Report #18-19-0002
Advisory Service Report
Enterprise Risk Management

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Division of Audit and Compliance

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EXECUTIVE SUMMARY

WHAT WE DID

We studied the value proposition of implementing Enterprise Risk Management (ERM) practices at Florida A&M University (FAMU). This engagement included review of the benefits of implementing an ERM program as well as an assessment of FAMU's current risk management practices. We also made recommendations regarding ERM program implementation, structure, costs, and timeline.

WHAT WE FOUND

We found that FAMU uses a traditional risk management approach but would benefit from implementing an ERM program through a phased approach.

OPPORTUNITIES FOR IMPROVEMENT

FAMU's risk management practices could be improved by:
- o Appointing an executive ERM sponsor – Chief Risk Officer with established administrative and functional reporting lines;
- o Establishing an ERM framework;
- o Establishing an ERM Advisory Committee, perhaps as a subcommittee to the Enterprise Compliance Committee;
- o Implement an ERM software management system;
- o Establishing a risk tolerance/appetite statement;
- o Performing an enterprise-wide risk assessment fully aligned with the University's strategic plan and performance funding goals; and
- o Establishing risk treatment plans with periodic monitoring.

TABLE OF CONTENTS

BACKGROUND

Risk Management and Enterprise Risk Management:

Risk management is those processes that ensure university management and the board of trustees identify, assess, manage, and control potential events or situations to provide reasonable assurance regarding the achievement of institutional objectives. Enterprise Risk Management (ERM) is a business process, led by senior leadership and the board, that extends the concepts of risk management to include identifying risks across the entire enterprise; assessing the impact of risks to the operations and mission; developing and practicing response or mitigation plans; monitoring the identified risks, holding the risk owner accountable, and consistently scanning for emerging risks. ERM can be viewed as an extension of traditional risk management with the hallmarks of a good ERM program including:

- Enterprise-wide Approach;
- Executive-level Sponsorship;
- Defined Accountability;
- Intentional, Systematic, and Structured;
- Defined risk tolerance/appetite;
- Establishment and communication of risk management process goals and activities; and
- Monitored treatment plans (i.e., avoidance, accept and monitor, reduce the likelihood, reduce the impact, or transfer).

The underlying premise of ERM is that every institution exists to provide value for its stakeholders and all institutions face uncertainty. The challenge for our board and leadership team is to determine how much uncertainty to accept as we strive to grow stakeholder value. Uncertainty presents both risk and opportunities, with the potential to erode or enhance value.

ERM is widely adopted by industry and required of all federal agencies. However, only about a quarter of institutions of higher education employ some form of ERM. Within the higher education space, the Association of Governing Boards, United Educators, and the National Association of College and University Business Officers (NACUBO) each advocate for and provide supporting resources for ERM programs.

Many key higher education risks such as hazing, underage drinking, mass shootings, sexual assault, and cybersecurity would not be in the purview of the traditional risk manager but would be given consideration under an ERM program. Experience tells us that an institution of higher education cannot effectively manage risk in silos as no one area, in and of itself, is equipped to handle the myriad of risks the institution faces.

ERM Standards:

The Committee on Sponsoring Organizations of the Treadway Commission (COSO) ERM framework is one of two widely accepted risk management standards organizations use to help manage risks:

- COSO *Enterprise Risk Management – Integrating with Strategy and Performance*: Focuses on the importance of considering risk in both the strategy-setting process and in driving performance.
- ISO 31000 – *Risk Management*: A family of standards relating to risk management codified by the International Organization for Standardization.

The following diagram provides an overview of *Enterprise Risk Management – Integrating with Strategy and Performance's* five interrelated components and 20 principles.

Governance & Culture	Strategy & Objective-Setting	Performance	Review & Revision	Information, Communication, & Reporting
1. Exercises Board Risk Oversight	6. Analyzes Business Context	10. Identifies Risk	15. Assesses Substantial Change	18. Leverages Information and Technology
2. Establishes Operating Structures	7. Defines Risk Appetite	11. Assesses Severity of Risk	16. Reviews Risk and Performance	19. Communicates Risk Information
3. Defines Desired Culture	8. Evaluates Alternative Strategies	12. Prioritizes Risks	17. Pursues improvement in Enterprise Risk Management	20. Reports on Risk, Culture, and Performance
4. Demonstrates Commitment to Core Values	9. Formulates Business Objectives	13. Implements Risk Responses		
5. Attracts, Develops, and Retains Capable Individuals		14. Develops Portfolio View		

Enterprise Risk Management Framework: Integrating with Strategy and Performance © 2017 Committee of Sponsoring Organizations of the Treadway Commission (COSO). All rights reserved. Used with permission.

Integrating ERM with business practices results in better information that supports improved decision-making and leads to enhanced performance. It helps organizations to:

- Anticipate risks earlier or more explicitly, opening up more options for managing the risks;
- Identify and pursue existing and new opportunities;
- Respond to deviations in performance more quickly and consistently;
- Develop and report a more comprehensive and consistent portfolio view of risk; and
- Improve collaboration, trust, and information-sharing.

Internal Audit's Role:

The Division of Audit and Compliance (DAC) began this study as part of our professional obligations under professional auditing standards. In pertinent part, professional audit standards[1] tell us that the internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes while refraining from assuming any management responsibility by actually managing risks. The auditor's role is determining whether risk management processes are effective by assessing whether:

- Institutional objectives support and align with the institution's mission;
- Significant risks are identified and assessed;
- Appropriate risk responses are selected that align risks with the institution's risk appetite; and
- Relevant risk information is captured and communicated in a timely manner across the institution, enabling staff, management, and the board to carry out their responsibilities.

State University System of Florida Board of Governors' ERM Focus:

In the fall of 2017, the State University System of Florida Board of Governors surveyed member institutions regarding their risk management practices to determine if the institutions:

1. Utilized traditional risk management practices to manage risks;
2. Communicated risks to senior management;
3. Maintained an enterprise-level risk inventory;
4. Had a board-level committee responsible for risk management;
5. Had a management-level risk committee;
6. Had an enterprise risk management (ERM) governing document; and
7. Board of Trustees communicated a risk tolerance/appetite.

At that time, FAMU only had two of the seven surveyed areas implemented, including traditional risk management (Item 1) and assigning the Board of Trustees Audit and Compliance committee the responsibility of risk management (Item 4). However, as we will cover in the observations section of this report, FAMU already has some essential building blocks for an ERM program in place.
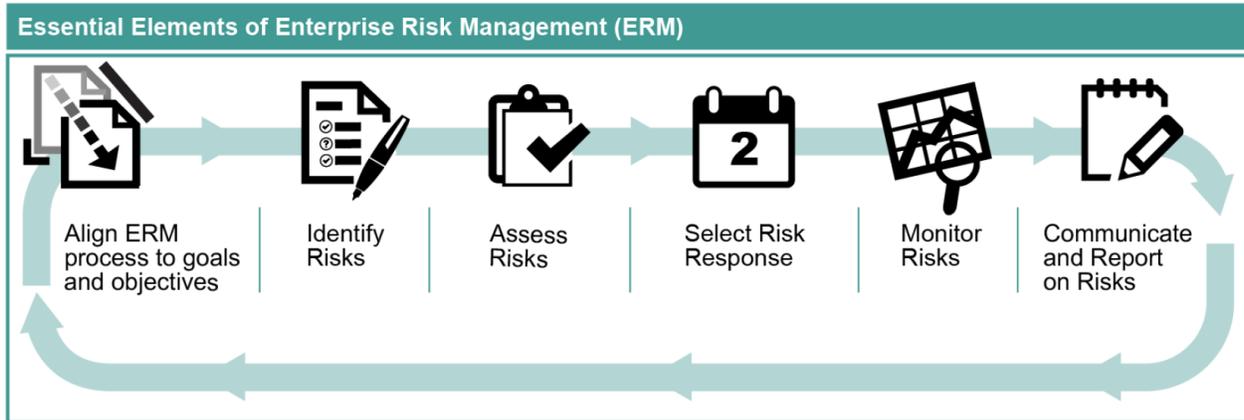
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[1] International Standards for the Professional Practice of Internal Auditing, Standard 2120 – Risk Management

Federal Government Focus on ERM:

In July 2016, the Office of Management and Budget (OMB) issued Circular No. A-123 requiring federal agencies to implement ERM to ensure federal managers are effectively managing risks that could affect the achievement of agency strategic objectives. In addition, the Government Accountability Office (GAO) has studied ERM best practices in federal agencies and the graphic below depicts the best practices process they recommend.

Essential Elements of Enterprise Risk Management (ERM)

| Align ERM process to goals and objectives | Identify Risks | Assess Risks | Select Risk Response | Monitor Risks | Communicate and Report on Risks |

OBSERVATIONS

Based on the scope of work and methodologies outlined in Appendix A, we make our observations in the following areas:

- Benefits of implementing an ERM program at FAMU;
- Risk tolerance/appetite;
- FAMU's current risk practices;
- FAMU's status on implementing ERM best practices;
- Recommended ERM program structure;
- Estimated cost for implementing a FAMU ERM program; and
- Recommended ERM implementation timeline.

Benefits of Implementing an ERM Program at FAMU:

The ability of FAMU to transform current risk management practices into an ERM program would allow for the University to develop a systematic approach for monitoring and measuring risk related to the achievement of strategic plan and performance funding goals. According to COSO, implementation of an ERM program could provide the University the following benefits:

- **Increasing the range of opportunities:** By considering all possibilities—both positive and negative aspects of risk— management can identify new opportunities and unique challenges associated with current opportunities.
- **Identifying and managing risk entity-wide:** Every entity faces myriad risks that can affect many parts of the organization. Sometimes a risk can originate in one part of the entity but impact a different part. Consequently, management identifies and manages these entity-wide risks to sustain and improve performance.
- **Increasing positive outcomes and advantage while reducing negative surprises:** Enterprise risk management allows entities to improve their ability to identify risks and establish appropriate responses, reduce surprises and related costs or losses, while profiting from advantageous developments.
- **Reducing performance variability:** For some, the challenge is less with surprises and losses and more with variability in performance. Performing ahead of schedule or beyond expectations may cause as much concern as performing short of scheduling and expectations. Enterprise risk management allows organizations to anticipate the risks that would affect performance and enable them to put in place the actions needed to minimize disruption and maximize opportunity.
- **Improving resource deployment:** Every risk could be considered a request for resources. Obtaining robust information on risk allows management, in the face of finite resources, to assess overall resource needs, prioritize resource deployment and enhance resource allocation.

- **Enhancing enterprise resilience:** An entity's medium- and long-term viability depends on its ability to anticipate and respond to change, not only to survive but also to evolve and thrive. This is, in part, enabled by effective enterprise risk management. It becomes increasingly important as the pace of change accelerates and business complexity increases.

Beyond these COSO-identified benefits, implementing an ERM program ahead of possible Board of Governor's regulations allows FAMU time to fully develop a program that is optimal to the University's structure, goals, and financial constraints at a measured pace that is conducive to current operations. A phased ERM program implementation would allow the University time to adequately train all leadership, faculty, and staff on ERM principles, their roles in the process, and effect a positive cultural change in the way the University does business.

Risk Tolerance/Appetite:

The University of Alberta has an institutional risk tolerance statement[2] that could be used as a model for a FAMU Board of Trustees risk tolerance/appetite statement. This policy provides a quantitative and qualitative approach to communicating risk tolerance in the following key risk areas:

- Reputation,
- Infrastructure (financial and physical),
- Education/research,
- Human resources, and
- Safety/security.

Adapted to FAMU's environment and needs, this risk tolerance statement would provide an effective method for communicating risk tolerance, mitigation, and escalations procedures based on the likelihood and impact of certain risks being realized. This is an important step for the Board of Trustees in implementing a board-driven risk approach. A risk tolerance statement sets the tone by defining the Board of Trustees' risk appetite on a continuum that ranges from risk averse, to risk neutral, to risk aggressive.

Establishing a risk tolerance/appetite statement is an important step to driving risk-aware decision making.

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[2] https://policiesonline.ualberta.ca/PoliciesProcedures/Procedures/Risk-Management-Policy-Appendix-A-Institutional-Risk-Tolerance-Statement.pdf

The graphic below highlights the relative placement of establishing risk tolerance/appetite along an ERM maturity continuum from risk-naïve to risk-enabled.

Risk-naive | Risk-aware | Risk-defined | Risk-managed | Risk-enabled

Risk maturity

Consistent practice
Consistent language
Continuous improvement
Regular risk communication
Fully embedded processes
ERM in place
Risk appetite defined
Coordinated governance, risk, and control framework
Senior management commitment
Pilot on key projects
Tactical risk management
Development of policies and procedures
Silo-based controls
Fragmented implementation
Focus on compliance
Low investment
Emphasis on mitigation
Ad hoc controls

Time/organizational

FAMU's Current Risk Practices:

FAMU's risk management currently focuses on mitigating the loss of physical and financial assets within each department. FAMU does not have a comprehensive process in place for coordinating risk management actions across departments; requiring identification, reporting, and monitoring of risks; or that require management and staff to consider risk factors in their decision making processes. The Division of Strategic Planning, Analysis, and Institutional Effectiveness does, however, conduct ongoing evaluations of administrative and academic units and makes recommendations for increasing efficiency and effectiveness. These evaluations provide some insight into the risks facing the University.

While not specifically a risk management activity, the Division of Audit and Compliance annually conducts two risk assessments. The first is focused on identifying risks to allocate limited audit resources and ensure appropriate audit coverage. This risk assessment focuses on financial, strategic, compliance, and operational risks across the University. The second risk assessment is performed by the DAC's compliance function.[3] This compliance risk assessment goes in-depth into compliance issues identified by University vice presidents, associate vice presidents, directors, and compliance coordinators. The University's Enterprise Compliance Committee assigns risk owners for each identified compliance risks and works with the owners to implement risk mitigation plans. University executive leadership is provided updates on the status of these mitigation efforts.

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[3] The Compliance function will be removed from the Division of Audit and Compliance effective July 1, 2019, and therefore these two risk assessments will be performed by separate functional units in the future.

FAMU's Status on Implementing ERM Best Practices:

The following table provides a status of FAMU's implementation of 6 key ERM best practices. The comments section of the table provides details and information relevant to implementing these best practices at FAMU.
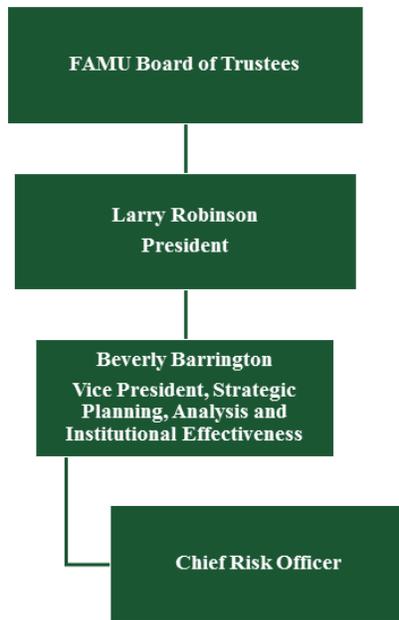
Best Practice	Implemented at FAMU	Comments
1. Establish an ERM Framework	No	The University has not established an enterprise risk management framework. There are two widely accepted risk management standards: COSO and ISO 31000. We recommend FAMU use the COSO ERM Framework for implementation, as it aligns more directly with the University's focus on strategic plan and performance goals. The ISO 31000 risk management guidelines can be used to provide enhanced guidance around the COSO ERM Framework.
2. Appoint an Executive ERM Sponsor	No	The University has not appointed an Executive ERM Sponsor. However, Mrs. Beverly Barrington, Vice President of Strategic Planning, Analysis, and Institutional Effectiveness agrees that her role would be suitable to serve as the executive sponsor with the Chief Risk Officer (when appointed) housed within her division.
3. Formed a Risk and Compliance Council with accompanying charter	Partially	The University formed an Enterprise Compliance Committee (ECC) that is led by the University's Chief Compliance Officer. The ECC is comprised of approximately 30 individuals made up of vice presidents, associate vice presidents, directors, and compliance coordinators through-out the University, ensuring that the Committee has a presence and representation throughout the University. The ECC has established a comprehensive process for assessing and identifying compliance risk, identifying risk owners, developing risk mitigation plans, and monitoring plan completion. Additionally the ECC regularly provides advice and feedback to leadership on compliance and risk matters.
4. Develop an Annual Risk Heat Map	Yes	DAC creates two annual risk heat maps. The first heat map is developed by the Chief Audit Executive and encompasses University financial, operational, compliance, and strategic risks. The second heat map is led by the Chief Compliance and Ethics Officer and provides a more focused evaluation of University compliance issues. Implementation of ERM would task the Chief Risk Officer (once appointed) with developing a comprehensive risk heat map aligned to the University's strategic plan and performance goals.
5. Triennial Enterprise-Wide Risk Assessment Performed	Partially	DAC performs an enterprise-wide annual risk assessment limited in scope to support allocation of audit resources each fiscal year and not designed to align fully with the University's strategic plan or performance goals.
6. Risk Mitigation Follow-up Process in Place to address identified risks	Partially	DAC will perform assurance activities, consulting services, and compliance reviews in areas of high risk which often results in management implementing risk mitigation processes. However, there is no requirement currently, for management to mitigate moderate or high risk factors outlined during the risk assessment process performed by the DAC.

Recommended ERM Program Structure:

Our recommended structure for enterprise risk management would include the following:

- **Appoint a Chief Risk Officer:** Appoint a Chief Risk Officer (CRO) from within the University community. Gallagher Higher Education Practice stated in their, *Road to Implementation: Enterprise Risk Management for Colleges and Universities* report, "The ERM leader is often appointed from an existing position rather than from outside the institution. Internal candidates are most familiar with the institution and have already established relationships with key individuals. They know how to get things done, which is invaluable for large scale initiatives."

- **Establish Administrative and Functional Reporting Lines**: The CRO would report administratively to the Vice President of Strategic Planning, Analysis, and Institutional Effectiveness (SPAIE) and functionally to the Board of Trustees Audit and Compliance Committee. This reporting structure will ensure any major risks are timely reported to the Board of Trustees without constraints from management. The reporting relationship should be established through policy or charter. Administratively reporting to the VP of SPAIE would collocate the function with one already focused on strategic planning and performance. Furthermore, this organizational placement would avoid independence concerns which would be created if it were placed within the Division of Audit and Compliance.

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FAMU Board of Trustees
        |
Larry Robinson
President
        |
Beverly Barrington
Vice President, Strategic
Planning, Analysis and
Institutional Effectiveness
        |
Chief Risk Officer
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Chief Risk Officer Responsibilities: The CRO would have the following responsibilities:

- o Responsible for the development, oversight and implementation of core ERM tools including risk identification, assessment of risk on the operations and mission, prioritization, development and implementation of response to mitigation plans, monitoring, reporting templates and communications tools.

- Lead the annual and on-going assessment of the ERM framework working directly with risk owners to complete risk analysis and develop risk documentation and reporting mechanisms. Act as an advisor and partner to campus leaders.
- Responsible for development and maintenance of strong consultative and collaborative relationships across all levels of the organization, especially with other risk assurance professionals; maintain confidentiality and trust-worthy work relationships with management and the corporation.
- Lead projects to develop and execute risk optimization strategies for key strategic initiatives. Conduct custom strategic risk and opportunity assessments; maintain an ongoing awareness of emerging external and internal risks and opportunities; consult with subject matter experts as needed; report on those risks and/or opportunities; assist responsible officials to assess and respond to emerging risks. Identify and address gaps in the organization, recommend solutions, develop polices and develop standard reporting mechanisms.
- Oversight and management of the Risk Management Committee/Risk Council including development of agenda, reports and presentations. Consult with and assists Vice Presidents and Deans, Directors and other administrative and academic leaders to develop, maintain and report on a response plan for all risks and opportunities assigned to them to help ensure effective risk management, policies, procedures and controls.

- **Establish an ERM Advisory Committee:** The CRO, would establish and chair an ERM Advisory Committee. The main goal of the ERM Advisory Committee would be to bring people with knowledge of specific risks together with those familiar with institutional policies, procedures, and resources in a coordinated effort to manage strategic planning and performance risks across the University.

- **ERM Advisory Committee Responsibilities:** The responsibilities of the ERM Advisory Committee may include assisting with the elimination of functional, cultural, and departmental barriers of dealing with risks; assisting with risk identification, mitigation strategies, and monitoring; advocating risk awareness throughout the University through trainings and discussions; advising departmental risk managers on risk management activities; providing risk management reports and advisory services to executive leadership and board of trustees as requested; and developing a common risk vocabulary for the University. To avoid duplication of effort, the ERM Advisory Committee could be a sub-committee of the current Enterprise Compliance Committee (ECC). In this scenario, the ECC responsibilities could be expanded to include financial, operational, and strategic risk.

Estimated Cost for Implementing a FAMU ERM Program:

The following table provides an estimated cost associated with the phased implementation of an ERM program at FAMU.

ITEM	Description	FY Budget Impact	Approximate Annual Cost
ERM Leader: Chief Risk Officer	The Chief Risk Officer (CRO) is a leader and facilitator for the University regarding institution level risk and opportunities. The CRO will lead the evolution of the University's ERM program through the development and deployment of risk management tools and practices. The CRO will initiate and manage the annual enterprise-wide risk assessment process resulting in the establishment and/or revision of FAMU's highest risks and opportunities that could impair and/or advance the achievement of the university's mission, vision, strategic goals and competeveness. The CRO will act as an advisor to executive leadership and provide relevant information for informed decision making.	FY 2019-2020	$133,640[4] salary
ERM Software Management System	There are various tools that can be utilized for risk management. The University currently has ACL[5] which can be expanded to include risk management. There are also other dedicated ERM solutions that were reviewed, including: *Active Risk Manager*, *Cammsrisk*, and *Logicgate*. All offer cloud solutions and comprehensive options for managing risk across the University. User licenses for these products have an annual fee range of $400 to $1200. The University would need approximately 40 licenses to ensure each department, school/college, and appropriate leadership have access. However, inclusion onto the system, may best be approached in a phased in process.	FY 2020-2021	$16,000 - $48,000 for 40 licenses
		TOTAL	**$149,640 - $181,640**

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[4] Market analysis performed by HR in May 2018.
[5] ACL Services, Ltd. (Audit Command Language) is a privately owned software as a service company recently joining another company (Rsam) and rebranding as Galvanize.

Recommended ERM Implementation Timeline:

The following table provides a recommended ERM implementation timeline using 4 phases.

Phase	Phase 1: ERM and FAMU	Phase 2: Building an ERM Foundation	Phase 3: Implementation	Phase 4: Sustain ERM Program
Time Frame	Present	Year 1 FY 2019-2020	Year 2 FY 2020-2021	Year 3 FY 2021-2022
Goals	✓ Understand the University's plans, environment, and culture ✓ Determine the status of existing risk management processes. Compare with best practices ✓ ERM goals and objectives ✓ Perform cost analysis ✓ Develop implementation timeline ✓ Obtain top-level support for ERM • Obtain top-level commitment, financial support, and participation	• Name an ERM leader • Develop ERM policy or charter • Develop ERM plan • Select or design ERM framework • Create a Cross-Functional Risk Committee • Create mission and goals statement for the Risk Committee • Develop a shared vocabulary and definitions • Develop an institution-wide system for communication	• Develop a risk portfolio • Assess your risks: validate and prioritize • Assign ownership and take action	• Assess results of actions taken in year 2. • Review and align risk treatment with available resources • Collaborate with traditional risk management functions (insurance, claims management, safety, and compliance) • Review ERM framework for any necessary modifications • Refine institution-wide system for communication and tracking progress (technology)

APPENDICES

APPENDIX A – PURPOSE, SCOPE, AND METHODOLOGY

The **purpose** of this advisory service was to review Florida A&M University's risk management practices; assess Enterprise Risk Management (ERM) best practices; propose an ERM structure; estimate initial ERM program costs; and suggest a proposed phased implementation timeline.

The **scope** of the engagement was University risk management practices from fall of 2017 to present.

The **methodology** included:

- Conducting interviews with senior management and other key staff regarding ERM;
- Reviewing prior DAC risk assessments and methods;
- Reviewing the State University System of Florida Board of Governors' 2017 study of System institutions risk management practices;
- Reviewing established university ERM programs throughout the United States (including New York University, University of Vermont, Indiana University, Columbia University, Georgetown University, University of South Carolina, and San Francisco State University);
- Reviewing documentation related to the COSO Enterprise Risk Management Framework and the ISO 31000 Risk Management Guidelines;
- Reviewing ERM articles and consulting reports from the Association of Governing Boards of Universities and Colleges, Gallagher Higher Education Practice, and various other reputable sources; and
- Analyzing the University's strategic plan, performance goals, current structure, and financial constraints for determining the best methods for integrating enterprise risk management into the University.

APPENDIX B – MANAGEMENT RESPONSE

The Division of Audit and Compliance (DAC), as part of the audit risk assessment process, interviews the Board of Trustee Chair, the Board of Trustees Audit & Compliance Chair, all senior management, and select management in high risk areas. As part of the 2017-18 and 2018-19 risk assessment processes DAC explained the premise of enterprise risk management and inquired regarding whether or not they support the implementation of ERM risk management practices at FAMU from each interviewee. In both years, we received unanimous support for the implementation of an ERM program. Some of the highlights from these interviews over the two year period regarding ERM include:

- Kelvin Lawson, Board of Trustee's Chair, commented that the establishment of an ERM program could lead the University to making better decisions in regards to allocating funding.
- Dr. Larry Robinson, President, commented that the establishment of an ERM program is a necessity for the University.
- Shira Thomas, Interim General Counsel, commented that the University should begin implementing ERM now to get ahead of the curve.
- Dr. Shawnta Friday-Stroud, Vice President of Advancement/Dean of School of Business & Industry, commented that implementing an ERM program will cause a cultural shift within the University to decision making being more proactive instead of reactive.

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STATEMENT OF ACCORDANCE

The Division of Audit and Compliance's mission is to provide independent, objective assurance and consulting services designed to add value and improve the University's operations. It helps the University accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

We conducted this advisory service in accordance with the International Standards for the Professional Practice of Internal Auditing. Those standards require we plan and perform the advisory service to obtain sufficient, appropriate evidence to provide a reasonable basis for our observations and conclusions based on our engagement objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our objectives.

Please address inquiries regarding this report to the Division of Audit and Compliance at (850) 412-5479.

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