

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



Audit & Compliance Committee Meeting

Date: Monday, November 7, 2016

Time: 3:00 PM

Conference Call

Committee Members: Trustee Nicole Washington, Chair
Trustee Jaylen J. Smith, 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 Minutes – September 14, 2016
- IV. Accept Audit Reports Chair Washington
 - a. Rattler Boosters
 - b. Financial Aid Process Review
- V. Amend 2016-17 Work Plan

INFORMATION ITEMS

- VI. Update related to pending DAC issues
- VII. Follow up of prior audit findings
- VIII. Status of Athletic Department Corrective Action Plan and Budget

Adjournment

Chair Nicole Washington

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



Division of Audit & Compliance
Tuesday, September 14, 2016, 2:30 PM

Minutes

Members Present: Trustee Nicole Washington, Chairman
Trustee Jaylen Smith, Trustee Gary T. McCoy,
Trustee Craig Reed (*absent*), Trustee Robert Woody

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

Debra M. Barrington, Administrative Assistant to the Vice President, called the roll. A *quorum* was established.

Trustee Nicole Washington, Chair, led the meeting. There are three (3) Action Items on the agenda. The *first* was the minutes of Thursday, June 9 and Tuesday, August 23, 2016 Audit Committee meetings. It was properly motioned by Trustee Woody and seconded by Trustee Jaylen Smith for approval of the minutes. Motion carried.

The *second* Action Item was the approval of 2016-17 University Risk Assessment performed for the purpose of developing the Internal Audit Work Plan. The Audit Committee held an Informational Workshop on the risk assessment at the August 23, 2016 audit committee meeting, and VP Givens presented a detailed outline of the Division's Risk Assessment processes and objectives. It was properly motioned by Jaylen Smith and seconded by Trustee Robert Trustee that the Risk Assessment be approved. The motion carried.

The *third* "Action Item" was the approval of the 2016-17 Division of Audit and Compliance's Work Plan. The Proposed Work Plan is based on the high risk areas identified in the Risk Assessment and the Division's professional judgement. There is a three (3) year map of planned audits which are analyzed annually.

Vice President Givens gave a brief overview of the proposed work plan. It was properly motioned by Jaylen Smith and seconded by Trustee Robert Woody to approve the 2016-17 Division of Audit and Compliance Work Plan. The motion carried.

Chair Washington acknowledged a memo was received from Alan Levine, who is the Chair for the Audit and Compliance Committee of the Board of Governors. The letter indicated that, in order for the audit function to maintain independence, best practice is for a university's audit and compliance functions to be separate from operational committees such as budget and finance. Chair Washington followed up with Chair Levine and he confirmed he is happy with the University's Audit function and Audit Committee current status.

Chair Washington reported on the Division of Audit and Compliance Annual Report; the full report is in the meeting materials. The Division is required to produce this Annual Report which outlines the audits, follow-ups, consultations and the advisory services that are conducted during the prior fiscal year. The report also provides the detail break down of how the Division's work is allocated and includes some assurances regarding their investigations and the integrity of their work.

Vice President Givens gave an update regarding the significant changes made to the proposed BOG Regulations as a result of a workshop held in June. The BOG has proposed four regulations related to the audit and compliance areas. It is expected that the BOG will approve the regulations for official notice at its September meeting.

Trustee Jaylen Smith inquired about procedures in place to ensure that the Division remains autonomous; and that the autonomy is respected.

VP Givens responded that the Division has remained independent and the information is included in the *Charters*. The Division reports functionally to the Board and administratively to the President, which is considered best practice.

Trustee Bettye Grable asked for clarification as to whether the whistle-blower regulation was in place and, if so, how they are currently handled.

VP Givens indicated the whistle-blower law is in place and that the proposed regulation designates the chief audit executive as the one responsible for making required determinations under the whistle-blower act, and that is the process currently being used by the University. Typically each complaint comes through Audit and Compliance. They also go through other offices. Each complaint is evaluated to determine whether it meets the requirements to be a whistle-blower.

The meeting was adjourned by Trustee, Chair Washington.

Florida Agricultural and Mechanical University
Board of Trustees



ACTION ITEM

Meeting Date November 7, 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 the audit reports for the Rattler Boosters and Financial Aid Process Review

Rationale: To accept the results of the audit of transactions of the Rattler Boosters, Inc., and the audit of the Financial Aid process review.

Recommendation: The Audit Reports be accepted.

Florida Agricultural and Mechanical University
Board of Trustees



ACTION ITEM

Meeting Date November 7, 2016

Agenda Item 15

Item Origination and Authorization

Policy ___ Award of Bid ___ Budget Amendment ___ Change Order ___
Resolution ___ Contract ___ Grant ___ Other X ___

Action of Board

Approved ___ Approved w/ Conditions ___ Disapproved ___ Continued ___ Withdrawn ___

Subject: Amend the Division's work plan to include a review of band eligibility and Travel Compliance

Rationale: To assure that University officials assessed that academic eligibility requirements as described in the Music Department Handbook are satisfied

Recommendation: Amend the Division's Work Plan to include a review of band eligibility and Travel Compliance.

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



Update Pending DAC Issues

External Audit Rattler Boosters

A Request for Proposal for an audit of the Rattler Boosters, Inc. was sent to 16 firms on October 31, 2016. Responses to the RFP are due November 21, 2016. It is expected that the firm will be selected by December 9, 2016 and a report due by February 28, 2017.

Finding Follow – up – as of October 31, 2016

From 2013 to August 31, 2016, there were 69 previously reported findings/control deficiencies that were to be corrected as of September 30, 2016. A summary of the status of implementation of corrective actions as of October 31, 2016 is presented below:

- 33 (48%) have been fully corrected
- 9 (13%) have been partially corrected
- 17 (25%) have not been corrected
 - 6 relate to use of the design-build construction method, which the University discontinued after the project (high risk)
 - 11 findings with a risk classification of moderate
- 7 (10%) were corrected with a significantly different corrective action plan
- 3 (4%) were deemed to warrant no further action

STATUS OF SIGNIFICANT FINDINGS

AUDIT	FINDING RATING	FINDING DESCRIPTION	MANAGEMENT'S ACTION PLAN	DEPARTMENT	ORIGINAL IMPLEMENTATION DATE	COMMENTS	STATUS	NEW IMPLEMENTATION DATE
IRattler Security	High	<p>Certain security controls in the areas of documentation of network security needed improvement. We are not disclosing specific details of the issues to avoid the possibility of compromising the University's data and IT resources. However, we have notified appropriate University management of the specific issues. Without appropriate security controls, the confidentiality, integrity, and availability of data and IT resources may be compromised, increasing the risk that University data and IT resources may be subject to improper disclosure, modification, or destruction.</p>	<p><i>The corrective action plan for this observation is not being disclosed as it relates to a confidential or sensitive matter. The Division of Audit and Compliance has reviewed the plan to ensure that it adequately addresses the control deficiency identified during the course of the audit engagement.</i></p>	<p>Information Technology Services</p>	<p>Jun-16</p>	<p>The 2013 and the 2016 core versions were completed. ITS is working to include all recent changes and upgrades to provide a complete 2016 version.</p>	<p>Corrected</p>	<p>N/A</p>

2014-108 Auditor General	High	The intercollegiate athletic program is operating at a deficit. A deficit reduction plan should be implemented to assure that athletic program is self-supporting.	A revised plan will be developed and submitted to the BOT for approval. The status of the plan will be reported to the BOT on a quarterly basis.	Athletic Department and Financial & Administrative Services	Sep-14	A plan to reduce the deficit and pay off the debt was developed, including identification of revenue sources available to pay the debt. A 3-year budget and cash review process is to be implemented to more closely monitor the athletics finances. This finding most likely will be reported in the Auditor General's operational audit. This will be third consecutive time the finding is reported, which will be reported to the JAC.	Partially corrected	Beginning in the 2016-17 year
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2015 Perform ance Funding	High	<p>Some inappropriate or unnecessary IT access privileges existed within iRatter, indicating a need for an improved review of access privileges to ensure access is consistent with an employee's job duties. The existence of the inappropriate or unnecessary access privileges increased the risk of unauthorized disclosure, modification, or destruction of University data and IT resources. Additionally, a user access review was not performed for seven departments who perform critical data functions as it relates to performance funding. Periodic reviews of access privileges are necessary to ensure that employees can only access IT resources that are necessary to perform their assigned job duties and that the assigned privileges enforce an appropriate separation of incompatible duties.</p>	<p>1) IT subject matter experts and core users from the offices will work together to determine the access needed for each level of duty. A matrix will be developed to include segregation of duties and enhanced descriptions for roles. 2) An annual re-certification project will be completed.</p>	<p>Information Technology Services in collaboration with applicable departments</p>	<p>May-16</p>	<p>Due to the magnitude of separating access as designated by the core user's position description and testing, the corrective actions will take approximately one year to complete. A consultant will be hired to assist in the process.</p>	Not corrected	6/1/17
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800 Bed	High	<p>Issues noted in the design build construction process used for the 800 bed dormitory included the following:</p> <ul style="list-style-type: none"> - Financing should be secured for construction prior to preparing a solicitation for a project - The University should follow established design build procedures or document reasons for selecting a different process, including reference checks - The selection criteria should include a requirement that the contractor have experience in building similar types of structures - The GMP should be finalized prior to obtaining final subcontractor bids - An independent architect should be retained to review the cost estimates prepared by the design/builder - The project manager should have a closer relationship with the contractor on a daily basis 	<p><i>Develop and implement a construction manual to provide policies and procedures for design-build contracts</i></p>	Facilities Planning & Construction	Ongoing	<p>The University has not had a design build construction project since the 800 bed project. Our review of the construction manual disclosed that the updated manual does not include policies and procedures for design build contracts.</p>	Not corrected	Ongoing
2013-6 Internal Audit Support	High	<p>Bank reconciliations were not prepared and approved timely and aged outstanding reconciling items were not timely researched and cleared. Timeliness could be improved through automating the reconciliation process.</p>	<p><i>Efforts have begun to automate the bank reconciliations through downloading cancelled check files to determine the feasibility of electronically generating a list of outstanding checks.</i></p>	Financial & Administrative Services	Ongoing	<p>Improvements have been made in timeliness in the reconciliation process. However, the project to automate the bank reconciliation process was not funded for the 2016-17 year.</p>	Not corrected	Ongoing

2014-108 Auditor General	Moderate	Efforts to enhance textbook affordability monitoring procedures to ensure that textbooks are timely posted on the web site in accordance with State law.	The University will continue to enhance its monitoring procedures to ensure that textbooks are timely posted on its web site in accordance with State law. The Provost will coordinate efforts with the Academic Deans, Bookstore, and University Registrar to identify and post textbooks timely on the University's web site.	Academic Affairs	1-Aug-14	Improvements have been noted. However, this has not been corrected and could be reported as a finding in the Auditor General's operational audit. This will be the third consecutive report in which the finding will be reported, which will result in the finding being reported to the JLAC.	Partially corrected	Ongoing
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Risk rating definitions

The following risk rating definitions are used in assessing the relative risk of internal audit observations and do not represent an opinion on the adequacy or effectiveness of internal controls. Responsible management is responsible for assessing whether the controls the University has implemented are adequate to meet its operational, compliance and financial reporting objectives.

- **High:** The potential impact on the operation (either in terms of dollars, error rate, or qualitative factors) could significantly affect the operation's ability to achieve its strategic objectives
- **Medium:** The potential impact on the operation (either in terms of dollars, error rate, or qualitative factors) could moderately affect the operation's ability to achieve its strategic objectives
- **Low:** The potential impact on the operation (either in terms of dollars, error rate, or qualitative factors) would not significantly affect the operation's ability to achieve its strategic objectives:

Status of Athletic Department Corrective Action Plan and Budget

Athletic Department Budget Deficit Plan

The 2013 and 2014 Auditor General operational audits noted auxiliary funds other than the Athletic fund paid for Athletic Department expenses, contrary to BOG Regulation 9.013. As a result, the athletic department has operated at a deficit for several years, and currently, the deficit totals \$7,014,034. To address the issue, the University has taken the following steps:

- Since detailed records were not maintained of which auxiliary fund paid for athletic department expenses, a reasonable estimate of the amount paid from each auxiliary fund was calculated for the years 2008-2015.
- Record a related payable of \$7,014,034 from athletics to the identified funds
- Establish a repayment plan with initial payment beginning in fiscal year 2016-2017 for a term extending 12 years with 0% interest
- Repayment is to be shared by the Athletic Department and the University's DSOs

Proposed Structure for Repayment to Auxiliary Funds

Amount to be repaid \$7,014,034

Interest rate 0%

Periods	University Support from Direct Support Organization	Athletics Direct Repayment	Total
1	\$186,000.61	\$0.00	\$186,000.61
2	\$226,239.14	\$0.00	\$226,239.14
3	\$269,593.54	\$0.00	\$269,593.54
4	\$269,593.54	\$51,742.36	\$321,335.90
5	\$269,593.54	\$113,507.98	\$383,101.52
6	\$269,593.54	\$187,252.94	\$456,846.48
7	\$269,593.54	\$275,317.23	\$544,910.78
8	\$269,593.54	\$380,500.54	\$650,094.08
9	\$269,593.54	\$506,152.86	\$775,746.40
10	\$269,593.54	\$656,283.18	\$925,876.73
11	\$269,593.54	\$835,689.61	\$1,105,283.15
12	\$269,593.54	\$899,412.13	\$1,169,005.67
Total	<u>\$3,108,175.15</u>	<u>\$3,905,858.83</u>	<u>\$7,014,034.00</u>

The Corrective actions/prevention plan includes:

1. Implement 3 year budget and cash balance review process to include:
 - A. Year 1 – monthly reviews with BOG representative / President / CFO / AD /Chair of Athletics Committee.
 - B. Year 2 – monthly reviews with budget office and CFO and quarterly reviews with President / CFO / AD / Chair of Athletics Committee.
 - C. Year 3 – monthly reviews with budget office and CFO and quarterly reviews with President / CFO / AD / Board Chair.
2. Require CFO and President’s approval of auxiliary transfers to athletics to ensure only allowed sources are used.
3. Restrict release of approved annual Athletics budget to 75% based on prior year’s history of collected amounts until adequate revenues are realized.
4. Monthly reconciliation of P-Card purchases, open purchase orders, and vendor invoices.
5. Reduce team travel expenses.
6. Implement aggressive fundraising campaign from Athletics and DSO groups.
7. Request Board of Governors to conduct a study of SUS institutions on use of auxiliary finds and other funds to support Athletics.
8. Review and update operating guidelines for auxiliary enterprises to establish reporting and accountability requirements.
9. Track Expenses for spirit groups in separate auxiliary fund based on established budgets.