December 15, 2020

Mr. Butch Eley, Commissioner   The Honorable Justin P. Wilson
Department of Finance and   Comptroller of the Treasury
Administration   State Capitol Building
State Capitol Building   Nashville, TN 37243
Nashville, TN 37243

Dear Mr. Eley and Mr. Wilson:

This annual report regarding the University of Tennessee's risk management and internal control activities is submitted in compliance with *Tennessee Code Annotated (TCA)* §9-18-101, known as the Tennessee Financial Integrity Act, as amended.

The enclosed document describes the key activities undertaken to address the requirements specified in §9-18-102 of the Act and in the document issued by the Tennessee Department of Finance and Administration in October 2016 entitled "Management's Guide for Enterprise Risk Management and Internal Control."
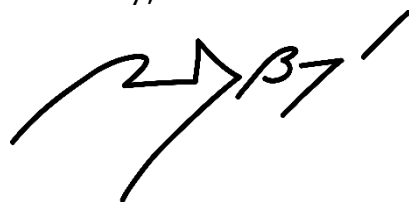
We understand this guide requires all state agencies' risk management and internal control functions to align with the Committee of Sponsoring Organizations of the Tredway Commission's (COSO) enterprise risk management framework and the federal government's adaptation of COSO's *Internal Control—Integrated Framework* (2013) titled *Standards for Internal Control in the Federal Government*.

As head of the University, I attest that we have performed risk assessments that conforms to these requirements, and I acknowledge the responsibility for establishing, implementing, and maintaining an adequate internal control system and assessing its effectiveness. The results of our risk assessment and control activities have been documented and retained.

The results of our risk assessment and the various means of monitoring internal controls have given me reasonable assurance that the University of Tennessee's internal controls adequately safeguard assets from fraud, waste, and abuse and provide proper financial reporting; compliance with applicable laws, regulations, rules, contracts, and grant agreements; operational effectiveness and efficiency; and the achievement of objectives.

I am not aware of any material weaknesses or lack of compliance.

Sincerely,

Randy Boyd
President

Enclosure

c: Ms. Carrie Allen
       Ms. Judith A. Burns
       Mr. Brian J. Daniels
       Mr. Bob Hunter
       Mr. David L. Miller
       Ms. Kathy Stickel
       Ms. Tammy Worley
       Audit and Compliance Committee

The University of Tennessee
Risk Management and Control Activities
Calendar Year 2020

The purpose of this document is to describe the risk management and control activities conducted at the University of Tennessee (UT) during calendar year 2020 that provide the basis for the annual reporting required by the Tennessee Financial Integrity Act of 1983 (TFIA) as described in *Tennessee Code Annotated* §9-18-104.

Background

The University's approach is based on the October 2016 document, "Management's Guide for Enterprise Risk Management and Internal Control," issued by the Tennessee Department of Finance and Administration (TN F&A). The document sets out the requirements for how state agencies and higher education institutions must comply with TFIA.

The management guide requires all risk management and internal control functions to align with two nationally recognized frameworks:
1) The Committee of Sponsoring Organizations of the Tredway Commission's (COSO's) enterprise risk management (ERM) framework (UT's approach is based on COSO's ERM document, *Enterprise Risk Management—Integrating with Strategy and Performance* issued in 2017) and
2) The federal government's adaptation of COSO's *Internal Control—Integrated Framework* (2013) titled *Standards for Internal Control in the Federal Government* (commonly known as "the Green Book").

In June 2020, the ERM function transitioned to the Senior Vice President and Chief Operating Officer's office, and an Enterprise Risk Officer (ERO) was appointed to lead the function. Since the 1980s, the TFIA compliance process was managed by the UT System Office of Audit and Compliance (OAC). With TN F&A's revised guidance, OAC developed a new approach and recommended the ERM function be managed by a member of the University's executive leadership.

2020 Risk Assessment and Monitoring Process

At the time of the ERM function's transition in June 2020, the University was in the midst of responding to the COVID-19 pandemic, efforts to assess the potential impacts having begun in late February. The UT president, consulting with the campus's chancellors, announced in March that all campuses would move to online instruction until further notice. Each campus quickly pivoted to virtual learning and

remote work for research, administrative, and support functions wherever possible. In May the University announced plans to welcome students back to each of its campuses for fall semester 2020 while protecting the health and safety of students, faculty, and staff.

Throughout the spring, the UT System led efforts to support the University's fulfillment of its core missions of education, discovery, outreach, and public service. In April, a systemwide task force—chartered by the president, led by the chair of infectious diseases at the UT Health Science Center, and appointed with UT experts in safety and health—was created to advise the campuses on policies and procedures to prioritize safety and wellbeing.

The task force's report, "Best Practices for Re-opening University of Tennessee Campuses," was released in May and provided guidance, recommendations, and best practices for the re-opening of campuses in the fall. Campuses created their own task forces to develop guidelines to address their individual needs. The chair of the systemwide task force, which continued to meet throughout the fall semester, worked with each campus to create "a new normal where we must manage through the risks."

At their June meeting, the UT Board of Trustees approved a set of "UT Systemwide Directives to Mitigate Impact of COVID-19." These requirements for the 2020-21 academic year were issued to help ensure the quality of the educational experience and the health of students, faculty, staff, and communities. They covered use of masks, social distancing, COVID testing protocols, contact tracing, travel, cleaning, visitors, and events. During the meeting, the trustees also approved the University's ability to require flu and COVID vaccines (when available) for students, faculty, and staff.

2020 Focus on COVID-19

Because of the tremendous effort and focus required to achieve UT's goal of re-opening campuses in the fall, the newly appointed ERO determined that 2020 risk management efforts would focus on managing the risks COVID-19 presented.

This approach complies with the guidance from TN F&A to always assess risks "in light of setting and achieving an agency's objectives" and linking the risks to the entity's objectives, thus focusing the risk management process on risks that matter, i.e., those "related to mission delivery."

The process identified by the ERO consisted of four phases: 1) risk identification and assessment, 2) development of mitigation activities, 3) monitoring mitigation efforts and communicating the results, and 4) responding to the results of the monitoring.

Risk Identification and Mitigation. The first two phases were accomplished by asking leaders and key staff at each of the campuses to complete the "Self-Assessment Calculator for Higher Education" developed by the Johns Hopkins Center for Health Security, a leading authority on COVID, and other partners.

The purpose of the calculator—an interactive spreadsheet that calculates a score for answers to a questionnaire—is to help institutions identify and understand the risks associated with reopening in-person operations and the actions that can be taken to mitigate those risks. The broad-ranging questionnaire covers key topics such as public health and safety measures, academics, housing, dining, and communication.

Because UT campuses had already made significant preparations for fall, the calculator served as a readiness assessment, allowing for a gap analysis between campus activities and those recommended by national experts. The calculator was completed during the summer (before fall semester) by those who had broad knowledge of the campus's activities and then was reviewed and approved by campus leadership.

As shown in the table below, the calculator results in an overall risk score ranging from very low to very high (shown in the color-coded boxes), which is based on both the rating from the risk assessment questionnaire and the rating from the mitigation questionnaire.

Decision Matrix

	Mitigation Rating			
Risk Rating	**Very Prepared to Mitigate COVID-19 Impacts (76%-100%)**	**Somewhat Prepared to Mitigate COVID-19 Impacts (51%-75%)**	**Somewhat Unprepared to Mitigate COVID-19 Impacts (26%-50%)**	**Very Unprepared to Mitigate COVID-19 Impacts (0%-25%)**
Very Low	VERY LOW	VERY LOW	LOW	LOW
Low	VERY LOW	LOW	LOW	MODERATE
Moderate	LOW	MODERATE	MODERATE	HIGH
High	MODERATE	HIGH	HIGH	VERY HIGH
Very High	HIGH	VERY HIGH	VERY HIGH	VERY HIGH

The results for UT's four campuses are in the table below (specific campus names, along with the detailed calculator completions are available in the ERO's office):

	Campus 1	Campus 2	Campus 3	Campus 4
Risk Rating	High	Moderate	Moderate	Moderate
Mitigation Rating	Very Prepared	Very Prepared	Very Prepared	Very Prepared
OVERALL	Moderate	Low	Low	Low

The key result of the assessment was that all campuses scored as "Very Prepared" for the fall semester. The risk ratings were determined by the level of risk inherent in each campus's activities. While campuses identified a few areas in the calculator that their teams had not yet considered or wanted to review, they had already considered and addressed most areas during their spring and summer preparations.

Monitoring and Responding. The third and fourth phases of the risk management process were assessed through a series of meetings between the ERO and campus leaders and others directly involved in the COVID mitigation activities. The ERO posed the following questions:

- How has the campus monitored its COVID-19 mitigation efforts during the fall semester?
- How have the results been communicated to the campus leadership and/or other group (e.g., EOC policy group) for making changes to policy and practices related to the mitigation efforts?
- What has the monitoring revealed about the effectiveness of the mitigation efforts?
- What changes have occurred to the mitigation efforts during the semester?
- What changes to fall semester policies and practices will be implemented for spring semester? What is the reason for those changes?

Each campus developed its own procedures for monitoring, communicating, and making decisions regarding changes in operations. Some of the common methods in among the campuses include the following (detailed reports for each campus are available in the ERO's office):

	Methods
Monitoring Methods	- Detailed tracking of cases involving students, faculty, staff, and contractors. - Self-check questionnaires for those coming on campuses. - Self-isolation reporting forms for those with a diagnosis, symptoms, or close contact with a case. - COVID testing for symptomatic and asymptomatic individuals.
Communicating Results to Leadership	- Daily reports on case counts and related information (e.g., number of isolations and quarantines). - Leadership team meetings and/or Emergency Operations teams to discuss cases and other mitigation measures. - Chancellor Q&A sessions for the campus community.

Effectiveness	• Little to no transmission on campuses in classrooms or offices. Contact tracing shows prime source of infections is social gatherings, primarily off campus. • The low number of reported instances of noncompliance have shown that the majority of students, faculty, and staff have complied with guidelines. Processes were in place at each campus for addressing noncompliance.
Changes During Fall 2020	• Restrictions at the three undergraduate campuses were loosened somewhat once cases numbers stabilized after a spike at the beginning of fall semester—although all adhered to the core actions of masking, social distancing, hand hygiene, etc.
Changes for Spring 2021	• No major changes are planned for the Spring semester at any location: the policies and procedures will remain the same, the academic calendar will be compressed, teaching modalities will remain fairly stable—with a slight increase in hybrid courses.

The above shows commonalities; differences by campus existed, depending on campus resources. Some unique methods for mitigating the spread of COVID include the following:

- Wastewater and pooled saliva testing for residence halls, to be expanded to commuter students for Spring semester.
- Contracting for off-campus isolation and quarantine housing, especially for beginning of the semester spikes.
- Implementation of software systems for tracking and reporting cases and related data.
- Automatic notification of service departments—such as, Facilities, Housing, Dining—whenever a completed self-isolation form is submitted.
- Periodic inspections by trained staff to document and report instances of compliance/noncompliance in departments and labs.
- Removal of keycard access to campus buildings for those who test positive.

Assessment of the University's COVID Risk Management Efforts

The 2020 COVID risk management process described in this document illustrates the care and thoroughness with which the University worked to preserve the health and safety of students, faculty, staff, while fulfilling the missions of education, discovery, outreach, and public service. These efforts resulted in few cases attributable to campuses' operations.

In addition to this internal assessment, during the summer planning, the Tennessee Higher Education Commission and the Tennessee Emergency Management Agency

held tabletop exercises at each campus to allow for assessment and feedback of the plans. After-action sessions were held at the end of the Fall semester. Overall, the conclusion was that UT had sound plans and good execution, which resulted in effective results—few cases on campuses.

Throughout 2020, the UT administration has kept the Board of Trustees informed of its COVID-19 activities. The Board has been satisfied with the planning and results.

The results of the campuses' COVID risk management efforts, along with a description of the assessment process, will be presented to the Audit and Compliance Committee of the UT Board of Trustees to fulfill the requirement in the committee's charter to "review management's risk assessment."

Ongoing Risk Assessments, Monitoring and Testing of Controls

In addition to the activities described above specific to COVID-19, the University of Tennessee has multiple methods for the ongoing monitoring and testing of controls. Three of the key system-level approaches are the annual self-assessment of internal controls, internal audits, and the institutional compliance program.

Self-Assessment of Internal Controls. The annual self-assessment of internal controls, managed by the UT System Office of Audit and Compliance (OAC), tests controls at an operational level. All departments in the UT System (approximately 550) are required to conduct a self-assessment of controls for selected major business processes by completing a web-based questionnaire. In a decentralized organization, such as a university, many controls for administrative functions are located at the department level. This process was initially conceived as a means of complying with TFIA.

Each year the questionnaire covers one or two major processes. Over a multi-year cycle, the questionnaires cover over 175 key internal controls for eight major processes, including human resources/payroll, money handling, computer usage, inventories for resale, accounts receivable, equipment, sponsored projects, and procurement. These processes are determined through a risk assessment process, targeting the areas considered to be key to sound departmental management.

A material weakness is identified when a significant number (20 percent or more) of departments at a campus or institute have not implemented a particular control. A corrective action is taken for each control weakness identified in the self-assessment, whether or not it is deemed material. For 2020, the human resources/payroll functions were assessed, and no material weaknesses were identified.

The chief business officer of each campus and institute reviews the results of the self-assessment and attests to his or her knowledge of the deficiencies identified and the corrective actions taken to address those deficiencies. The results of the self-assessment are issued to the president, with copies to the chief financial officer, the treasurer, and the UT Board's Audit and Compliance Committee.

Risk-Based Internal Audits. A second means of testing controls for effectiveness is through in-depth internal audits identified in OAC's risk assessment performed in its annual audit planning. University management and Board members also ask OAC to examine areas of concern. One of the office's primary roles is to reduce risk and improve operations. The department conducts numerous types of audits: state-mandated audits (such as those of the chief executive officers of UT campuses and the Complete College Tennessee Act), compliance audits (in such high-risk areas as the Health Insurance Portability and Accountability Act and National Collegiate Athletic Association), risk-based audits (such as business process audits in departments with significant financial activity), information technology audits (such as those for business continuity planning and disaster recovery and firewalls), and investigations into allegations of fraud, waste, and abuse (often resulting in recommendations for improving internal controls).

Institutional Compliance. The third means of monitoring controls is the Office of Institutional Compliance, established within OAC, which is responsible for designing, implementing, and monitoring the UT system-wide compliance program. The basis for the program is the *Federal Sentencing Guidelines for Organizations*, which defines the standards for effective compliance programs. Among the office's responsibilities are developing and implementing the University's compliance risk assessment process, recommending improved controls in various compliance functional areas, and collaborating with officials at the campuses and institutes to develop innovative and effective ways to mitigate compliance risk.

Conclusion

UT is committed to implementing and refining a comprehensive risk management and control monitoring system that meets the requirements of TFIA. Because COVID-19 will continue to present challenges for the University throughout the next calendar year, the ERO will continue to monitor the risk management activities discussed above and focus on the following:

- Updating information on monitoring and responding to COVID mitigation efforts,
- Creating an educational website for ERM,
- Conducting a self-assessment on the maturity of UT's ERM activities, and
- Meeting with key management groups to identify strategic risks.