Audit Committees Workshop

March 18, 2015

www.flbog.edu
1. Charter Documents
   - AACC Charter
   - OIGC Charter

2. PBF – Data Integrity
   - Audits
   - Certifications
   - Corrective Action Plans

3. System Synergy
   - BOT and BOG Collaboration/Teamwork
   - Workshop
WORKSHOP GOALS

• Synergy (Teamwork & Collaboration)
• Alignment (OIGC/CAE/BOT/BOG)
• Educate and Inform
• Debate Issues
• Identify Strengths
• Identify Opportunities
• Return on Investment
WORKSHOP AGENDA TOPICS

Background:

• Governance
• Pulse of the Profession

Discussion Topics:

1. Compliance and Ethics
2. OIGC Roles, Powers and Duties
3. Complaints Against Chief Audit Executives and Staff
4. Audit Coverage, Follow-up, and Escalation
5. Risk Assessment
6. Risk Management
7. Offices of the Chief Audit Executive
8. Fraud
9. Hotlines
10. Whistle-blower’s Act
11. Quality Assurance (Time Permitting)
12. Shared Services (Time Permitting)
Governance is the combination of processes and structures implemented by the board to inform, direct, manage, and monitor the activities of the organization toward the achievement of its objectives.

Governance in the public sector:

- Accountability
- Transparency
- Integrity
- Standards Setting
- Ethics
- Risk Management
FLORIDA HIGHER EDUCATION GOVERNANCE

Board of Governors
- Constitutional
- 12 State Universities

State Board of Education
- Strategic Plan
- Information Systems
- Articulation
- STEM Plan

Independent Colleges and Universities of Florida
- Statutory
- K-12
- 28 Colleges
- 31 Institutions
STATE UNIVERSITY SYSTEM OF FLORIDA
GOVERNANCE STRUCTURE

Board of Governors – Operate, Regulate, and Control
Audit and Compliance Committee
Chancellor
Inspector General

Board of Trustees - Administer
Audit Committee
President
Chief Audit Executive

Legislature
Joint Legislative Audit Committee
Auditor General/OPPAGA
THE THREE LINES OF DEFENSE MODEL

1st Line of Defense
- Management Controls
- Internal Control Measures

2nd Line of Defense
- Financial Control
- Security
- Risk Management
- Quality
- Inspection
- Compliance

3rd Line of Defense
- Internal Audit

Governing Body / Board / Audit Committee

Senior Management

External audit
Regulator
Statement of Principles for Offices of Inspector General

The public expects inspectors general to:

- Hold government officials accountable for efficient, cost-effective government operations
- Prevent, detect, identify, expose and eliminate fraud, waste, corruption, illegal acts and abuse.

This public expectation is best served by inspectors general when they follow the basic principles:

<table>
<thead>
<tr>
<th>Integrity</th>
<th>Trust</th>
</tr>
</thead>
<tbody>
<tr>
<td>Objectivity</td>
<td>Honesty</td>
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<tr>
<td>Independence</td>
<td>Fairness</td>
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<td>Confidentiality</td>
<td>Forthrightness</td>
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<td>Professionalism</td>
<td>Public accountability</td>
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<tr>
<td>Competence</td>
<td>Respect for others and themselves</td>
</tr>
<tr>
<td>Courage</td>
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</table>
Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.
Results suggest that alignment of stakeholder expectations, and matching skills and capabilities to these expectations, helps internal audit enhance the value delivered to the organization.
"On internal audit, audit committees are still looking for greater value."

2015 Global Audit Committee Survey from KPMG's Audit Committee Institute
“By failing to prepare, you are preparing to fail.”

-Benjamin Franklin
“There is no more enduring challenge for internal auditors than achieving and maintaining alignment with the expectations of our key stakeholders.”

Richard Chambers, President and CEO of the IIA, February 2015
Maturity Model

- Non-Existent
- Initial (ad hoc)
- Managed
- Optimized
COMPLIANCE

Policies

Regulations

LAW

Rules

Transparency
THE THREE LINES OF DEFENSE MODEL

1st Line of Defense
- Management Controls
- Internal Control Measures

2nd Line of Defense
- Financial Control
- Security
- Risk Management
- Quality
- Inspection
- Compliance

3rd Line of Defense
- Internal Audit

Governing Body / Board / Audit Committee
Senior Management

External audit
Regulator
• Established – 2013
• Meetings
• Charter
• First in-person Meeting
• Participation
• AACC Presentation
• Draft Regulation
# UNIVERSITY COMPLIANCE PROGRAMS

## All SUS Institutions compliance functions

<table>
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<tr>
<th>University</th>
<th>Office</th>
<th>Incumbent</th>
<th>Maturity</th>
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<tr>
<td>FAMU</td>
<td>Chief Audit Executive (CAE)</td>
<td>Rick Givens, VP and CAE</td>
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<tr>
<td>FAU</td>
<td>Decentralized</td>
<td>--</td>
<td>?</td>
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<tr>
<td>FGCU</td>
<td>General Counsel</td>
<td>Vee Leonard, GC</td>
<td>?</td>
</tr>
<tr>
<td>FIU</td>
<td>Chief Compliance Officer (CCO)</td>
<td>Karyn Boston, CCO</td>
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<td>FPU</td>
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<tr>
<td>FSU</td>
<td>CAE</td>
<td>Sam McCall, CAE</td>
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<tr>
<td>NCF</td>
<td>CAE</td>
<td>John Martin, VP Fin. &amp; Admin.</td>
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<tr>
<td>UCF</td>
<td>CCO</td>
<td>Rhonda Bishop, CCO</td>
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<tr>
<td>UF</td>
<td>Decentralized</td>
<td>--</td>
<td>?</td>
</tr>
<tr>
<td>UNF</td>
<td>CCO</td>
<td>Joann Campbell, CCO</td>
<td>?</td>
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<tr>
<td>USF</td>
<td>CAE</td>
<td>Jeff Muir, CCO</td>
<td>?</td>
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<tr>
<td>UWF</td>
<td>CAE</td>
<td>Matt Packard, Compliance Specialist</td>
<td>?</td>
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</table>
COMPLIANCE AND ETHICS PROGRAM MATURITY MODEL

Non-Existent  Initial (ad hoc)  Managed  Optimized
Authority: Board of Governors

• Require University Compliance and Ethics Programs
  o Consistent with U.S. Sentencing Guidelines – 7 Elements
    1. Establish infrastructure
    2. Compliance and ethics oversight
    3. Avoid delegation of authority to unethical individuals
    4. Communicate and educate
    5. Monitor and audit
    6. Consistent enforcement and discipline
    7. Incident response and prevention
  o Chief Compliance Officer
  o BOT committee responsible for compliance matters
COMPLIANCE AND ETHICS

Considerations
• Federal Sentencing Guidelines
• Chief Compliance Officer
• Reporting Structure
• Board of Trustees Committee
• SUS Compliance and Ethics Consortium Participation
• Professional Affiliations and Certifications

Discussion
Kristina Marasia (OPS Student Assistant), Melanie Yopp (Investigations and Audit Specialist), Lori Clark (Audit and Compliance Specialist), and Joseph Maleszewski (Inspector General and Director of Compliance)
• Established - 2007
• Using Existing Resources
• Duties:

An Office of Inspector General shall be organized using existing resources and funds to promote accountability, efficiency, and effectiveness and to detect fraud and abuse within state universities.

- s. 20.155(5), F.S.

• Duties included compliance matters
Authority: Section 20.155, Florida Statutes

• Powers and Duties

  o Promote:
    ▪ Accountability
    ▪ Efficiency
    ▪ Effectiveness

  o Detect:
    ▪ Fraud
    ▪ Abuse

  o Agency Inspector General
Authority: Section 20.155, Florida Statutes

- Allegations
  - Waste
  - Fraud
  - Financial Mismanagement

- BOG Determinations – Is a BOT “Unwilling or Unable?”

- BOT “Unable” – Specific Circumstances

- OIGC recommendation to BOG for action
Considerations

• Role of OIGC
  o Promote Accountability, Efficiency and Effectiveness
  o Detect Fraud and Abuse

• Allegations of Waste, Fraud or Financial Mismanagement

• Circumstances when a BOT is “Unwilling or Unable”

Discussion
COMPLAINTS AGAINST CAE AND STAFF
COMPLAINTS AGAINST CAE AND STAFF

“Who investigates complaints against CAE and/or CAE staff?”

CAE Survey Responses

<table>
<thead>
<tr>
<th>University</th>
<th>CAE</th>
<th>CAE Staff member</th>
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</thead>
<tbody>
<tr>
<td>FAMU</td>
<td>BOT / AC</td>
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<tr>
<td>FAU</td>
<td>President / BOT</td>
<td>CAE</td>
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<tr>
<td>FGCU</td>
<td>President</td>
<td>CAE</td>
</tr>
<tr>
<td>FIU</td>
<td>General Counsel (GC)</td>
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<tr>
<td>FSU</td>
<td>President / AC</td>
<td>CAE / GC / BOT AC</td>
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<td>NCF</td>
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<td>UCF</td>
<td>GC / OIGC BOG</td>
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<tr>
<td>UF</td>
<td>President</td>
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<tr>
<td>UNF</td>
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<tr>
<td>USF</td>
<td>GC (possible referral)</td>
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</tr>
<tr>
<td>UWF</td>
<td>President / BOT</td>
<td>CAE</td>
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</tbody>
</table>
Considerations
• Current Practice
• Independence
• Objectivity
• Type of Complaint

Discussion
AUDIT COVERAGE: STATE UNIVERSITY SYSTEM

CAEs
AUDIT COVERAGE

Auditor General - Financial Statement Audit
FYs 2010-11 through 2012-13

• Financial Statements – Fairly Presented
• Internal Controls
• Noncompliance
• Additional Matter
<table>
<thead>
<tr>
<th>AG OPERATIONAL AUDIT SCOPE</th>
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<tbody>
<tr>
<td>• IT policies and procedures</td>
</tr>
<tr>
<td>• IT access privileges and separation of duties</td>
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<tr>
<td>• IT access – deactivation of employees</td>
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<tr>
<td>• IT logging and monitoring</td>
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<tr>
<td>• IT authentication controls</td>
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<tr>
<td>• IT data loss prevention</td>
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<tr>
<td>• IT logical access controls &amp; user authentication</td>
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<tr>
<td>• IT security incident response</td>
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<tr>
<td>• Board and committee meetings</td>
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<tr>
<td>• Textbook affordability</td>
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<tr>
<td>• Identity theft prevention program (Red Flags Rule)</td>
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<tr>
<td>• Internal audit function (inspector general)</td>
</tr>
<tr>
<td>• Fund equity controls</td>
</tr>
<tr>
<td>• Investments</td>
</tr>
<tr>
<td>• Student receivables</td>
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<tr>
<td>• Florida residency determination and tuition</td>
</tr>
<tr>
<td>• Tuition differential fees</td>
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<tr>
<td>• Auxiliary operations contract compliance</td>
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<tr>
<td>• Terminal pay</td>
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<td>• Severance pay</td>
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<tr>
<td>• Related-party transactions</td>
</tr>
<tr>
<td>• Journal entries</td>
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<tr>
<td>• Direct-support organizations</td>
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<tr>
<td>• Fraud policy and related procedures</td>
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<tr>
<td>• SSN requirements</td>
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<tr>
<td>• Conflicts of interest</td>
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<tr>
<td>• Annual physical inventory of property</td>
</tr>
<tr>
<td>• Distance learning fees</td>
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<tr>
<td>• Royalty fees</td>
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<tr>
<td>• Dual enrollment programs</td>
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<tr>
<td>• Construction administration</td>
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<tr>
<td>• Earmarked capital project resources</td>
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<tr>
<td>• Transient student admission</td>
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<tr>
<td>• Cash collection procedures</td>
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<tr>
<td>• Rebate revenues</td>
</tr>
<tr>
<td>• Grant administration</td>
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</tbody>
</table>
AUDIT COVERAGE

Operational Report Findings (FY 6/30/11- 6/30/14)

- Information Technology: 22%
- Personnel & Payroll: 13%
- Royalties, Tuition & Fees: 10%
- Expenses, Disbursements & P-Cards: 7%
- Cash Collections/Mgt. & Receivables: 7%
- Procurement of Goods & Services: 9%
- Construction Administration & Contract Monitoring: 9%
- Other: 9%
- Administrative Management & Board Policies: 14%
- Operational Report Findings: FY 6/30/11- 6/30/14
AUDIT COVERAGE

Auditor General - Federal Awards Audits

**Student Financial Assistance Findings**

35 Total - FYs 2010-11 to 2012-13

- IT Controls
- Attendance
- Enrollment Changes
- Exit Counseling Materials & Student Withdrawals
- Matching Funds
- Student Eligibility
- Charges to Federal Programs & Unallowable Grant Charges
- Other

- FY 2010-11
- FY 2011-12
- FY 2012-13
Auditor General - Federal Awards Audits

Research & Development Findings

17 Total - FYs 2010-11 to 2012-13

CAS Exemptions for R&D – OMB Cir. A-21
Fringe Benefit Pool Rates
Auxiliary Service Charges
Charge to Grants
Grant Expenditure Monitoring
Policies & Procedures – Compliance
Time & Effort Activity Report Certification

FY 2010-11   FY 2011-12   FY 2012-13
AUDIT COVERAGE

Auditor General - IT Audits of NWRDC

- 4 Audits
- 15 Audit Findings
  - 13 - IT Operations
  - 2 - Cost Allocation Processes
AUDIT COVERAGE

OPPAGA Reports by SUS Category
January 2010 - January 2015

- Nursing Education Programs: 53%
- Student Issues: 13%
- BOG Funding Formula & Uniform Reporting Procedures: 6%
- Florida Solar Energy Center: 7%
- University Health Center: 7%
- Implementation & State Oversight: 7%
- Accountability & Oversight Needed: 7%
Support Organizations/Plans - FY 2012-13

• 73 Financial Statement Audits – Fairly Presented

• 3 AUP: Intercollegiate Athletics
  o Material Weakness - Student Fees $65,000
  o Exception - Ticket Sales and Student Fees $200,000
  o Exception - Student Fees $147,000

• 5 of 73 Audits: I/C over Financial Reporting
  o Intercollegiate Athletics: Material Weakness – Accounts Receivable and Reconciliations
  o Foundation: Material Weakness – Segregation of Duties; Significant Deficiency – Untimely Reconciliations
  o Law Center: Material Weakness – Accounting system conversion
  o Florida Seed Production Foundation: Significant Deficiency – Disbursements
  o Nursing Faculty Practice: Management Letter – Update billing system codes and properly document patient income

• 1 of 73 Audits: Compliance Issue
  o Florida Seed Production Foundation: Travel-related compliance issue
AUDIT COVERAGE

University CAEs – Internal Audit Findings by Category

CYs 2012 – 2014

- IT (198)
- P-card (146)
- Personnel & Payroll (110)
- Policy & Procedures (102)
- Contracting & Procurement (86)
- Internal Controls (75)
- Fees (63)
- Health & Safety (58)
- Accounting (58)
- Property & Inventory (56)
- AR/Revenue Collections (55)
- Cash Mgmt & Collections (50)
- Grant Mgmt & Monitoring (45)
- Travel (32)
- Construction (29)
- Athletics (21)

2012  2013  2014
RECAP AUDIT COVERAGE

• University – Financial
  o Fairly Stated
  o Internal Controls
  o Compliance

• Federal Awards
  o Student Financial Assistance
  o Research and Development

• Support Organizations/Plans – Financial
  o Fairly Stated
  o Internal Controls
  o Compliance

• OPPAGA – Nursing
COMMON/PERSISTENT AUDIT FINDINGS
AG AND CAE OPERATIONAL AUDITS

- IT Security – User Authentication
- Textbook Affordability
- Tuition Differential
- Remuneration Administrative Employees
- Severance Payments
- Residency for Tuition Purposes
- DSO – Line of Credit
- P-Card
- Cash Collections
- Contracting and Procurement
- Construction
- Vehicle Fuel Consumption – Vehicle Usage Logs
- IT Disaster Recovery
IIA Performance Standard 2500:
The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.

- Corrective Action Plans
- Periodic Follow-up
- Escalation of Issues
- Acceptance of Risk
**Authority:** Section 1008.322, Florida Statutes

- **Joint Legislative Auditing Committee (JLAC)**
  - Request written statement
  - Appear before JLAC
  - Refer to BOG to proceed under Section 1008.322, F.S.

- **BOG Oversight and Enforcement Authority**
  - Chancellor authority to investigative noncompliance
  - Order compliance
  - Noncompliance
    - Withhold funds
    - Declare ineligible for grants
    - Periodic reporting
    - Recommend action to Legislature
Considerations

• Audit Trends
• Role of AG/JLAC
• BOG Oversight and Enforcement Authority

Discussion
10 MINUTE BREAK …
RISK ASSESSMENT

- External
- Financial
- Hazards
- Human Resources
- Operational
- Information Technology
- Reputational
- Strategic
- Legal/Regulatory Compliance
CAEs indicated they:

- Conduct periodic risk assessments
- Solicit stakeholder input (alignment)
- Understand the strategic direction of their university
RISK ASSESSMENT MATURITY MODEL

Non-Existent
Initial (ad hoc)
Managed
Optimized
UNIVERSITY RISKS AND AUDIT COVERAGE

AG Operational

University CAE

AG Financial

CPA

OPPAGA

Federal Auditors
IT RISKS AUDIT COVERAGE

AG
Operational

University
CAE

AG
Financial

RISK
Considerations

- Audit Coverage
- Risk Types
- Risk Appetite
- System-wide Risks
- Fraud Risks
- Are there risks we are not auditing?

Discussion
RISK MANAGEMENT
THE THREE LINES OF DEFENSE MODEL

1st Line of Defense
- Management Controls
- Internal Control Measures

2nd Line of Defense
- Financial Control
- Security
- Risk Management
- Quality
- Inspection
- Compliance

3rd Line of Defense
- Internal Audit

Governing Body / Board / Audit Committee
Senior Management

External audit
Regulator
<table>
<thead>
<tr>
<th>University</th>
<th>Committees</th>
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<tr>
<td>FAMU</td>
<td>Academic Affairs, Audit &amp; Compliance</td>
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<td>Budget &amp; Finance, Student Affairs, Facilities</td>
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<td>Personnel &amp; Compensation, Athletics Subcommitte</td>
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<td>Strategic Planning &amp; Development</td>
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<td>Housing, Strategic Planning</td>
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<td>Student Affairs, Collective Bargaining,</td>
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<td>Presidential Compensation, Efficiency</td>
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<td>Strategic Planning</td>
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<td>Advancement, Strategic Planning</td>
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<td>Ad Hoc</td>
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<td>Student Affairs</td>
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<td>Research, Innovation, Engagement &amp; Job Creation</td>
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<td>Health</td>
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<td>UWF</td>
<td>Academic Affairs, Audit &amp; Operations, Finance &amp;</td>
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<td></td>
<td>Facilities, Student Affairs, Executive</td>
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</tbody>
</table>
• Risk Management Programs
• Role of Internal Audit?

2120 – Risk Management

The internal audit activity **MUST** evaluate the effectiveness and contribute to the improvement of risk management processes.
RISK MANAGEMENT MATURITY MODEL

- Non-Existent
- Initial (ad hoc)
- Managed
- Optimized
Considerations

• University Risk Management Programs
• Role of Internal Audit
• Board of Trustees Responsibilities
• Risk Appetite

Discussion
Internal Audit

Hotline

Investigations

Compliance
CAE MISSION

• Audit
• Investigations
• Compliance (4 out of 11)
• Whistle-blower’s Act
• Special Projects
PROFESSIONAL STANDARDS

• Audit –
  o IIA - Red Book
  o GAO - Yellow Book
  o ISACA – IS Audit and Assurance

• Investigations –
  o Green Book
  o ACFE – Code of Professional Standards
CAE QUALIFICATIONS

- BA or MA in relevant area
- More than 5 years of experience
- Professional Certification – CPA or CIA

<table>
<thead>
<tr>
<th>Degrees</th>
<th>Certifications</th>
<th>Professional Affiliations</th>
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<tbody>
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<td>All have BAs:</td>
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<tr>
<td>1 MBA</td>
<td>8 CPAs</td>
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<td>2 MPAs</td>
<td>4 CIAs</td>
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<tr>
<td>2 MSs</td>
<td>2 CIGs</td>
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<tr>
<td>1 PhD</td>
<td>2 CGFM</td>
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<td></td>
<td>1 each:</td>
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<td>CCEP, CCSA, CFE,</td>
<td>AIG</td>
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<td>CGAP, CGMA &amp; CISA</td>
<td>FICPA</td>
</tr>
<tr>
<td></td>
<td></td>
<td>IIA</td>
</tr>
<tr>
<td></td>
<td></td>
<td>ISACA</td>
</tr>
<tr>
<td></td>
<td></td>
<td>SCCE</td>
</tr>
</tbody>
</table>
CAE INDEPENDENCE

- CAE Appointment and Removal
- Qualifications
- Reporting Structure
- Resources
- Management
  - Hire staff
  - Manage budget
  - Reporting
- **Scope Limitations**
Office Resources:

• **System Total:** $8 Million
• **University Average:** $800,000
• **27% Report Insufficient Resources**
• **CAE Priorities for Resources:**
  o Staffing
  o Salaries – Retain Staff
  o Training
  o Audit Software
  o Compliance
  o Hotline
RATIO: AUDIT STAFF TO UNIVERSITY STAFF

Fall Term 2014*

*Does not include FPU.
RATIO: AUDIT TO UNIVERSITY EXPENDITURES

Fiscal Year 2013-2014*

* Does not include FPU.
## CAE IT AUDIT STAFF SUMMARY

<table>
<thead>
<tr>
<th>University</th>
<th>Position</th>
<th># of FTEs</th>
</tr>
</thead>
<tbody>
<tr>
<td>FAMU</td>
<td>Staff Auditor – IT</td>
<td>1</td>
</tr>
<tr>
<td>FIU</td>
<td>Information Systems Audit Manager</td>
<td>1</td>
</tr>
<tr>
<td>FSU</td>
<td>Staff Auditor – IT</td>
<td>1</td>
</tr>
<tr>
<td>UCF</td>
<td>IT Auditor</td>
<td>Vacancy</td>
</tr>
<tr>
<td>UF</td>
<td>Manager – IT Audit</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Staff Auditor – IT</td>
<td>Vacancy</td>
</tr>
<tr>
<td>UNF</td>
<td>Staff Auditor – IT</td>
<td>1</td>
</tr>
<tr>
<td>USF</td>
<td>Assistant Director – Audit/IT</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Senior IT Auditor</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td><strong>Total: 10 IT FTEs</strong></td>
<td></td>
</tr>
</tbody>
</table>
## CAE v. ACUA AVERAGE SALARIES

<table>
<thead>
<tr>
<th>CAE Job Titles</th>
<th>ACUA Job Titles</th>
<th>CAE Salaries</th>
<th>ACUA Salaries</th>
<th>Δ</th>
</tr>
</thead>
<tbody>
<tr>
<td>CAE / IG</td>
<td>CAE</td>
<td>$138,623</td>
<td>$121,868</td>
<td>$16,755</td>
</tr>
<tr>
<td>Director of Audit/Investigations</td>
<td>Associate Director</td>
<td>$87,388</td>
<td>$106,682</td>
<td>($19,294)</td>
</tr>
<tr>
<td>Audit Manager</td>
<td>Manager/Supervisor</td>
<td>$78,205</td>
<td>$86,653</td>
<td>($8,448)</td>
</tr>
<tr>
<td>Senior Auditor/Investigator</td>
<td>Experienced Auditor</td>
<td>$63,838</td>
<td>$67,010</td>
<td>($3,172)</td>
</tr>
<tr>
<td>Staff Auditor/Investigator</td>
<td>Entry-Level Auditor</td>
<td>$54,774</td>
<td>$48,436</td>
<td>$6,338</td>
</tr>
<tr>
<td>IT Manager</td>
<td>IT Manager</td>
<td>$89,929</td>
<td>$102,247</td>
<td>($12,318)</td>
</tr>
<tr>
<td>Senior IT Auditor</td>
<td>Experience IT Auditor</td>
<td>$72,201</td>
<td>$78,117</td>
<td>($5,916)</td>
</tr>
<tr>
<td>IT Auditor</td>
<td>Entry Level IT Auditor</td>
<td>$54,750</td>
<td>$53,615</td>
<td>$1,135</td>
</tr>
<tr>
<td>Administrative Assistant</td>
<td>Administrative/Clerical</td>
<td>$44,077</td>
<td>$45,193</td>
<td>($1,116)</td>
</tr>
</tbody>
</table>
REGULATION DEVELOPMENT –
CHIEF AUDIT EXECUTIVES

- Charters – BOT & CAE Office
- Duties and Responsibilities
  - Audits and Investigations
  - Promote economy and efficiency
  - Prevent and detect fraud and abuse
- Professional Standards
  - Office – AIG General Principles and Standards for Offices of Inspectors General
  - Audits – IIA, GAGAS, ISACA
  - Investigations - AIG Quality Standards for Investigations
- Resources
- Provide training & outreach – fraud awareness, risk management, controls
- Continuing professional development
- Annual Report
- Complaints against CAEs and their staff
- State University Audit Council
REGULATION DEVELOPMENT – CHIEF AUDIT EXECUTIVES

AUDITS:

- CAE Qualifications
- Independence
  - Appointment and Removal
  - Reporting – Administratively to President & Functionally to BOT
  - Access to information and people
  - Scope limitations
  - Audit Reports
- Follow-up on AG and CAE findings and recommendations
- Acceptance of Risk
- Periodic risk assessments and audit plans
- Quality assurance and improvement program
Investigations:

- Cooperation with official investigations
- Whistle-blower’s Act determination and investigation
- Violations of criminal law – report expeditiously to law enforcement
- Complaint tracking, referral and disposition
- Freedom from interference with investigations
- Investigative reports
Considerations

- Investment in CAE
- Resourcing – Staffing & Budgets
- Independence
- Prepared (Qualified, Educated, Experienced, Certified)
- IG Equivalent Positions
- Regulation

Discussion
“Most universities often are fraud victims because of their unique control environments. An atmosphere of openness and collegiality, and faculty members who don’t want to be controlled, can lead to a lack of segregation of duties and independent oversight.”
FRAUD MATURITY MODEL

Non-Existent
Initial (ad hoc)
Managed
Optimized
The COST of FRAUD

- 5% of annual revenue to fraud
  - 1,483 cases = over $3 billion in losses
  - Potential $3.7 trillion worldwide loss

- 22% of frauds > $1 million

- Hidden costs:
  - Productivity
  - Reputational damage
  - Related business
  - Investigation and remediation

- 58% of entities had not recovered losses
Three categories of occupational frauds:

1. Asset misappropriations
2. Corruption
3. Financial statement fraud

• Misappropriation – most common = 85% of all fraud

• Most common fraud schemes in education:
  o 36.30% Corruption
  o 33.80% Billing
  o 31.30% Expense Reimbursements
  o 20.00% Skimming
  o 16.30% Cash on Hand
  o 16.30% Payroll
Frauds in Higher Education - six-figure occupational fraud losses:

- Bethany College, WV, > $500,000 cashier’s office employee charged
- Harrisburg Area CC, PA, $228,000 VP plead guilty used institutional funds for personal purchases
- Georgetown, D.C., about $390,000 administrator embezzled

Source: Anne Rawland Gabriel, University Business, January 2014 (UB, 2014)
SUS FRAUD EXAMPLES

2012 - University Events Director arrested on 8 Counts of Fraudulent Claims
  o Submitted false info regarding per diem and travel expenses

2013 - Former University Student Gets 2 Years in Prison for Identity Theft
  o Redirected financial aid refunds
  o Aggravated ID theft and access device fraud

2014 - Former University Dean & Student Government Association(SGA) Coordinator of Accounting & Budgets
  o Arrested for Stealing money from SGA
  o Admitted to stealing from fees paid for out of town games
  o Three counts grand theft and 11 counts fraudulent claims
Considerations

• Tone at the top
• How much fraud do we have?
• How do you prefer fraud to surface?
• All fraud is committed by those we trust.
• System fraud policy
• University fraud policies
• Fraud risk assessments

Discussion

“There’s none deceived but he that trusts”

- Benjamin Franklin
“Organizations with hotlines were much more likely to catch fraud by a tip, which our data shows is the most effective way to detect fraud. These organizations also experienced frauds that were 41% less costly, and they detected frauds 50% more quickly.”

Source: ACFE 2014 Report to the Nations
HOTLINE MATURITY MODEL

- Non-Existent
- Initial (ad hoc)
- Managed
- Optimized
IMPACT OF HOTLINES
ACFE 2014

<table>
<thead>
<tr>
<th>Detection Method</th>
<th>Percent of Cases (Organizations With Hotlines)</th>
<th>Percent of Cases (Organizations Without Hotlines)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tip</td>
<td>33.3%</td>
<td>51.0%</td>
</tr>
<tr>
<td>Internal Audit</td>
<td>15.2%</td>
<td>13.2%</td>
</tr>
<tr>
<td>Management Review</td>
<td>14.6%</td>
<td>17.7%</td>
</tr>
<tr>
<td>Account Reconciliation</td>
<td>5.1%</td>
<td>6.5%</td>
</tr>
<tr>
<td>By Accident</td>
<td>4.2%</td>
<td>8.5%</td>
</tr>
<tr>
<td>Surveillance/Monitoring</td>
<td>2.9%</td>
<td>1.7%</td>
</tr>
<tr>
<td>Document Examination</td>
<td>2.0%</td>
<td>6.4%</td>
</tr>
<tr>
<td>External Audit</td>
<td>1.3%</td>
<td>5.2%</td>
</tr>
<tr>
<td>Notified by Law Enforcement</td>
<td>1.3%</td>
<td>2.7%</td>
</tr>
<tr>
<td>IT Controls</td>
<td>1.3%</td>
<td>0.9%</td>
</tr>
<tr>
<td>Confession</td>
<td>0.6%</td>
<td>0.9%</td>
</tr>
<tr>
<td>Other</td>
<td>0.3%</td>
<td>0.7%</td>
</tr>
</tbody>
</table>
• 7 Universities (58%) have hotlines
• 5 use EthicsPoint (Navex)
• 1 uses The Network
• 1 in-house web-based system

• All track complaint dispositions:
  o 9 use in-house systems
  o 2 use off-the-shelf systems (Navex and TeamMate)
OIGC COMPLAINTS PAGE

- Student Complaints
- OIGC Complaints
- University Complaints
- Ethics Complaints
- Florida Commission on Human Relations
- CFO Get Lean Hotline
- Whistle-blower’s Hotline
- USDOE – Office of Civil Rights
- USDOE – OIG

http://www.flbog.edu/contact/complaint/
Considerations

• Governors CIG WB Hotline
• OIGC Complaints Page
• Management of Hotlines

Discussion
Sections 112.3187-112.31895, F.S. - “Whistle-blower’s Act”
“Any violation or suspected violation of any federal, state, or local law, rule, or regulation committed by an employee or agent of an agency or independent contractor which creates and presents a substantial and specific danger to the public’s health, safety or welfare”

“Any act or suspected act of gross mismanagement, malfeasance, misfeasance, gross waste of public funds, suspected or actual Medicaid fraud or abuse, or gross neglect of duty committed by an employee or agent of an agency or independent contractor.”

Subsection 112.3187(5)(a), F.S.
WHISTLE-BLOWERS

• Appoint IG for purposes of Whistle-blower’s Act – make determinations and conduct the investigations
• Protection for WB
• Confidentiality
  o WB Identity,
  o Active Investigative Information
• Investigative Timeframes
  o Determinations (20 days)
  o Investigations (60 days)
• Governors CIG – WB Hotline
• WB Response – 20 days
• Referral to LE if Criminal
UNIVERSITY WB DETERMINATIONS

• All Chief Audit Executives
• 6 Universities General Counsels
• 2 University Presidents
Considerations

• BOT Appointment of IG for purposes of WB Act
• Determinations and Investigations
• Placement/Independence
• Timeframes
• Confidentiality

Discussion
IIA Attribute Standard 1300 – QAIP

- Internal Assessments
  - Ongoing
  - Periodic self-assessments
- External Assessments (every 5 years)
- Management Action Plan
- Reporting – Senior Management & Board
- Use of “Conforms with the ISPPIA”
- Disclosure of Nonconformance
QUALITY ASSESSMENT REVIEW

• External QAR
  o 10 of the 11 have had a QAR within the required 5 years
  o All 11 received a Generally Conform (GC) finding
  o Opportunities for improvement

• Internal QAR
CAEs conducting joint investigations with university, local, state and/or federal law enforcement agencies:

- 64% (7) universities do
- 36% (4) universities do not
Considerations

• Quality Assurance and Improvement Program (QAIP)
• Internal Quality Assessment
• External Quality Assurance Review – Every 5 Years
• Self-Assessment with External Validation
• LE Partner Accreditation

Discussion
SHARED SERVICES
SHARED SERVICES

The State University System is working together to save

Florida’s 12 universities are poised to find big cost-savings on contracts after buying a spend analytics tool designed to help them negotiate collectively. The tool provides a comprehensive view into System-wide spending and assists in leveraging the size of the State University System to secure better contracts on products from computers to car rentals.

Why should you care? The purchase of a spend analytics tool is one of many State University System efforts to enhance efficiency and ensure the best possible use of taxpayer dollars. The State University System even found savings on the purchase of the software itself, which cost $244,493--$600,000 less than if the universities had purchased spend analytics software independently.

Bottom line? The State University System of Florida provides a good return on investment.
1. Education and Training

2. SUS Staff Expertise
   a. IT Audits
   b. Quality Assessment Reviews

3. Information Sharing
   a. Reports and Findings
   b. Audit Expertise
   c. Audit Plans and Risk Assessments

4. Resources
   a. Third-party Hotline
   b. System-wide Audit Management Software
   c. Electronic Work Papers
Considerations

• Training and Development
• Quality Assessment Reviews
• Information Sharing
• ACUA Resources
• CAE Collaboration via SUAC
• Software
  o Audit Management
  o Working Papers
  o Computers Assisted Audit Techniques

Discussion
Wrap Up!
WRAP-UP!

Background:
• Governance
• Pulse of the Profession

Discussion Topics:
1. Compliance and Ethics
2. OIGC Roles, Powers and Duties
3. Complaints Against Chief Audit Executives and Staff
4. Audit Coverage, Follow-up, and Escalation
5. Risk Assessment
6. Risk Management
7. Offices of the Chief Audit Executive
8. Fraud
9. Hotlines
10. Whistle-blower’s Act
11. Quality Assurance (Time Permitting)
12. Shared Services (Time Permitting)
OPEN DISCUSSION