

**Florida Agricultural and Mechanical University  
Board of Trustees**



**Audit and Compliance Committee Meeting**

**Date: Wednesday, February 10, 2016**

**Time: 2:15 PM**

**Location: Conference Call-President's Conference Room**

**Committee Members:** Trustee Nicole Washington, Chair  
Trustee Tonnetee Graham, Trustee Gary T. McCoy, Trustee Craig Reed,  
Trustee Robert Woody

**AGENDA**

- |     |               |                         |
|-----|---------------|-------------------------|
| I.  | Call to order | Chair Nicole Washington |
| II. | Roll Call     | Debra M. Barrington     |

**ACTION ITEMS**

- |      |  |                         |
|------|--|-------------------------|
| III. | Approval of December 10, 2015, Committee Minutes                   | Chair Nicole Washington |
| IV.  | Acceptance of Investigation Report – Pharmacy Phase II Allegations |                         |

**INFORMATION ITEMS**

- |       |   |                               |
|-------|---|-------------------------------|
| V.    | Audit and Compliance Roles and Responsibilities | Vice President Richard Givens |
| VI.   | Updates and Reports                             |                               |
|       | A. P-card and Travel Audit                      |                               |
|       | B. University Hiring Process                    |                               |
|       | C. Grade Change Procedures (DRS)                |                               |
|       | D. Renovation & Bonus                           |                               |
| VII.  | Update on Proposed BOG Regulations              |                               |
| VIII. | Adjournment                                     | Chair Nicole Washington       |



**Florida Agricultural and Mechanical University  
Board of Trustees  
ACTION ITEM**

**Audit and Compliance Committee  
Date: Wednesday, February 10, 2016  
Agenda Item: III**

Item Origination and Authorization				
Policy ____	Award of Bid ____	Budget Amendment ____	Change Order ____	
Resolution ____	Contract ____	Grant ____	Other ____	

  

Action of Board				
Approved ____	Approved w/ Conditions ____	Disapproved ____	Continued ____	Withdrawn ____

**Subject:** Audit and Compliance – Minutes for December 10, 2015

**Rationale:** In accordance with the Florida Statutes, a governmental body shall prepare and keep minutes or make a tape recording of each open meeting of the body.

**Attachments:** Minutes for December 10, 2015

**Recommendation:** Approve the minutes of December 10, 2015.

**Florida Agricultural and Mechanical University  
Board of Trustees**



**Division of Audit & Compliance Committee Minutes  
Trustee Nicole Washington, Chair**

**Date: Thursday, December 10, 2015**

Trustee Nicole Washington, Chairman, called the meeting to order.

Members Present: Trustee Nicole Washington, Chairman  
Trustee Tonnette Graham, Trustee Kimberly Moore, Trustee Karl White, Trustee Robert Woody

Debra M. Barrington, Administrative Assistant to the Vice President, called the roll.

**Action Items**

The first action item was the approval of the minutes from the Tuesday, July 21, 2015, Audit Committee conference call. Trustee Graham made the motion, and it was seconded by Trustee Moore. The motion carried and the minutes were approved as presented.

The second action item was the election of the Audit Committee Vice Chair. Trustee Tonnette Graham nominated Trustee Robert Woody. There were no other nominations, and Trustee Woody was unanimously elected Vice Chair of the Audit Committee.

**Information Items**

VP Givens presented a number of Information Items to the Audit Committee:

Status of Selection of Firm for Review of Bonuses and Renovations

The scope for the project was developed in consultation with the audit committee chair and staff from Administrative and Financial Services, President's office, and BOG. A Request for Quotes was sent to 8 firms on November 9. We received 2 responses. A committee has been appointed to score and rank the firms. Selection of a firm is expected by December 21, 2015, with a report due January 29, 2016.

Board of Governors Regulations

The Board of Governors (BOG) has asked universities to provide feedback on four proposed regulations 4.001-4.004 related to audit and compliance. The BOG will continue to receive feedback from various stakeholders prior to entering into the formal regulation and development process and is considering having joint meetings to discuss the proposed regulations. Possible presentation for approval by the BOG is March 2016 at the earliest.

# Florida Agricultural and Mechanical University Board of Trustees



Impacts to the university include:

- Increased reporting to the BOG (annual report, activity report and all investigative reports)
- Developing a compliance and ethics structure, including designating a chief compliance officer. This would require significant changes to the University operations and commitment of resources. An estimate of annual costs is from \$300,000-400,000.
- Potential sanctions from the BOG if the University has a finding in three consecutive operational audit reports. Currently, the University has two findings that have been reported in two prior audits. The University's next operational audit is expected to be for the 2015-16 year (most likely to be conducted starting in May 2016). If the findings are not corrected, then the enforcement proceedings will start.

There was some discussion from Chair Warren and Trustee Woody regarding the reporting structure of the Chief Compliance Officer. There was a request that VP Givens contact the BOG to recommend that the regulation contain language or guidance regarding the reporting structure, preferably that the compliance officer would report directly to the President or other university leadership.

## Status of Investigations

During the period from July 2015 through September 2015, the Division received 17 allegations/complaints. Of these, 2 reports were issued, 1 was closed with no investigation, 7 are in process, 6 were referred to another department/agency for review, and 1 is pending investigation. It should be noted that several investigations included multiple allegations. We estimate the actual number of complaints for the reports issued and investigations in process is about 52.

The Board of Governors has also indicated that they are monitoring several topics at the university. VP Givens provided a status update of each of the items that the BOG expressed interest including:

- Allegations cited in the letter from President Mangum to Chair Montgomery
- Renovations to the President's House
- Leave Payout (Winslow)
- Hiring Practices/Policy (i.e. convicted felon)
- Intercollegiate Athletics Cash Deficit
- Facilities Investigations (DRS Sports Complex and Pharmacy Phase II)
- NCAA Investigation Update

## **Adjournment**

Trustee Nicole Washington, Chair, Adjourned the meeting.



**Florida Agricultural and Mechanical University  
Board of Trustees  
ACTION ITEM**

**Audit and Compliance Committee  
Date: Wednesday, February 10, 2016  
Agenda Item: IV**

Item Origination and Authorization				
Policy _____	Award of Bid _____	Budget Amendment _____	Change Order _____	
Resolution _____	Contract _____	Grant _____	Other _____	
Action of Board				
Approved _____	Approved w/ Conditions _____	Disapproved _____	Continued _____	Withdrawn _____

**Subject: Acceptance of Investigation Report – Pharmacy Phase II Allegations**

**Summary:** Allegations were made concerning the Pharmacy Phase II construction project. The allegations were made by EMO Architect (EMO), who was the architect for the project. The results of the investigation of the allegations are discussed below:

**Allegation:** Construction cost exceeded appropriations by over \$1 million.

**Investigative results:** Contract commitments exceeded encumbrance authorizations by \$663,547 in May 2010. The over commitment was corrected in September 2010 when an encumbrance authorization was obtained.

**Allegation:** Due to FAMU mismanagement, delays in the project resulted in the general contractor incurring additional general conditions costs totaling \$1.5 million.

**Investigative results:** Delays in the project resulted in the general contractor incurring additional general conditions costs totaling \$325,181. There was no budget for the costs at the time the costs were incurred and payment was delayed until they were subsequently paid through amendments to the contract budget.

**Allegation:** The architect was not paid for work performed, including a termination fee set forth in the contract.

**Investigative results:** The architect for the project (EMO Architects) was paid in full for services rendered. No opinion is provided whether a termination fee is due EMO, since it is a legal determination (contract interpretation).

**Allegation:** After termination of the contract with EMO, the University contacted one of EMO’s sub-consultants to work with a successor architect despite specific agreements prohibiting such conduct.

**Investigative results:** When the University became aware that the contact was inappropriate, there was no further communication with the sub-consultant.

**Allegation:** The University violated procurement law by hiring the successor architect on an emergency basis rather than through competitive procurement.

**Investigative results:** The University followed relevant provisions of Regulation 2005-7A in the process of hiring an architectural firm on an emergency basis.



# Audit Committee Meeting

PRESENTED BY

**Rick Givens**

**February 2016**

Florida Agricultural and Mechanical University



# Audit Committee – Roles & Responsibilities

- Oversight of financial reporting
- Oversight of internal controls and risk management
- Relationship with independent auditor
- Interaction with management
- Relationship with ethics & compliance
- Interaction with internal auditors
- Interaction with other Board committees
- Self-assessment and evaluation
- Orientation and education





# Oversight of Financial Reporting

- The primary responsibility of Audit Committee is to ensure the integrity of financial information
- As financial statements become more complex, the Audit Committee needs to ensure the financial statements are understandable and transparent
- Oversee the integrity of the financial statements
- Understand significant accounting and reporting developments and issues, including regulatory pronouncements and their effect on the financial statements
- Must understand business operations and associated risks
- Anticipate and understand the effect of pending financial reporting and regulatory developments, particularly the effect on resource needs







# Oversight of Internal Controls and Risk Management

- Internal controls form an integral part of an institution's enterprise risk management (the COSO framework presents five intertwined areas: control environment, risk assessment, control activities, information and communication and monitoring)
- Audit Committees are increasingly overseeing controls regarding legal and regulatory compliance, and not just focused on financial reporting controls
- Ensure the University devotes adequate resources required for the effectiveness of internal control processes
- Determine that risk management processes are in place, especially those affecting financial reporting and reputational risk
- Review and (where appropriate) challenge the risk profile
- Reassess the list of top risk areas and determine who in management and which committee of the Board is responsible each area





# Relationship with independent auditor

- The Audit Committee should be responsible for oversight of the independent auditor, including:
  - Review and discussion of financial statements
- Candid and open communication between the independent auditor and Audit Committee is imperative for a successful relationship
  - Establish expectations regarding the nature and method of communications, as well as exchange of insights
- Seek auditor's views on the effectiveness of the University's governance process





# Interaction With Management

- Audit Committees rely heavily on management and, therefore, should have an open and effective relationship
- Audit Committees must find the delicate balance between overseeing management without making management decisions
- An open and trusting relation with management is of great importance to Audit Committees and should include discussions with management
- Focus on governance structure, tone at the top, culture, internal controls, risk assessment, ethics and hotline monitoring
- Evaluate whether Audit Committee is receiving adequate information from management on a timely basis
- Determine the level of detail of information that is appropriate, whether issues are explained clearly and whether discussion with internal and external auditors corroborate the information presented by management





# Relationship with Ethics & Compliance

- Audit Committees should review both internal and external reports on the University's compliance with certain laws and regulations
  - Financial reporting and internal policies/procedures designed to ensure compliance are key areas
  - General Counsel, independent auditor and Internal Audit can all provide periodic reports
  - Changes in policies affecting financial, internal control structure and compliance should be reviewed
- Periodically discuss with management the effectiveness of the program, including a periodic review of the Code of Ethics
- Review and confirm "whistleblower" procedures, including publication of such procedures





# Interaction with Internal Auditors

- The Internal Audit function is a key resource for the Audit Committee
- The Audit Committee should be responsible for hiring and compensating the IA Director/IA function
- The most effective Internal Audit functions have a direct line to the Audit Committee with Internal Audit findings reported directly to the Audit Committee
- The Audit Committee should be involved with the Internal Audit Risk assessment process and approving Internal Audit plans
- Understand whether the Internal Audit department is viewed as objective
- Establish how the Internal Audit function relates to other risk-related functions (e.g., legal, security, environmental health/safety, compliance, credit risks), considering duplication of efforts or gaps between the functions





# Interaction With Other Board Committees

- The Audit Committee works with other Board committees and assists the Board by bringing specialization in the areas of financial reporting, internal controls, risk management and audit activities
- The Compensation Committee should be engaged in management and Audit Committee discussions related to the University's compliance framework and procedures
- The Audit and Compensation committees should have some level of coordinated activities (e.g., discussion of any incentive structures and whether they contribute to increased fraud risk)
- While overseeing the assessment and disclosure of compensation-related risks is mainly the role of the Compensation Committee and the full Board, the Audit Committee can help in assessing how certain financial metrics should be employed in compensation plans





# Self-Assessment and Evaluations

- In order to be successful, the Audit Committee must understand its responsibilities, monitor its effectiveness and identify improvement needs and opportunities
- Regular performance evaluation enables the Audit Committee to ensure it is meeting the expectations of its members, the full Board and regulators
- Perform a thorough self-assessment:
  - Consider evaluating performance of individual committee members and the effectiveness of the committee as a whole
- Communicate with the full Board on activities and recommendations resulting from the assessment





# Orientation and Education

- New members should have an appropriate understanding of the University, the industry, risk areas, and the University's internal controls and financial reporting systems
- Members should be provided with sufficient background information
- Regular training ensures that the Audit Committee members enhance their knowledge and skills
  - Consider offering continuing education in specialized or regulated industry matters, industry trends, reporting, operations and related topics
  - Consider customized programs to address topics relevant to the University's needs and incorporated University-specific processes and objectives







# Key Takeaways

- Assess and respond to changing business, regulatory and accounting landscape
- Reassess and refine role in risk oversight
- Coordinate and collaborate with internal and external stakeholders while making decisions
- Focus on sound corporate governance principles
- Consider stakeholders' perspective of requiring greater transparency and accountability
- Enhance preparedness in dealing with crisis situations





# Information Items

Report on Division Activities

- Questions?





“At FAMU, Great Things Are Happening Every Day.”

established 1887

