



FLORIDA AGRICULTURAL AND MECHANICAL UNIVERSITY
Board of Trustees Policy

Board of Trustees Policy Number: 2019-01

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Subject	Internal Controls and Enterprise Risk Management
Authority	Section 7(c), Article IX, Florida Constitution; Section 1010.01(5), Florida Statutes
Applicability	This policy applies to all University units and employees.

I. Policy Statement and Purpose

- A. The Florida Agricultural and Mechanical University (FAMU) Board of Trustees (BOT) is committed to a sound system of internal controls focused on accountability and oversight of operations. The BOT has prioritized the development of appropriate risk management processes and systems to identify challenges early, to bring them to the attention of University leadership, and to develop solutions. To that end, the University seeks to modernize existing efforts by requiring implementation of both the Enterprise Risk Management (ERM) capability and the internal control framework championed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in its publications *Internal Controls – Integrated Framework* and *Enterprise Risk Management - Integrating with Strategy and Performance*. This integrated governance structure will improve mission delivery, reduce costs, and focus corrective actions toward mitigating key risks.
- B. The University administration shall develop an internal control environment governed by policies and procedures necessary to provide reasonable assurances that business processes result in effective and efficient operations, reliable financial reporting, and compliance with applicable Federal, state, local laws, rules, and Florida Board of Governors regulations. The established system of internal control is meant to keep the University focused on its mission and to minimize the impact unforeseen circumstances.
- C. The University administration has the responsibility to establish and maintain an adequate system of internal controls and to furnish to the Florida Board of Governors, BOT, governmental agencies, University creditors, and other constituencies with reliable financial and operational information on a timely basis. An adequate system of internal controls is necessary for the administration to discharge these responsibilities.
- D. Controls help ensure that assets are not exposed to unauthorized access and use,

transactions are properly recorded in the financial records, and the resultant financial information is reliable. External organizations and supporters of the University rely on financial information to make decisions toward appropriations, loans and other debt, gifts and grants, and other contractual relationships. University resources are dependent upon a system of internal controls. The Auditor General is required annually to report upon the adequacy of the University's systems for control over financial reporting and compliance. The safeguarding of University assets and the reliability upon which the University and others can place upon the University's financial records are dependent upon the effectiveness of the internal control process.

II. Definitions

- A. Abuse: "Abuse" means behavior that is deficient or improper when compared with behavior that a prudent person would consider a reasonable and necessary operational practice given the facts and circumstances. The term includes the misuse of authority or position for personal gain.
- B. Enterprise Risk Management: Enterprise risk management is a process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise. Enterprise risk management is designed to identify potential events that may affect the entity, manage risk to be within the entity's risk appetite, and provide reasonable assurance regarding the achievement of entity objectives.
- C. Fraud: "Fraud" means obtaining something of value through willful misrepresentation, including, but not limited to, intentional misstatements or intentional omissions of amounts or disclosures in financial statements to deceive users of financial statements, theft of an entity's assets, bribery, or the use of one's position for personal enrichment through the deliberate misuse or misapplication of an organization's resources.
- D. Internal Control: Internal control is a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance.
- E. Risk: The possibility or uncertainty of an event occurring that will impact the achievement of objectives, positive or negative. The effect could be a detriment or an opportunity related to the objective. Risk is measured in terms of impact and likelihood.
- F. Waste: "Waste" means the act of using or expending resources unreasonably, carelessly, extravagantly, or for no useful purpose.

III. Components of Internal Control Program

A. The system of internal controls must be designed and implemented to support the following components:

1. **Control Environment** – the set of standards, processes, and structures that provide the basis for carrying out internal controls across the University. The control environment comprises the commitment to integrity and ethical values that establish oversight responsibility and enforce accountability.
2. **Risk Assessment** – the process to identify, analyze, and assess risks to the achievement of objectives.
3. **Control Activities** – the actions established through policies and procedures to mitigate risks to the achievement of institutional objectives.
4. **Information and Communication** – the use of relevant information to disseminate clear messages. Sound internal controls establish expectations and procedures to support the reliability and integrity of financial information and reporting.
5. **Monitoring Activities** – the use of evaluations to ascertain whether internal controls are present and functioning.
6. **Operations Objectives** – pertain to effectiveness and efficiency of the university's operations, including operational and financial performance goals. These objectives promote orderly, economical operations and assist in achieving outcomes consistent with the university's mission. Operations should safeguard resources against loss due to waste, mismanagement, errors, and fraud.
7. **Reporting Objectives** – pertain to internal and external financial and nonfinancial reporting. These objectives encompass reliability, transparency, and other terms as set forth by regulators, recognized standard setters, and University rules, regulations, and policies.
8. **Compliance Objectives** – pertain to adherence to laws and regulations to which the university is subject.

B. University-implemented internal controls shall be appropriate, reliable, cost-effective, comprehensive, reasonable, and directly related to control objectives.

C. The University's system of internal controls will include, at a minimum, the following best practices: segregation of duties to ensure one person does not

control all aspects of a transaction and to detect error and fraud; safeguarding of assets to prevent unauthorized access, loss or damage; safeguarding of confidential information to secure personal and private information and protect against unauthorized access and threats to security; review and approval of internal processes; timeliness to ensure deadlines are met, avoid fines, and prioritize work; and documentation to support accuracy and consistency.

IV. Roles and Responsibilities

A. Board of Trustees

1. Internal Controls

- a. Provide oversight for the system of internal controls.
- b. Define expectations about integrity and ethical values, transparency, and accountability for the performance of internal control responsibilities.

2. Enterprise Risk Management

- a. Provide oversight to ensure that management has implemented an effective system to identify, assess, manage, respond to, and monitor risks to the institution and its strategic objectives.
- b. Understand and assess the risks inherent in the University's strategy, and encourage management to pursue prudent risk to generate sustainable performance and value.
- c. Understand the key drivers of success for the institution, and be knowledgeable about business management, governance, and emerging risks that may affect the institution.
- d. Work with management to establish and annually review the institution's risk philosophy.
- e. Review risk information provided by management and the Audit and Compliance Committee, including ERM annual report, institutional risk portfolio, risk appetite statement, and reports on the status of risk response.
- f. Collaborate and actively engage with management in discussions of risks, especially regarding philosophy, interaction and aggregation of risks, and underlying assumptions.
- g. Define the role of the full BOT versus its standing or other committees with regard to risks oversight.

- h. Understand and assess risks associated with BOT's decisions and key strategies identified by the BOT.
- i. Provide for an appropriate culture of risk awareness across the University; monitor critical alignments of people, strategy, risks, controls, compliance, and incentives.
- j. Review and approve annual risk appetite statement.

B. Board of Trustees Audit and Compliance Committee**1. Internal Controls**

- a. Provide oversight of the entire financial reporting process. To do so effectively, the BOT should be familiar with the processes and controls that management has established and determine whether they are designed and operating effectively.
- b. Review major issues regarding accounting principles and the presentation of the financial statements. These include significant changes in the University's selection or application of accounting principles, the adequacy of internal controls, and any special audit steps adopted in response.

2. Enterprise Risk Management

- a. Represent the BOT in providing oversight of the University's ERM practices.
- b. Work with management to understand and agree on the types, frequency, and format of risk information that the BOT will review.
- c. Review risk information prior to its presentation to the full BOT, including ERM annual report, institutional risk portfolio, and reports on the status of risk response.
- d. Receive regular reports on enterprise risks and the status of risk response.
- e. On behalf of the full BOT, periodically assess the BOT's risk oversight process.

C. The President and the President's Administration**1. Internal Controls**

- a. The President, in consultation with the Vice President for Finance/CFO,

shall be responsible for assessing the effectiveness of the University's system of internal controls and reporting annually to the Board of Trustees regarding the University's internal controls, any identified weaknesses, and associated corrective actions.

- b. The President and the President's administration shall be responsible for establishing, maintaining, and consistently applying internal controls designed to:
 - i. Prevent and detect fraud, waste, and abuse as defined in Section 11.45(1), Florida Statutes;
 - ii. Promote and encourage compliance with applicable laws, rules, regulations, contracts, grant agreements, and best practices;
 - iii. Support economical and efficient operations;
 - iv. Ensure reliability of financial and operational records and reports; and
 - v. Safeguard University assets.

2. Enterprise Risk Management

- a. Inspire and foster cultural change in support of ERM as a value and best practice for the institution.
- b. Lead management discussions with the BOT regarding institutional strategy performance and risk philosophy.
- c. Review and approve recommendations from the Enterprise Risk Management Advisory Committee (ERMAC) (taking into consideration accompanying independent assessments from non-voting ERMAC members) regarding the development and implementation of the ERM program; ERM policy; institutional risk philosophy; institutional risks or opportunities with sufficient impact on the University's strategic objectives to warrant development of risk response plans; and proposed response plans for these risks.
- d. Review and approve risk information and ERM progress reports prior to their submittal to the Audit and Compliance Committee or the full BOT.

D. Management

1. Internal Controls

- a. Establish, maintain, and consistently apply internal controls designed to:
 - i. Prevent and detect fraud, waste, and abuse as defined in Section 11.45(1), Florida Statutes;
 - ii. Promote and encourage compliance with applicable laws, rules, regulations, contracts, grant agreements, and best practices;
 - iii. Support economical and efficient operations;
 - iv. Ensure reliability of financial and operational records and reports; and
 - v. Safeguard University assets.

2. Enterprise Risk Management

- a. Demonstrate full commitment to ERM by advocating and implementing risk management best practices.
- b. Support the President, Chief Risk Officer, and ERMAC in creating the appropriate internal environment and institutional culture for ERM.
- c. As responsible officials, assess and manage institutional risks under the oversight of the President, Chief Risk Officer, ERMAC, and the Board of Trustees; may make presentations to the ERMAC or BOT committees upon request.
- d. Assess and manage unit-level risks within unit-level plans, budgets, and resources.
- e. Include a discussion of risks and opportunities relevant to the mission of the senior management's unit or the University, as well as the status of any response to such risks or opportunities, in their annual workplan and budget submission.
- f. Implement the ERM program within divisions and business units, identify risks and opportunities with impacts on the University's strategic objectives, and develop risk response plans; and proposed response plans for these risks.

E. The Division of Audit shall:

1. Internal Control

- a. Conduct an independent review and assessment of the adequacy and

effectiveness of internal controls at all levels of the university.

- b. Report findings related to the Division of Audit's evaluation of internal control systems to the President and BOT.
- c. Provide technical assistance to the President and the Senior Leadership Team regarding internal control systems.
- d. The Division of Audit, which must remain independent and objective, shall not have responsibility for establishing or maintaining the university's internal control systems.

2. Enterprise Risk Management

- a. Non-voting, ex officio member of the ERMAC, provide independent consultation and advice.
- b. Provide assurance to the BOT and the President on the effectiveness of the risk management process, including the evaluation, reporting, and management of key risks.
- c. Consult and advise on identifying and responding to risks and on the effectiveness of the risk assessment process.
- d. Submit all relevant risk reports, including the ERM Annual Report, University risk portfolio, and status of risk response, to the Senior Leadership Team and the BOT - Audit and Compliance Committee.
- e. Report regularly to the BOT - Audit and Compliance Committee on enterprise risks and the status of risk response.

F. The Chief Risk Officer shall:

- a. Design and implement an enterprise risk management function consistent with COSO's Enterprise Risk Management: Integrated with Strategy and Performance;
- b. Submit all relevant risk reports, including the ERM Annual Report, University risk portfolio, and status of risk response, to the Senior Leadership Team and the BOT - Audit and Compliance Committee;
- c. Report regularly to the BOT - Audit and Compliance Committee on enterprise risks and the status of risk response;
- d. Make high level recommendations to the President for keeping identified risks within tolerance levels; and
- e. Develop and facilitate Enterprise Risk Management training for all

faculty and staff.

V. Administrative Procedures

The President, or the President's designee, shall establish appropriate administrative procedures to implement this Policy.

Attachment(s)	n/a
Hyperlink Addresses	