided by only two agencies, the lower of the two ratings will apply.

   Outstanding Asset-Backed Securities may not constitute more than 20 percent of any investment manager's fixed income portfolio.

9. **Municipal Bonds –** All general obligation and revenue bonds issued by domestic state and local governments and their creations with a municipal bond rating by Standard & Poor's, Fitch or Moody's of A- or above are authorized for use. With respect to municipal bonds that are split rated by the rating agencies (i.e., rated A- or better by one or more agency but rated below A- by one or more agency), where all three agencies have a rating on the security, the middle rating will apply. Where ratings are provided by only two agencies, the lower of the two ratings will apply.

   Outstanding municipal bonds may not constitute more than 15 percent of any investment manager's total investment assets unless that investment manager has been specifically directed by the Committee to invest solely in municipal bond securities. Municipal bonds from one state may not exceed five percent of the total securities in a municipal bond portfolio

10. **Derivatives –** Investments in derivative securities shall not be utilized to increase the actual or potential risk posture of the University's investment portfolio. The use of primary derivatives, including, but not limited to, futures contracts, options, short sales, margin trading and such other specialized investment activity is prohibited without prior written approval of the Committee.

    Moreover, investment managers are precluded from using derivative securities to affect a leveraged portfolio structure (if options and/or futures are specifically approved in writing by the Committee, such positions must be offset in their entirety by corresponding cash or securities).

INVESTMENT MANAGER GUIDELINES AND RESTRICTIONS

1. Each investment manager shall have full investment discretion regarding market timing and security selection.

2. Any investment manager shall immediately notify management in writing of any material changes in its investment strategy, ownership, organizational structure, financial condition or senior personnel.

3. Separate account investment managers should be prepared to meet with the University at least annually.

4. Securities transactions should be entered into based on best execution, which normally means best realized price.

5. There shall be no investments in non-marketable securities.

6. Any investment manager's investment grade fixed income portfolio must have a weighted average credit rating of AA-/Aa- or better by Standard & Poor's, Fitch's or Moody's rating services. Also, no investment grade fixed income manager shall purchase a security rated below investment grade (BBB-/Baa-).

7. If any security held in an investment manager's portfolio becomes an unauthorized investment subsequent to purchase, the investment manager must immediately notify University management and the investment consultant and submit a written analysis of the security to the appropriate oversight committee providing a recommendation for holding or disposing of such security.

8. The total exposure to any individual issuer shall not exceed five percent of any investment manager's portfolio, at aggregate cost value, except for securities issued by the U.S. Government (and its agencies).

9. Securities are to be diversified both as to sectors and industries as well as to number of holdings with no more than 30 percent of the portfolio at the time of purchase invested in securities of corporations in any one industry. Also, concentrating in industries or companies all of which are sensitive to a single economic or political event or investment idea should be avoided.

10. With respect to maturity and duration, "maturity" shall mean the time from valuation date to the date of expected repayment of principal. "Duration" shall mean the present value weighted average time to full recovery of principal and interest payments, and also shall mean Macauley's duration adjusted for implied options. Investment managers shall make these estimations for all issues, particularly self-amortizing issues.

    a) The duration of any intermediate-term fixed income portfolio shall be between three years and five years. The maturity of individual fixed income issues shall be restricted to 10 years.

b) The duration of any short-term fixed income portfolio shall be between one year and three years. The maturity of individual fixed income issues shall be restricted to 10 years unless self-amortizing in which case the average life is to be five years or less.

FINANCE/AUDIT COMMITTEE REVIEW

This IPS shall be reviewed by the Committee annually. Investment performance will be reported to University management on a quarterly basis and the Committee will meet formally annually to review the returns of the investments subject to this IPS. Outside investment managers are welcome to provide suggestions regarding appropriate adjustments to this statement or the way investment performance is reviewed.

Acknowledged by: ______________________________ ________

Chair, Finance/Audit Committee Date
University of Southern Indiana

UNIVERSITY OF SOUTHERN INDIANA

Internal Audit Report

Prepared by

Bradley V. Will, CPA
Director of Internal Audit

Kendra Groeninger
Internal Audit Manager

Report No. USIA20-1
April 6, 2020

Audit Report
Bonds Payable
Post-issuance Compliance

Results at a Glance

Audit Objectives:	***RISK MITIGATION***			
	Adequate Controls & Practices	**Opportunity for Minor Improvement**	**Opportunity for Moderate Improvement**	**Opportunity for Significant Improvement**
Evaluate the adequacy of post-issuance procedures or guidelines to ensure bond financings remain in compliance with federal requirements after issuance				
Review processes and procedures in place for reporting and measuring private business use of facilities financed with tax-exempt bonds				
Evaluate whether private business use complies with federal limits				

<u>Introduction</u>

Our report of the internal audit of bonds payable post-issuance compliance is presented below. We would like to thank Jeff Sickman, Steve Bridges, Andrea Herschelman, Mike Mohr, Lauren Clowers, and Rustin Howard who contributed positively to our results.

<u>Background Information</u>

The University of Southern Indiana typically finances major capital projects, such as the construction of new facilities and major renovations to existing facilities, in whole or in part with proceeds from the issuance of tax-exempt bonds. As of June 30, 2019, the University had approximately $107 million in outstanding bonds payable. These bonds are subject to federal tax requirements both at the time of issuance and for as long as the bonds remain outstanding. An issuer's failure to comply with any federal tax requirement with respect to tax-advantaged bonds jeopardizes the preferential tax status of those bonds. Appropriate monitoring of compliance throughout the entire period bonds remain outstanding, improves an issuer's ability to identify noncompliance, prevents violations from occurring, timely corrects identified violations (when prevention is not possible) and ensures the continued tax-advantaged status of the bonds.

Report No. USIA20-1
April 6, 2020

This report is based on a review of the post-issuance guidelines, processes and procedures in place relative to tax-exempt bonds with outstanding balances as of March 2020 and facility rentals of space in bonded facilities for the period from January 1, 2019, through December 31, 2019. The audit approach included discussions with the Vice President for Finance and Administration and the Controller and Assistant Treasurer, including review of a compliance questionnaire available from the Internal Revenue Service, which covers a variety of post-issuance compliance considerations. The audit approach also included interviews with the Associate Director of Special Events and the Scheduling Services Supervisor regarding tracking of facility rentals. Internal audit reviewed facility rentals for the audit period for potential private business use. Square footage of bonded facilities and square footage associated with management/service contracts or leases within those facilities was obtained from Facility Operations and Planning to calculate private business use percentages.

The **objectives** of the audit were to:

- Evaluate the adequacy of post-issuance procedures or guidelines to ensure bond financings remain in compliance with federal requirements after issuance
- Review processes and procedures in place for reporting and measuring private business use of facilities financed with tax-exempt bonds
- Evaluate whether private business use complies with federal limits

Conclusion

We noted **opportunity for moderate improvement** with respect to the adequacy of post-issuance procedures or guidelines, as well as with respect to processes and procedures in place for reporting and measuring private business use. We noted **adequate controls and practices** with respect to private business use not exceeding federal limits.

Management will take or has taken the following actions:

- Formalizing and documenting guidelines and/or written procedures to ensure post-issuance bond compliance
- Measuring private business use for tax-exempt bond financed facilities

No additional action or response is required.

Bradley V. Will	Kendra Groeninger
Director of Internal Audit	Internal Audit Manager

Distribution: Jeff Sickman
Steve Bridges
Dr. Ronald Rochon

Report No. USIA20-1
April 6, 2020

Bonds Payable
Post-issuance Compliance
Audit Report

Control Issues and Responses

Formalizing and documenting guidelines and/or written procedures to ensure post-issuance bond compliance

Issue: As part of the review of post-issuance tax-exempt bond compliance, Internal Audit identified a compliance questionnaire available from the Internal Revenue Service. The questionnaire covers a variety of post-issuance compliance considerations, including the existence of written procedures or guidelines that bond issuers use to ensure compliance. While the University works closely with bond legal counsel regarding compliance issues, post-issuance compliance guidelines or procedures have not been formally documented.

Risk: The lack of documented guidelines or procedures increases the risk that potential compliance violations occur and may call into question post-issuance compliance controls in an external review.

Response: Management will work with bond counsel to formalize and organize our efforts in documenting post-issue bond compliance. This project will start in fall 2020 with a completion expected by the end of January 2021.

Measuring private business use for tax exempt bond financed facilities

Issue: Federal tax law places limits on the private business use of facilities financed with tax-exempt bonds. Private business use may arise from leases, management contracts, research agreements and other contracts with third parties depending on the nature and the duration of the agreement. In order to comply with federal tax law, the University must measure private business use in each facility financed with tax-exempt bonds. The University does not have a formal process for measuring and reporting private business use.

Risk: The lack of a formal process for measurement could result in excessive private business use, which could subsequently require refinancing of a debt issuance or voluntary settlement and significant monetary penalties with the IRS.

Response: Management will work with Special Events and Scheduling Services to obtain and document facility usage by third parties. This project will start in fall 2020 with a completion expected by the end of January 2021. With less usage expected in 2020-2021 due to COVID-19 safety measures, this provides a great opportunity to restart data gathering and implement a formal monitoring process.

Report No. USIA20-2
July 14, 2020

Audit Report
Travel Expense Approval and Routing

Results at a Glance

Audit Objectives:	***RISK MITIGATION***			
	Adequate Controls & Practices	**Opportunity for Minor Improvement**	**Opportunity for Moderate Improvement**	**Opportunity for Significant Improvement**
Evaluate the adequacy of written travel expense policies and procedures				
Verify travel expenses are supported by a pre-trip approval report authorized by the appropriate financial manager and Travel Procurement				
Verify travel expenses incurred do not exceed the authorized expense amounts				
Verify travel expenses are supported by an expense report and receipts which were reviewed by accounts payable personnel				

Introduction

Our report of the internal audit of travel expense approval and routing is presented below. We would like to thank Jeff Sponn, Susanne Stanley, and Angela Torres who contributed positively to our results.

Background Information

The University of Southern Indiana implemented the Chrome River travel expense software in March 2019. The software allowed the University to convert what was mostly a paper-based process, for both pre-trip approvals and post-trip expense reporting, to an electronic process with automated routing for review and approval. Excluding travel associated with athletics, the University averages approximately two million dollars in annual travel expenses associated with employee and student travel. As a result, having an efficient and effective process for obtaining pre-trip approval and submitting post-trip expense reports is important for both the University and its employees.

Report No. USIA20-2
July 14, 2020

This report is based on a review of the University's Travel Policies and Procedures and travel expenses incurred between July 1, 2019, and March 31, 2020. The audit approach included discussions with Travel Procurement and Accounts Payable personnel regarding the functionality and reporting capabilities of the Chrome River system. The approach also included review of expenses incurred for domestic employee travel and international employee and student travel to ensure expenses incurred during the audit period were properly approved, authorized, and supported by appropriate documentation.

The **objectives** of the audit were to:

- Evaluate the adequacy of written travel expense policies and procedures
- Verify travel expenses are supported by a pre-trip approval report authorized by the appropriate financial manager and Travel Procurement
- Verify travel expenses incurred do not exceed the authorized expense amounts
- Verify travel expenses are supported by an expense report and receipts which were reviewed by accounts payable personnel

Conclusion

We noted **opportunity for minor improvement** with respect to written travel expense policies and procedures and **adequate controls and practices** with respect to pre-trip approval authorizations, travel expenses not exceeding authorized amounts, and travel expense supporting documentation and review.

Management will take or has taken the following actions:

- Finalizing the draft of the Travel Policies and Procedures document and incorporating it into the University Handbook

No additional action or response is required.

Bradley V. Will
Director of Internal Audit

Kendra Groeninger
Internal Audit Manager

Distribution: Susanne Stanley
Jeff Sponn
Dan Martens
Angela Torres
Jina Platts
Jeff Sickman
Steve Bridges
Dr. Ronald Rochon

Report No. USIA20-2
July 14, 2020

Travel Expense
Approval and Routing
Audit Report

Control Issues and Responses

Finalizing the draft of the Travel Policies and Procedures document and incorporating it into the University Handbook

Issue: The University's Travel Policies and Procedures published on the Travel Procurement website are marked as "draft" and dated March 2019. However, the policy in the University Handbook is dated December 2018 and contains references to forms and requirements that are no longer applicable since implementation of Chrome River.

Risk: The presence of differing policies in the University Handbook and on the Travel Procurement website may create confusion and frustration for employees and result in a failure to submit required pre-trip and post-trip documentation.

Response: The Travel Policies and Procedures document will be finalized and incorporated into the University Handbook by October 1, 2020.

University of Southern Indiana
Audit Recommendations Matrix
Calendar Year 2017

AUDIT NAME OBSERVATION	RISK RATING	RECOMMENDATION	RESPONSE	TARGET	STATUS
Child Protection Policy (CPP) and Procedures					
1. The following issues were noted during a review of 15 University-sponsored child-related events held during the 2016 calendar year: • Eight events did not use a Background Check Tracking Form • Five programs were missing at least one volunteer's Program Participant Form • Seven events were missing at least one volunteer's Authorization for Background and Sex Offender Registry Checks • Seven programs did not conduct Background Sex Offender Registry Checks as required by the CPP and/or Child Protection Committee (CPC) instructions on the Event Planning Form	Moderate	Implement a third-party background check or modify policy and procedures to simplify the process. If third-party checks are cost-prohibitive, consider a tiered approach for screening individuals that work with children (e.g. performing criminal background checks and sex offender registry checks through Human Resources on all employees participating in programs involving children, while only requiring sex offender registry checks utilizing the Raptor system for non-employee volunteers).	Management will implement a third-party background check by October 31, 2017. The University will utilize a tiered approach for screening individuals that work with children such as performing criminal background checks and sex offender registry checks through Human Resources on all employees participating in programs involving children, while only requiring sex offender registry checks utilizing the Raptor system for non-employee volunteers.	October 31, 2017 Revised target for implementation of Raptor screening: July 1, 2018 January 1, 2019 August 31, 2019 Target for implementation of third-party background checks on new employees: May 31, 2019 Revised: October 1, 2019 May 1, 2020	Raptor screening completed and ongoing Complete for hourly and administrative new hires Targeting rollout for faculty and adjuncts by October 1, 2020, and January 2021, respectively.
2. The following issues related to sex offender registry checks and volunteer check-in were noted during a review of 15 University-sponsored child-related events held during the 2016 calendar year: • Three programs did not use a Participant Check-In Form or acceptable alternative • Eight events did not use a Background Check/Sex Offender Registry Check Tracking Form • Five programs were missing at least one volunteer's Program Participant Form • Seven events were missing at least one volunteer's Authorization for Background and Sex Offender Registry Checks • Seven programs did not conduct Background and Sex Offender Registry Checks as CPP and/or CPC instructions on the Event Planning Form	Moderate	Utilize the Raptor system for sex offender registry checking and event check-in for all employee, student, and community volunteers each day of a child-related event and develop procedures for discreetly addressing potential sex offender "hits" the day of the event.	Revised response: Responsibilities for the Child Protection Policy and performance of sex offender registry checks are being assumed by Public Safety. Proposed policy and procedure revisions will be complete by March 31, 2019 Executive management approval will be obtained by April 30, 2019 Revised policy and procedures rolled out to University community by August 31, 2019	Policy/procedure: March 31, 2019 Management approval: April 30, 2019 Policy/procedure: August 31, 2019 Revised: September 30, 2019 March 31, 2020 August 31, 2020	Revisions completed Approval obtained

University of Southern Indiana
Audit Recommendations Matrix
Calendar Year 2018

AUDIT NAME OBSERVATION	RISK RATING	RECOMMENDATION	RESPONSE	TARGET	STATUS
Undergraduate Admissions (UA)					
2. The current admission decision process requires the associate director to perform a series of data sorts multiple times a day and requires manual entry of the admission decision into Banner.	Low	Work with information technology personnel to automate the data sort process to eliminate manual sorting. Consider programmatically creating separate reports of applicants that meet admission criteria, applicants that are clearly denials, and applicants that require manual review. Consider automating the entry of the admission decision for the obvious approvals and denials.	UA plans to have the automated admission decision process and reports fully in place by spring semester of 2019 if the project queue in Information Technology (IT) allows. Revised Response: UA determined it was not feasible to utilize Banner functionality to automate admission decisions. UA will meet with IT to determine feasibility of custom programming and priority in the work queue.	January 2, 2019 Feasibility meeting: September 30, 2019 Revised: March 31, 2020 November 30, 2020	
5. There is not a recurring report of possible scholarship decision errors associated with the out-of-state scholarship awards to incoming freshmen and transfers.	Moderate	Implement an exception report that shows potentially eligible applicants who were denied out-of-state scholarship awards and ineligible applicants who were incorrectly approved for these awards.	UA management is working with IT on the development of exception reports for the out-of-state top scholar, out-of-state scholarship, out-of-state transfer top scholar, and out-of-state transfer scholarships which will identify eligible applicants who were incorrectly denied these awards and ineligible applicants who were incorrectly approved for awards. The edit reports will be in place by the end of August 2018. Revised Response: Edit reports for out-of-state top scholar and the out-of-state scholar were in place at time of the audit. UA will create an edit report for the out-of-state transfer top scholar and out-of-state transfer scholarship by May 15, 2019. Due to limited availability of IT resources, UA will evaluate other options for identifying potential exceptions.	August 31, 2018 Revised: May 15, 2019 Identification of alternatives: December 31, 2019 Revised: March 31, 2020 November 30, 2020	

University of Southern Indiana
Audit Recommendations Matrix
Calendar Year 2019

AUDIT NAME OBSERVATION	RISK RATING	RECOMMENDATION	RESPONSE	TARGET	STATUS
Employment, Payroll, and Benefits					
1. A review of a sample of personnel files revealed that forms used to track the data entry and review of employment, payroll, and employee benefit data were not consistently initialed by personnel performing the verification of the data entered. This could indicate the data entered from the forms were not reviewed.	Moderate	Develop change/audit reports to identify critical data fields that contain new or modified data when compared to the previous day and implement reviews by someone in the department independent of the data entry to compare to the paper forms to ensure updates are properly authorized and entered accurately.	Human resources will develop change/audit reports generated from Banner to identify critical data fields that contain new or modified data and implement a review process by someone independent of the data entry. Revised Response: Subsequent to the audit, human resources has implemented two new procedures to validate salary data. Efforts to develop change/audit reports will continue with a target for feasibility and implementation by January 31, 2021.	October 31, 2019 Revised: May 1, 2020 January 31, 2021	
3. Plans are in place to implement an online employee benefits enrollment process. Human resources management is considering implementing the online employee election process for fall 2019 and subsequently implementing the data uploads to Banner HR and the insurance providers. Because the upload process is not visible to the general users, there is a risk that its significance gets overlooked and resources get redeployed to other priorities	Low	Ensure that the upload process is implemented soon after the employee election front-end so that employee benefits personnel reap the full benefit of the online enrollment capabilities.	Human resources management is targeting implementation of the employee benefit election upload to Banner HR by June 2020 to ensure that the process is in place prior to the fall 2020 open enrollment period. Revised Response: The online employee benefit election process is expected to be in place in fall 2020 for 2021 open enrollment. Management is targeting implementation of the upload to Banner for June 2021, prior to the subsequent open enrollment period.	June 30, 2020 Revised: June 30, 2021	
4. The current payroll processing schedule includes a bi-weekly payroll for support staff and temporary workers, a bi-weekly payroll for student workers, and monthly payroll for full-time faculty, administrative staff members, and adjunct faculty. The bi-weekly payrolls are paid one week in arrears, while the monthly payroll is paid current. The variety of payroll cycles creates complexities that impact the efficiency and effectiveness of payroll processing.	Low	Transition the monthly payroll to a bi-weekly payroll schedule that is one week in arrears.	Senior management has approved the transition of monthly payroll to a bi-weekly payroll schedule. The transition will be scheduled to occur following the implementation of an electronic time reporting system for both student employees and support staff in the fall of 2020 and spring of 2021, respectively.	August 1, 2021	
5. During the audit, payroll personnel indicated they have established an objective to increase the use of technology through the selection and implementation of an electronic time-keeping/time-tracking system. The current payroll processing environment relies heavily on hard-copy documents for tracking and reporting hours worked and employee time off (both paid and unpaid time). The University uses paper time sheets for employees to record their hours. In addition, personnel within the various departments summarize the hours from employee timesheets by recording them on a hard-copy recap document.	Moderate	Continue to pursue ways to increase the use of technology as it relates to time tracking and reporting for payroll. Depending upon the cost and amount of time required to implement a “package” solution, the payroll department could see near-term efficiency gains by replacing the paper recap documents with an electronic spreadsheet.	Human resources has targeted the implementation of an electronic time and attendance reporting system to occur in three phases. The first phase will involve transitioning student employees to electronic time reporting in the summer or fall of 2020. The second phase will transition support staff to electronic time reporting in the spring of 2021. Lastly, monthly employees would be transitioned to electronic attendance reporting in the fall of 2021 or thereafter, depending on the ability to complete the first two phases as expected.	Phase 1: Fall 2020 Phase 2: Spring 2021 Phase 3: Fall 2021 Revised: TBD - personnel have been redeployed for COVID-19 contact tracing	
7. The current operating environment relies upon personnel within each of the colleges to notify payroll when a course or section is canceled. As a result of this decentralized environment, sometimes payroll is not notified timely of such cancellations.	Moderate	Utilize a report of course or section cancellations from Banner, including the instructor of record, and systematically compare that data to a list of employees assigned positions associated with adjunct, overload, summer, or stipend payments. For those where a match is identified, payroll or employment personnel could email the appropriate department regarding whether or not the employee should be paid for the assignment.	Human resources will work towards the development of a Banner report showing course or section cancellations and a procedure for payroll or employment personnel to email the appropriate department regarding whether or not the employee should be paid for the assignment.	Spring 2020 Revised: May 1, 2020	Completed

University of Southern Indiana
Audit Recommendations Matrix
Calendar Year 2019

AUDIT NAME / OBSERVATION	RISK RATING	RECOMMENDATION	RESPONSE	TARGET	STATUS
Food Services Management Agreement and Profit-Sharing					
1. The University's agreement with Sodexo for the management of food services was signed in March 2010. The agreement was amended each year thereafter for changes in pricing and details of the services. However, a few provisions of the agreement were not updated to reflect the current service arrangement.	Moderate	Work with Sodexo to correct or eliminate contractual terms which do not reflect the services to be provided under the current business relationship.	University management has submitted outdated contract items to Sodexo management for review. Based on discussions, the parties expect to have contract updates completed by January 31, 2020.	January 31, 2020 Revised: March 31, 2020	Completed
2. The food services management agreement includes a provision that every other month Sodexo shall invoice and USI shall pay for mandatory resident dining fees for the next two months. Sodexo also provides weekly statements reflecting the application of meals against the pre-payment. Currently, the University does not record the advance payments or the weekly offset of meals in a prepaid account.	Low	Establish a prepaid account for mandatory resident dining meal plans to record amounts pre-billed by Sodexo and the weekly depletion of meal plans.	Accounting will investigate ways to use technology to improve the reconciliation process and implement new procedures by July 2020 for the fall 2020 semester. Accounting expects to work with the food service vendor on possible improvements to information provided on invoice adjustments and will also examine the possibility of using a prepaid and/or suspense account.	August 31, 2020	Completed
3. Meal plan purchases and meal plan adjustments processed through the card office are entered into the Blackboard Transact card system by card office personnel. Except for one upload at the beginning of each term, if the transaction is to be posted to the student account in Banner, card office staff must also enter the purchase or adjustment into Banner.	Moderate	Implement a daily upload from Blackboard Transact to Banner of meal plan activity to be posted to student accounts.	The Business Office will work with IT and the Eagle Access Card Office to implement daily feeds from Blackboard to Banner for the start of the 2020-2021 academic year.	July 31, 2020 Revised: January 2021	
NCAA Recruiting Compliance					
1. There is currently no post-visit review of official and unofficial visit paperwork to evaluate whether the visits were conducted in compliance with NCAA Bylaws.	Moderate	Implement a post-visit review of the visit paperwork and supporting documents for a sample of official and unofficial visits for each sport to evaluate whether the visits were conducted in accordance with NCAA Bylaws.	The athletics department will implement a post-visit review for both official and unofficial visits and add the post-visit review process to the athletics compliance manual in the summer of 2020.	July 1, 2020 Revised: September 30, 2020	
3. Due to changes in the forms and procedures, the Green Sheet is no longer required before an official visit occurs. However, the athletics compliance manual states that this form must be completed prior to an official visit.	Low	Update the compliance manual to remove the requirement that a Green Sheet be completed before an official visit is approved.	The requirement to complete a Green Sheet prior to an official visit will be removed from the athletics compliance manual during the annual update scheduled for summer of 2020.	July 1, 2020	Completed

University of Southern Indiana
Audit Recommendations Matrix
Calendar Year 2020

AUDIT NAME OBSERVATION	RISK RATING	RECOMMENDATION	RESPONSE	TARGET	STATUS
Bonds Payable Post-issuance Compliance					
1. While the University works closely with bond legal counsel regarding bond compliance issues, post-issuance compliance guidelines or procedures have not been formally documented.	Moderate	Work with the University's bond legal counsel to formalize and document guidelines or written procedures associated with post-issuance bond compliance.	Finance and Administration will work with bond counsel to formalize and organize our efforts in documenting post-issue bond compliance. This project will start in fall 2020 with a completion expected by the end of January 2021.	January 31, 2021	
2. In order to comply with federal tax law, the University must measure private business use in each facility financed with tax exempt bonds. The University does not have a formal process for measuring and reporting private business use.	Moderate	Work with Special Events and Scheduling Services to obtain reporting of facility usage by third parties. This information should be used to measure private business use and create reporting for management to monitor and evaluate usage at least on an annual basis.	Business Office personnel will work with Special Events and Scheduling Services to obtain facility usage by third parties and document this usage. This project will start in fall 2020 with a completion expected by the end of January 2021.	January 31, 2021	
Travel Expense Approval and Routing					
1. The University's Travel Policies and Procedures published on the Travel Procurement website are marked as "draft" and dated March 2019. However, the policy in the University Handbook is dated December 2018 and contains references to forms and requirements that are no longer applicable.	Low	Finalize the Travel Policies and Procedures document and incorporate it into the University Handbook.	The Travel Policies and Procedures document will be finalized and incorporated into the University Handbook.	October 1, 2020	

University of Southern Indiana
Annual Audit Plan
Calendar Year 2020

QUARTER BEGINNING	AUDIT AREA	DESCRIPTION	HOURS
January 2020	Tax-Exempt Bonds Payable	Review for compliance with private business use restrictions	220
	Internal Control Documents for financial statement audit	Documentation of accounting and financial reporting controls for state auditors	100
	Auxiliary Enterprises	Physical inventory observations (New Harmony Museum Shop and Campus Store)	45
April 2020	Payment and cash handling	Review controls within areas that regularly accept payments and handle cash	240
	University Risk Management Committee	Facilitation of University Risk Management Committee Activities	60
	Travel Expense Reporting	Review Chrome River travel expense routing, approval processing, and reporting system	220
	Strategic Plan and Enrollment Management	Provide support to management related to the strategic plan and enrollment management initiatives	150
	Facility Operations Storeroom	Physical inventory observation	50
July 2020	Public Safety	Clery Act reporting compliance	200
	Federal Student Financial Aid	Review administration of federal student aid for compliance with federal requirements	250
	IT Security Initiatives	Monitor progress on security findings from prior IT security and privacy audits & coordinating follow-up to past external audit reviews	220
October 2020	External Audit Support	Support for external auditors performing federal financial aid audit and state aid agreed upon procedures	120
	Athletics Ticketing	Review ticketing processes associated with new ticketing system	225
	Capital Projects	Review recent capital projects and evaluate budgeted costs to actual costs incurred	190
	Title IX	Review policies and procedures for compliance with revised regulations	150

Total Hours	**2,440**
Hours Available	2,470
Hours available for unscheduled audits	30

Summary of Construction Change Orders Recommended for Authorization

PHYSICAL ACTIVITIES CENTER (PAC) RENOVATION AND AQUATICS CENTER

Empire Contractors, Inc. - General Contractor

CO P017 Change back to tile in the restrooms	$ 35,585
CO P020 New family restroom on 2^{nd} level	$ 36,037
CO P023 Floor fill in corridor to accommodate gym floor	$ 39,346

Summary of Construction Change Orders
Authorized by the Vice President for Finance and Administration

PHYSICAL ACTIVITIES CENTER (PAC) RENOVATION AND AQUATICS CENTER PHASE II

Empire Contractors, Inc. - General Contractor

CO N009 Brick and Slab edge changes	$ 2,277

PHYSICAL ACTIVITIES CENTER (PAC) RENOVATION PHASE II

Empire Contractors, Inc. - General Contractor

CO P018 Install blackout shades to media room.	$ 4,585
CO P019 Locker modifications, existing water heater, move & add outlets	$ 9,808
CO P021 Locker room change, replace and change existing doors	$ 9,919
CO P022 Finish changes in classrooms and classroom corridors	($ 2,482)