



BOARD OF GOVERNORS
TASK FORCE ON FAMU FINANCE AND OPERATIONAL CONTROL
ISSUES

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BOARD OF GOVERNORS STATE UNIVERSITY SYSTEM OF FLORIDA

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BOARD OF GOVERNORS STATE UNIVERSITY SYSTEM OF FLORIDA

TASK FORCE ON FAMU FINANCE AND OPERATIONAL CONTROL ISSUES¹

I. EXECUTIVE SUMMARY

In the “Interim Report of the Task Force on FAMU Finance and Operational Control Issues,” submitted today we conclude that Florida A&M University (FAMU or University) has implemented adequate and effective controls that address the vast majority of issues raised by several previous audits. The Task Force’s evaluation of a number of key areas – including information technology and contracts and grants – has not been completed. However, we have determined that of the 48 corrective actions, which have been in place a sufficient period of time to be subject to a systematic, reliable, validation and verification process, 92 percent have been evaluated as operating satisfactorily.

The Task Force, created on March 20, 2007, by the Board of Governors, State University System of Florida (Board), has conducted a comprehensive review of the corrective actions implemented by FAMU. On December 12, 2007, for the first time in three years, FAMU received an unqualified opinion on its financial statements from the Auditor General (AG). Though several issues remain, we believe that under the leadership of its Board of Trustees (UBOT) and President James H. Ammons, FAMU has laid the foundation to restore operational integrity and public trust. FAMU is to be commended for its hard work and dedication.

In furtherance of our mandate and in support of the FAMU initiatives, we recommend that:

1. The Task Force continues to monitor until June 30, 2008, several ongoing projects, including but not limited to the validation and verification of the FAMU Enterprise Information Technology Corrective Action Plan.
2. The remaining unencumbered Task Force funds be made available to assist FAMU in improving its operations in several areas, including contracts and grants, and information technology.
3. The conclusions and recommendations contained in Accretive

¹ Hereinafter referred to as the “Task Force.”

Solutions' Validation and Verification Report are incorporated by reference in the Task Force Interim Report, including the recommendation that once every year FAMU's President submit to the UBOT a certification that implementation of the Corrective Action Plan remains effective.

To the Governor of the State of Florida, the President of the Senate, the Speaker of the House and the Board of Governors, we respectfully submit the Interim Report of the Task Force on FAMU Finance and Operational Control Issues.

II. INTRODUCTION

On March 20, 2007, Carolyn Roberts, Chair of the Board, announced the formation of a special task force charged with restoring financial and operational integrity and security to FAMU. The Task Force's mandate she stated was to develop and implement a plan to assist FAMU in addressing fiscal and operational deficiencies identified in a series of critical audits conducted by the AG for the State of Florida².

Meeting Dates

March 30, 2007
April 20, 2007
May 11, 2007
June 21, 2007
July 19, 2007
August 29, 2007
October 22, 2007
December 19, 2007
January 30, 2008
February 22, 2008
February 27, 2008
February 29, 2008

The Board appointed to the Task Force nine (9) individuals with expertise in higher education, finance, accounting, and business operations. M. Lynn Pappas, who is also a member of the Board, was appointed as Chair and former Chief Justice Leander J. Shaw, Jr., as Vice-Chair. The other members were Ava L. Parker, Esquire, Dr. Edward M. Penson, C. William Jennings (at the time Vice-Chair of the FAMU Board of Trustees), Joelen K. Merkel, Barbara L. Bowles, W. George Allen (at that time member of the FAMU Board of Trustees) and Al Dotson, Sr. Mr. Allen and Mr. Dotson later resigned and were replaced by Judge Michael B. Chavies and T. Willard Fair. [See Tab C - Bios.]

At its first meeting on March 30, 2007, the Task Force agreed it was critical to the mission of the State University System (SUS) that FAMU emerge from this process with integrity and restored operating systems that were transparent and able to withstand the test of future audits. The Members agreed the only way to achieve this goal was to develop a collaborative and cooperative working relationship with the UBOT and its newly appointed President, James H. Ammons.³

² In July 2006, the AG released its FY2005 Financial Audit, which had a Qualified opinion containing 10 findings of material weakness. An information technology audit released in June 2006 cited 11 deficiencies related to the conversion to PeopleSoft and in March 2007, the AG released an Operational Audit containing 35 findings of deficiencies in fiscal management, internal controls and governance, and compliance with university policies and procedures.

³ The FAMU BOT conducted a national search for a University President. The current President was the former Chancellor of North Carolina Central University and was selected by the UBOT on February 8, 2007, to become the 10th President of FAMU. As required by Board policy, Dr. Ammons' appointment was ratified by the Board on March 29, 2007. The President has had extensive experience in higher education leadership, having served as the Chancellor of a state university (2001-2007) and the Provost and Vice

During its next three meetings on April 20, 2007, May 11, 2007, and June 21, 2007, the Task Force engaged in an intense fact finding process. This included reviewing previous audits, voluminous documents submitted by FAMU and numerous presentations by the University's interim president, senior staff, representatives from the AG and Board staff. This process was designed to refine the focus of the Task Force mandate consistent with the limitations of time, resources and the overwhelming complexity of issues.

On April 10, 2007, the Florida Legislature approved the special appropriation of one million dollars (\$1,000,000) to be used by the Board to conduct a comprehensive review of FAMU's fiscal and management operations. These funds were restricted to obtaining contracted services. The Board was directed to appoint a special committee to issue a report no later than March 1, 2008, to the legislature and the Governor that summarized its findings and recommendations. [See Tab D - Special Appropriations Senate Letter]⁴

President Ammons submitted a Corrective Action Plan to the UBOT on July 11, 2007. This Corrective Action Plan (CAP) emphasized the need to identify the root cause for the problems revealed by previous audits, and addressed serious issues raised by the Southern Association of Colleges and Schools (SACS) in June 2007, when it placed FAMU on probationary status.⁵

At its meeting on July 19, 2007, the Task Force adopted an Action Plan consistent with its mandate from the Board and the legislature and reflecting its fact finding process. The Action Plan vision statement is as follows:

TO MOBILIZE RESOURCES AND DIVERSE CONSTITUENCIES TO SUPPORT FAMU IN RESTORING PUBLIC TRUST IN ITS FISCAL AND ADMINISTRATIVE OPERATIONS.

And its mission:

TO IDENTIFY AND RECTIFY THE ROOT CAUSES FOR THE FISCAL AND OPERATIONAL WEAKNESSES THAT PREVENT FAMU FROM MEETING THE NEEDS AND EXPECTATIONS OF STUDENTS, FACULTY, ALUMNI AND THE GENERAL PUBLIC BY PROVIDING OVERSIGHT, RESOURCES, AND TECHNICAL ASSISTANCE IN THE DEVELOPMENT AND IMPLEMENTATION OF EFFECTIVE CORRECTIVE ACTIONS.

President of Academic Affairs at FAMU University (1995-2001). Further, the President has served as a Commissioner on SACS. The President began his tenure at FAMU on July 2, 2007. Dr. Ammons brought in a new leadership team, replacing nearly 85 percent of the prior administrative leadership team members. Further, six (6) of the 13 member UBOT were newly appointed during the summer of 2007.

⁴ The legislative appropriation prohibited the Board from providing these funds directly to FAMU. In order to provide technical support to FAMU in key financial or operational areas, the Task Force had to obtain the services of firms and do so consistent with state procurement laws.

⁵ The FAMU CAP incorporated cross reference findings made by SACS with those contained in the AG Operational Audit.

In order to achieve this mission, the Action Plan has four goals, i. To ensure a sound financial management system that effectively supports the operations of FAMU is implemented; ii. Ensure the University implemented an organizational structure that can achieve its vision and missions; iii. Ensure that an information technology infrastructure to support the University's financial and administrative operations is implemented and; iv. Ensure the University implemented a governance structure which promotes accountability and integrity in its operations and restores public trust.

III. METHODOLOGY, APPROACH AND ORGANIZATIONAL STRUCTURE

FAMU originally developed the thirty-five (35) item Corrective Action Plan (CAP) to address the AG's findings from the 2006 Operational Audit. The Task Force engaged an auditing services firm, Accretive Solutions (Accretive) to assist in validating and verifying the effectiveness of FAMU's CAP. Accretive's work plan used the CAP as a foundation and based on results of the risk assessment, expanded it to include the AG's findings from the 2006 and 2007 Financial Audits as well as the findings from the 2006 A-133 Federal Awards Audit. Therefore, the project to verify and validate FAMU's progress is grouped into three categories:

1. FAMU Operational Audit (cross referenced to SACS Report) - 35 line items.
2. FAMU Financial Audit Reports - 7 line items.
3. State of Florida OMB Circular A133 Audit for Compliance and Internal Control over Financial Reporting and Federal Awards FAMU issues - 17 line items.

To meet the objective of reporting on the progress FAMU has made regarding implementation of their CAP, the Task Force agreed to take the following steps:

- Perform high level risk assessment
- Develop a detailed work plan with the consultants
- Execute procedures to verify and validate the University's CAP

The ultimate goal was to issue a report on FAMU's progress in implementing these corrective actions. FAMU's CAP is a substantial component of the University's control systems. The following procedures were agreed upon by the Task Force and are deemed reasonable to adequately verify and validate FAMU's CAP. FAMU's administration, management and internal audit function are ultimately responsible for establishing and maintaining adequate internal controls. Accretive performed verification and validation procedures in the following three broad areas and reported their findings and recommendations.

1. Ensure FAMU's CAP correctly summarized and addressed all the AG's findings.

2. Ensure each CAP Line Item was adequately designed to effectively correct the finding and the underlying issues that contributed to the finding.
3. Ensure CAP, as designed, is actually being effectively executed.

Accretive performed tests to verify that the CAP was actually being executed as intended. The specific procedures performed to verify and validate the corrective action plan included inquiries of FAMU personnel, analytical procedures, observation of processes and duties, inspection of documents and records, and re-performance of control activities identified in conjunction with the overview of current controls, key indicators and business risk. The specific test procedures, description of the evidence maintained, time period tested, and results of the tests are presented in the Interim Report on the Verification and Validation of the FAMU Corrective Action Plan issued by Accretive.

IV. VALIDATION AND VERIFICATION

The chart below shows the results of the validation and verification process of those items (lines) that were rated.

Report Ratings for Completed Corrective Action Plan Items		
	Satisfactory Operation	Needs Improvement
Financial	4	0
Operational	27	3
A-133	13	1
EIT	<i>Verification and Validation procedures began 2/2008. Report due 6/30/08</i>	
TOTAL	44	4
% of Rated	92%	8%

A total of 11 items (19 percent of total CAP) are still being reviewed and are not depicted in the table.

CAP items related to contracts and grants are included in this population. Controls related to contracts and grants will be reviewed and rated by the final report on June 30, 2008. New policies and procedures have been developed and are in the process of being institutionalized. The University is in the initial stages of a 100 percent review of the grant account. Validation procedures will be more effective at a later date when the

analysis of all grant accounts has been completed and expired grants have been reconciled.

A. FINANCIAL

The chart below summarizes the results in the financial area.

<p style="text-align: center;"><u>Financial Summary</u> 100%: Operating Satisfactorily 0%: Need Improvements 3 of 7 Line Items Not Yet Rated</p>

All of the rated CAP Financial line items are adequately designed and are operating satisfactorily. Controls are in place and adequately documented. The effectiveness of the CAP is being evaluated on a periodic basis and University personnel are aware of their responsibilities for control. FAMU management has established a process by which it is able to deal predictably and consistently with most control issues.

The remaining Financial Action Plan items (3 financial items) are still in the process of being rated because these items have been recently implemented by FAMU or are items being addressed as part of the Enterprise Information Technology (EIT) validation work.

The specific CAP line items not yet rated:

1. Financial Finding #3: Subsidiary records for A/R and deferred revenues
2. Financial Finding #5: Capital assets and related depreciation
3. Financial Finding #6: Separation of duties and adequate compensating controls

Financial Finding #3 is still in the process of being rated because the University has instituted new policies and procedures for Grants and Contracts, Sponsored Research and Close-outs. As part of the National Science Foundation (NSF) Corrective Plan, FAMU has developed a Comprehensive Grant Manual and a Grant review document. A "Plan of Action" was developed with specific completion dates and responsibilities. The Grants and Contracts Department is currently in the process of reviewing 100 percent of Grant Accounts.

If implemented successfully, FAMU's new policies and procedures as designed will address the issues in the various AG Report findings. However, because a key component of FAMU's plan—the review of 100 percent of all grant accounts (active and expired)—is in its initial phase, validation or verification procedures of the corrective actions are not possible at this time but should be completed on or before June 30, 2008.

Financial findings #5 and #6 are still in the process of being rated because new policies and procedures have been developed and are in the process of being institutionalized as well as having a significant information technology review component. These items will be rated in the final report at June 30, 2008.

B. OPERATIONAL

The chart below summarizes the results in the operational area.

<p style="text-align: center;"><u>Operational Summary</u> 90%: Operating Satisfactorily 10%: Need Improvements 5 of 35 Not Yet Rated</p>

Of the line items which have been rated (30 items), a vast majority (90 percent) of the Corrective Action Plan Operational line items are adequately designed and the plans are operating satisfactorily. Controls are in place and adequately documented. The effectiveness of the Action Plan is being evaluated on a periodic basis and University personnel are aware of their responsibilities for control. FAMU management has established a process by which it is able to deal predictably and consistently with most control issues.

Additional improvements are necessary in 10 percent (3 items) of Operational items. Control weaknesses remain and if not adequately addressed could impact financial integrity. FAMU has controls in place and policies and procedures are in the process of being institutionalized for each of these areas.

The specific areas where improvements are necessary:

1. Operational Finding #14: Did not retain documentation for salary payment cancellations
2. Operational Finding #26: No competition for procuring new contracts
3. Operational Finding #31: Vehicle usages logs were not maintained

The remaining Operational Action Plan items are still in the process of being rated (5 Operational items) because they have not been in place very long or represent those items still being addressed as part of the EIT validation work.

The specific CAP line items not yet rated:

1. Operational Finding #5: Physical inventory missing
2. Operational Finding #22: Controls over communication expenses
3. Operational Finding #23: Monitoring of cell phone usage
4. Operational Finding #28: Controls over research contracts and grants
5. Operational Finding #34: Comprehensive disaster recovery plan

B.1. FEDERAL A-133

Our results in the review of the corrective actions of the A-133 Audit are depicted below.

<p style="text-align: center;"><u>A-133 Summary</u> 93%: Operating Satisfactorily 7%: Need Improvements 3 of 17 Not Yet Rated</p>
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Of the line items which have been rated (14 items), a vast majority (93 percent) of the Corrective Action Plan A-133 line items are adequately designed and the plans are operating satisfactorily. Controls are in place and adequately documented. The effectiveness of the Action Plan is being evaluated on a periodic basis and University personnel are aware of their responsibilities for control. FAMU management has established a process by which it is able to deal predictably and consistently with most control issues.

Additional improvements are necessary in 7 percent (1 item) of A-133 items. Control weaknesses remain and if not adequately addressed could impact financial integrity. FAMU has controls in place and policies and procedures are in the process of being institutionalized for each of these areas.

The specific area where improvements are necessary:

- A-133 Finding 06-017: Schedule of Expenditures of Federal Awards (SEFA)

The University has developed policies and procedures to enhance the accuracy of grant and contract reporting, as well as procedures to prepare the SEFA report accurately. However, the University needs improvement in the ability to reconcile actual expenditures to the general ledger at a point in time. The process is still dependent on a limited number of individuals.

The remaining A-133 Action Plan items not yet rated (3 A-133 items) represent those items still in progress or items being addressed as part of the EIT validation work.

The specific CAP line items not yet rated:

1. A-133 Finding 06-115: Interest earned on excess Federal funds and timely remittal
2. A-133 Finding 06-120: Completeness and accuracy of information reported to Federal agencies
3. A-133 Finding 06-122: Accounting and grant records reflected numerous expired contract and grant accounts which had not been closed

C. INFORMATION TECHNOLOGY

Work has commenced on the verification and validation of the EIT Corrective Action Plans. The initial planning has been performed and a project plan developed that includes the scope, timing, and a preliminary work plan to be performed.

The EIT Corrective Action Plan was initially developed by FAMU's EIT leadership. This Plan was further reviewed by the Task Force IT Action Team comprised of Chief Information Officers (CIO) from two universities and Ramon Padilla, the CIO for the Board of Governors. (See Tab H - IT Action Team Report.) Accretive has obtained and reviewed the final EIT Corrective Action Plan and agrees that the plan, if effectively implemented, will address the issues identified by the AG based upon the planned execution and continued monitoring.

The IT Action Team has completed its work and passed responsibility to Accretive to conduct validation and verification of several areas in the information technology plan. This work has commenced and is progressing well. Due to the timing of implementing the corrective action plans, reviews of several areas are scheduled to begin within the next thirty (30) days. The results of this preliminary effort are not included in this interim report. However, upon completion of the effort the results will be included in the final report on or before June 30, 2008.

D. INTERNAL CONTROL/GOVERNANCE

One of the most important improvements made by FAMU in the areas of internal control and governance was the establishment of a fully functioning Division of Audit and Compliance. The internal audit function plays a key role in effective University governance, specifically in the areas of internal control monitoring and information communication. The Division of Audit and Compliance has been restructured in accordance with professional standards and is submitting periodic and timely reports to the President, Audit Committee and UBOT.

The Division has now achieved full staffing levels and is actively carrying out investigations and audits resulting in successfully exposing/preventing fraud. Continued progress by the Division will add needed structure and confidence to University governance. This will be advanced by their promotion and monitoring of the Compliance and Ethics Hotline, execution of the UBOT approved audit plan, and ongoing fraud and compliance investigations.

V. BOARD OF TRUSTEES: GOVERNANCE AND ACCREDITATION

Objective One under Goal Four of the Task Force Action Plan is to review FAMU's current governance structure and recommend "best practices" be implemented for defining the role of the UBOT and development of an effective working relationship with the President.

In 2003, the State University System was reorganized to include University Boards of Trustees for each state university. According to Florida Statute 1001.71, each local constituent university is administered by a university board of trustees comprised of 13 members as follows:

- 6 citizen members appointed by the Governor subject to confirmation by the Senate;
- 5 citizen members appointed by the Board of Governors subject to confirmation by the Senate;
- the chair of the faculty senate or the equivalent; and
- the president of the student body of the university.

As part of the reorganization, certain powers and duties were devolved to the UBOT to implement cost-effective policy decisions appropriate to the university's mission while maintaining high-quality education programs within law and the guidelines of the Board.

The public universities within Florida operate under the auspices of the Board, which has the duty to operate, regulate, control, and be fully responsible for the management of the whole publicly funded SUS. The Board is made up of seventeen members who have been charged with the mission to exercise its authority in a manner that supports, promotes, and enhances a K-20 education system that provides affordable access to postsecondary educational opportunities in Florida (Florida Statute 1001.70).

In accordance with Florida law, FAMU now has a full complement of UBOT members who provide direct oversight and guidance to the University. New members of the UBOT with varied experiences and backgrounds were appointed July 2007. These experiences include auditing, finance, and financial management, which serve to enhance the operation of the UBOT and the University. The current UBOT holds five regularly scheduled meetings each year in addition to meetings called for a specific purpose. The UBOT is also responsible for reviewing university operations, approving the budget and academic programs, awarding of degrees, and ensuring that the financial resources of the institution are adequate along with several other oversight functions. The UBOT is also charged with recommending areas for the President to explore, review, and investigate, including but not limited to internal controls and compliance with accreditation standards, specifically those of the SACS.

The UBOT is working actively with the Board, an appointed Task Force for FAMU, SACS, and the AG to remedy problems that were cited in the state audits and accreditation report from SACS. Actions planned to resolve these issues are reflected in FAMU's comprehensive corrective action plan developed by President Ammons and his administrative team and approved by the UBOT. In addition, an internal audit plan has been devised to ensure that each of the corrective measures has been implemented and address the problems. This objective is to ensure that the institution is adhering to UBOT policies and will be held accountable for noncompliance.

In June 2007, FAMU was placed on probation by SACS for failure to demonstrate compliance with ten standards. One of the standards was specifically related to the governing UBOT, and four others are related to governance and internal controls overall. Those areas related to governance and internal controls are:

- Core Requirement 2.2 (Governing Board);
- Comprehensive Standard 3.2.8 (Qualified Administrative/Academic Officers);
- Comprehensive Standard 3.10.4 (Control of Finances);
- Comprehensive Standard 3.10.5 (Control of Sponsored Research/External Funds); and
- Comprehensive Standard 3.11.1 (Control of Physical Resources).

These cited core requirements expect that an accredited institution shows evidence that it has a governing board that ensures that the institution has adequate financial resources and that it has financial stability to support the mission of the institution. Specifically, the Commission stated that:

“FAMU should demonstrate that the Board has appropriate control over the institution’s finances; carries out its oversight function of the institution, including policy making and the operation of the institution; and ensures that the financial resources of the institution are adequate and are used to provide sound educational programs.”

Each of the cited areas above was addressed within a monitoring report submitted to SACS in September 2007 as well as in the corrective action plan for the university.

The UBOT has taken a number of steps to strengthen its areas of responsibility, particularly following the results of an audit conducted by the AG, and change of accreditation status by SACS. According to comments made by a Special Committee during a focused visit by SACS in October 2007, the FAMU UBOT website provides documentation that the new UBOT “has developed committee structures, policies, and procedures for exercising appropriate control over the institution’s finances, fulfilling its oversight function, and ensuring that the financial resources of the institution are adequate and are used to fulfill its mission and priorities.” During this visit, the Special Committee also commented that they received information from the university that several of the UBOT members had attended an orientation conducted by the Chancellor’s Office and also participated in a workshop on Trusteeship and Governance in the State University System sponsored by the Board of Governors.

With this new governance structure in place, the SACS’ Special Committee noted that FAMU’s UBOT has made significant improvements. It was confirmed by the Committee that the “UBOT has appropriate controls, executes its oversight functions, and ensures that the University’s financial resources are adequately addressed to provide sound educational programs, demonstrating that FAMU is in compliance with this Core Requirement.” Therefore, as of December 2007, SACS has removed the citation for Core Requirement 2.2 associated with the Governing Board. The remaining unresolved areas are associated with qualified administrators, financial reporting and stability, sponsored research, and physical resources.

The next scheduled meeting of SACS is scheduled to occur in June 2008. At that time, SACS will review the documentation submitted by FAMU to determine if all areas related to financial stability have been adequately addressed. According to SACS, the Commission will have the option to take one of the following actions:

- remove probation with or without an additional monitoring report;
- continue the institution on probation, request an additional monitoring report, and authorize a Special Committee; or
- remove the institution’s accreditation.

The University UBOT, President Ammons, and his administrative team have made significant strides in restoring the financial stability and credibility of FAMU.

VI. CONCLUSION AND RECOMMENDATIONS

A. CONCLUSION

The Task Force has concluded that adequate, reasonable and effective controls have been implemented by FAMU, which effectively address the vast majority of issues raised by previous operational and financial audits. Evaluation of several key areas, including information technology and contracts and grants, has not been completed. Based upon the comprehensive validation and verification process conducted on the University's Corrective Action Plan, we believe FAMU has established the foundation to restore financial and operational integrity.

B. RECOMMENDATIONS

The Task Force recommends that:

1. The Task Force continues to monitor until June 30, 2008, several ongoing projects, including but not limited to the validation and verification of the FAMU Enterprise Information Technology Corrective Action Plan.
2. The remaining unencumbered Task Force funds be made available to assist FAMU in improving its operations in several areas, including contracts and grants, and information technology.
3. The conclusions and recommendations contained in Accretive Solutions' Validation and Verification Report are incorporated by reference in the Task Force Interim Report, including the recommendation that once every year FAMU's President submit to the UBOT a certification that implementation of the Corrective Action Plan remains effective.