

**FLORIDA BOARD OF GOVERNORS
STATE UNIVERSITY SYSTEM OF FLORIDA**
November 5, 2008

SUBJECT: Office of the Inspector General and Director of Compliance Annual Report

PROPOSED BOARD ACTION

Discuss the Office of the Inspector General and Director of Compliance annual report for July 1, 2007 through June 30, 2008.

AUTHORITY FOR BOARD OF GOVERNORS ACTION

Article IX, Section 7, Constitution of the State of Florida

BACKGROUND INFORMATION

The Annual Report summarizes the activities of the Office of the Inspector General and Director of Compliance for the fiscal year 2007-2008. The primary focus during that time was the facilitation and coordination of the Board of Governors Task Force on Florida A&M University Finance and Operational Control Issues. With the Task Force's submission of its final report on June 30, 2008, the Office will direct its attention to the priorities as established by the Committee in its discussion of work plans for the current fiscal year.

Supporting Documentation Included: Office of the Inspector General and Director of Compliance Annual Report

Facilitators/Presenters: Mr. Derry Harper, Inspector General and Director of Compliance

**BOARD OF GOVERNORS
STATE UNIVERSITY SYSTEM OF FLORIDA**



**Office of the Inspector General and
Director of Compliance**

Annual Report

July 1, 2007 – June 30, 2008



FLORIDA BOARD OF GOVERNORS

325 West Gaines Street – Suite 1614 – Tallahassee, Florida – 32399-0400
(850) 245-0466

September 30, 2008

Governor Sheila McDevitt, Chair
Board of Governors
State University System of Florida
325 West Gaines Street, Suite 1614
Tallahassee, Florida 32399-0400

Dear Governor McDevitt:

Pursuant to the Inspector General Act, s. 20.055, Florida Statutes, and in furtherance of our mission to enhance public trust, I am pleased to submit the 2007-2008 Annual Report of the Office of the Inspector General and Director of Compliance (OIGC) for the fiscal year 2007-2008.

A significant percentage of our time this past year was dedicated to supporting the Board of Governors Task Force on FAMU Finance and Operational Control issues achieve its primary goal of assisting Florida A&M University restore public trust in its fiscal and administrative operations. In addition our Office developed a draft Audit Committee Charter and assisted in responding to the Auditor General's operational audit of the Board. During the past year, we received 16 complaints and requests for investigation. Seven of these matters were referred to the appropriate university to resolve; one matter required no action by the OIGC; and the remaining eight remain open.

We thank you for your support this past year and look forward to continued growth and development as we strive to achieve our mission of promoting accountability, integrity and efficiency in the state university system of Florida.

Sincerely,

Derry Harper
Inspector General and
Director of Compliance

Governor McDevitt
September 30, 2008
Page 2 of 2

DH/lc

Cc: Governor Ava Parker, Vice Chair
Governor Carolyn Roberts
Governor Norman Tripp, Chair, Audit Committee
Governor Lynn Pappas, Vice Chair, Audit Committee
Members of the Board of Governors
Florida Auditor General
Chief Inspector General, Office of the Governor

TABLE OF CONTENTS

I. EXECUTIVE SUMMARY	1
II. INTRODUCTION	1
Duties and Responsibilities	1
Independence and Objectivity	2
Mission and Values	2
Statutory Requirements	3
Audit Activities	4
Investigative Activities	4
III. STAFF - OFFICE OF THE INSPECTOR GENERAL AND DIRECTOR OF COMPLIANCE	5
IV. AUDIT ACTIVITIES	6
Task Force on FAMU Finance and Operational Control Issues	6
Board Audit Committee Charter	9
Audit Plan	10
V. INVESTIGATIVE ACTIVITIES	10
VI. 2008-2009 OIGC INITIATIVES	10
VII. OIGC CONTACT INFORMATION AND RESOURCES	11
OIGC Contact Information	11
Resources	11

I. EXECUTIVE SUMMARY

In its effort to promote accountability, integrity, and efficiency in government, as required in Section 20.055, Florida Statutes, the Office of the Inspector General and Director of Compliance (OIGC) completed the following activities in the fiscal year 2007-2008.

- Facilitation and coordination of the Board of Governors Task Force on Florida A&M University (FAMU) Finance and Operational Control Issues. The Task Force's goal was to assist FAMU in restoring public trust in its fiscal and administrative operations. The Task Force final report, submitted June 30, 2008, concluded that the University's financial and operational integrity had been restored. A six-month follow-up is planned to ensure continued success.
- Received a total of 16 complaints or requests for investigation. Seven matters were closed by referring them to the appropriate university for resolution. One matter was informational only and required no action, and the other eight remain open.
- Creation of a draft Board of Governors Audit Committee Charter. An initial draft was vetted with the state university system Chief Audit Executives and the members of the Board's Audit Committee. An updated draft will be disseminated in the fall of 2008 with an anticipated approval date of February 2009.

II. INTRODUCTION

In accordance with the Inspector General Act of 1994, Section 20.055, Florida Statutes, the Board of Governors (the Board) Office of the Inspector General and Director of Compliance (OIGC) has prepared this Annual Report for the Fiscal Year 2007-2008.

A. DUTIES AND RESPONSIBILITIES

The responsibilities of the OIGC for the Board include providing leadership in the promotion of accountability, integrity, and efficiency in audit and compliance matters for the Board and throughout the state university system of Florida.

In addition, pursuant to Section 20.155, Florida Statutes, the Board may direct the OIGC to conduct an investigation if it determines a University is “unwilling or unable to address substantiated allegations . . . relating to waste, fraud, or financial mismanagement...”

B. INDEPENDENCE AND OBJECTIVITY

The Inspector General and Director of Compliance reports directly to the Board through the Chair of the Audit Committee on matters related to audit and compliance and shall administratively report to the Chancellor on broader issues and concerns that fall within the scope of work mandated by statute. The dual reporting relationship is designed to promote effective communication and coordination of OIGC activities, while ensuring that the Inspector General is not impaired in any manner from performing his mandated duties and responsibilities.

Professional standards specify that an Inspector General and staff must refrain from assuming managerial responsibilities for, or participating in, any operational activities that it might be expected to review, appraise, or render an independent opinion upon except under specific situations defined by auditing standards. To ensure compliance with these standards, the OIGC does not engage in activities that could be construed to compromise its independence and objectivity.

C. MISSION AND VALUES

The following core values contribute to the Office of Inspector General foundation:

- **Excellence:** We strive to be an efficient, objective and fact-finding office. We have high expectations for quality and timely work products. We stand committed to improve our performance to benefit our key constituencies.
- **Professionalism and Integrity:** We maintain the independence and impartiality necessary to objectively perform our mission. We accommodate differences of opinion without compromising principle. We practice good citizenship with emphasis on ethics and acceptance of social responsibility.
- **Communication:** We listen to, learn from, and collaborate with our key constituencies and each other. We believe that effective communication,

upward, downward, and laterally, is of utmost importance to our individual and combined success.

- **Accountability:** We are committed to demonstrate by objective, quantitative, or qualitative means our office has fulfilled its purpose, mission, and goals.
- **Agility:** We are flexible and innovative. We readily accept changes that are intended to improve our operations.

D. STATUTORY REQUIREMENTS

As mandated by Section 20.055, Florida Statutes, this Annual Report summarizes the activities of the OIGC for the fiscal year 2007-2008.

The OIGC is statutorily directed to perform the following duties and responsibilities:

- Review and evaluate internal controls to ensure the fiscal accountability of the state agency. The Inspector General should conduct financial, compliance, electronic data processing, and performance audits and submit a final report of the findings to the agency head and Auditor General.
- Develop long-term and annual audit plans based on periodic risk assessments.
- Initiate, conduct, supervise, and coordinate investigations to detect and prevent fraud, waste, mismanagement, misconduct, and other such abuses in state government.
- Report investigations, except for Whistle-blower investigations, to the agency head.
- Submit a final, annual report of activities no later than September 30th to the Chancellor and Chair of the Board of Governors.

Also, pursuant to Section 20.155 (5), Florida Statutes, the Office of the 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. If the Board of Governors determines that a state university board of trustees is unwilling or unable to address substantiated allegations made by any person relating to waste, fraud, or financial mismanagement, the office shall conduct, coordinate, or request investigations into substantiated allegations made by any person relating

to waste, fraud, or financial mismanagement within a state university. The office shall have access to all information and personnel necessary to perform its duties and shall have all of its current powers, duties, and responsibilities authorized in s. 20.055.

In addition, in the area of Compliance, the OIGC shall:

- Identify key risk areas and perform a risk assessment on compliance readiness.
- Prioritize implementation of compliance program to focus on areas of higher regulatory risk which could impact health or safety, academic or fiscal integrity.
- Provide recommendations, education and training in connection with regulatory compliance gaps identified.
- Monitor new developments or requirements in regulatory compliance.
- Improve coordination, dissemination and communication of regulatory compliance issues.
- Develop a best practices model for regulatory compliance.

E. AUDIT ACTIVITIES

The Task Force on FAMU Finance and Operational Control Issues (Task Force), created on March 20, 2007, by the Board of Governors, conducted a comprehensive review of the corrective actions implemented by Florida A&M University.

In its Final Report submitted June 30, 2008, the Task Force concluded that Florida A&M University (FAMU or University) had implemented adequate and effective controls that addressed the vast majority of issues raised by several previous audits conducted by the Florida Auditor General (Auditor General). Of the 72 corrective actions, in place a sufficient period of time to be subject to a systematic reliable validation and verification process, the Task Force determined 92 percent were operating at a satisfactory level. While corrective actions are in place to address the remaining issues, additional time is needed for these processes to mature and become institutionalized. The Task Force made seven recommendations to the Board.

F. INVESTIGATIVE ACTIVITIES

During the past Fiscal Year, the OIGC received 16 complaints and requests for investigation from various sources, including the Florida Auditor General,

university staff, Legislator offices, the Commissioner of Education, the Chancellor of the Division of Community Colleges, and the Governor's office. Seven of these matters were referred to the appropriate university to resolve; one matter required no action by the OIGC; and the remaining eight remain open.

III. STAFF - OFFICE OF THE INSPECTOR GENERAL AND DIRECTOR OF COMPLIANCE

A. DERRY HARPER, INSPECTOR GENERAL AND DIRECTOR OF COMPLIANCE

Mr. Harper joined the Board of Governors senior staff in July, 2007 to become its first Inspector General and Director of Compliance. Before joining the Board, he served as Chief of Internal Audit and Investigation for Citizens Property and Insurance Corporation. Prior to that, he served for over four years as Chief Inspector General for former Florida Governor Jeb Bush. In that role his responsibilities included oversight and management of the 17 executive agency Inspectors General.

Before his return to public service, Derry spent 12 years in the private sector as corporate counsel for BellSouth Corporation handling a variety of legal matters including litigation and employment cases. He is a former federal and state prosecutor, having served as an Assistant United States Attorney and an Assistant District Attorney General, all in Nashville, Tennessee.

A graduate of Vanderbilt University School of Law, Derry received his undergraduate degree from Davidson College, where he currently serves on the College Board of Trustees.

B. LORI CLARK - COMPLIANCE ANALYST

Ms. Clark is a recent addition to the OIGC office although not new to the Board of Governors. She is a graduate of Florida State University with bachelor and master's degrees in French Language and Literature. She has had over 20 years of experience in postsecondary education, including teaching, student services administration, and program implementation. Her attention to detail and background experience will serve her well in her role as a compliance analyst.

IV. AUDIT ACTIVITIES

A. TASK FORCE ON FAMU FINANCE AND OPERATIONAL CONTROL ISSUES

1. BACKGROUND AND CONCLUSIONS

The Task Force was formed on March 20, 2007. The Task Force's mandate was to develop and implement an action plan to assist FAMU in addressing fiscal and operational deficiencies identified in a series of critical audits conducted by the Auditor General.

In its Final Report submitted June 30, 2008, the Task Force concluded that FAMU had implemented adequate and effective controls that addressed the vast majority of issues raised by previous operational, financial, and information technology audits conducted by the Auditor General (AG). Of the 72 corrective actions, in place a sufficient period of time to be subject to a systematic reliable validation and verification process, the Task Force determined 92 percent were operating at a satisfactory level. While corrective actions are in place to address the remaining issues, additional time is needed for these processes to mature and become institutionalized. The Task Force made a total of seven recommendations, and a six-month follow-up is planned.

2. METHODOLOGY, APPROACH, AND ORGANIZATIONAL STRUCTURE

FAMU originally developed the 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 and appropriateness, test of design and adequacy 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, the 2006 PeopleSoft Audit, as well as the findings from the 2006 A-133 Federal Awards Audit.

The ultimate goal was to issue a report on FAMU's progress in implementing these corrective actions. Accretive performed validation and verification 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.

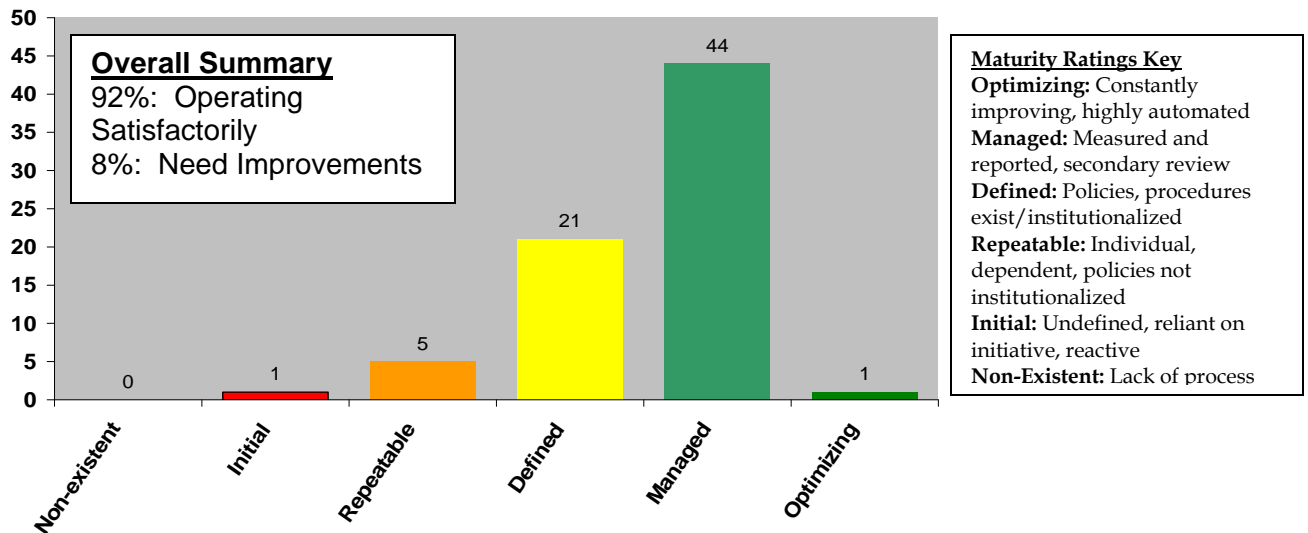
2. Ensure each CAP Line Item was adequately designed to effectively correct the finding and the underlying issues that contributed to the finding.
3. Ensure CAP, as designed, is actually being effectively executed.

Accretive performed tests to verify that the CAP was actually being executed as intended. The specific procedures performed to validate and verify the FAMU CAP 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 Final Report on the Validation and Verification of the FAMU Corrective Action Plan issued by Accretive. The results are depicted in Table 1 and Table 2.

TABLE 1

Report Ratings for Corrective Action Plan Items						
	Satisfactory Operation			Needs Improvement		
	Optimizing	Managed	Defined	Repeatable	Initial	Non-Existent
Operational		17	13	3	1	
Financial		3	3			
A-133	1	12	3	1		
EIT		12	2	1		
TOTAL	1	44	21	5	1	
Percentage	2%	61%	29%	7%	1%	
% of Rated	92%			8%		

TABLE 2



3. TASK FORCE RECOMMENDATIONS

The following recommendations were contained in the Task Force Interim Report, released March 3, 2008, and Final Report, released June 30, 2008.

- That the Task Force continue 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.
- That 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.
- That 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.
- That, in order to monitor improvements in financial operations, the UBOT receive from the FAMU Division of Audit and Compliance quarterly reports summarizing:

- The status of the various FAMU Corrective Action Plan (CAP) items that remain incomplete, as well as those completed since the previous report;
 - The status of the FAMU CAP items designed as “Needs Improvement” in the Accretive Solutions Final Report;
 - The status of CAP’s implemented as the result of any new AG reports;
 - The activities of the Division of Audit and Compliance, including the results of internal or external audits, reviews and investigations, consistent with the comprehensive audit plan approved by the UBOT’s Audit Committee.
- That the UBOT require in fiscal year 2008-2009 the University’s Division of Audit and Compliance conduct audits in accordance with generally accepted internal auditing standards on:
 - The status of the Enterprise Information Technology (EIT) division’s Financial Application Access project, following the upgrade to PeopleSoft 9.0;
 - The status of Contracts and Grants accounting and compliance, following the upgrade to PeopleSoft 9.0, including the billing of grants utilizing PeopleSoft billing module.
- That the conclusions and recommendations contained in Accretive Solutions’ Final and Interim Report on the Validation and Verification of the FAMU CAP be incorporated by reference in the Task Force Final Report.
- That the Board of Governors establish formal procedures to monitor the audit plans, risk assessments, and audit reports of all the Universities to timely detect and identify common high risk issues (early warning signs) and facilitate a system-wide approach to addressing such risks.

B. BOARD AUDIT COMMITTEE CHARTER

On January 24, 2008, the OIGC presented a draft Audit Committee Charter to the Board’s Audit Committee for discussion. In addition, members of the State University Audit Council comprised of the chief audit executives at the 11 member institutions, provided comment and suggested substantive changes. Their feedback has been incorporated in subsequent drafts. Input from other groups and individuals including university audit committee chairs, Council of

Administrative and Financial Affairs, and compliance officers will be sought prior to the Board's Audit Committee considering a final draft.

C. AUDIT PLAN

The OIGC must prepare an Audit Plan based upon a systematic risk assessment of the operations of the Board office. During the past fiscal year, the OIGC developed a Risk Assessment Questionnaire designed to gather information from the Chancellor, Senior Staff, and key managers about the Board office policies, procedures, and operations. Once this information has been obtained, the OIGC will conduct follow up interviews with the respondents to obtain their ranking of the areas of highest risk based upon standard "risk ranking criteria." The results of this process will then be analyzed and a draft Audit Plan prepared for review and approval by the Audit Committee.

V. INVESTIGATIVE ACTIVITIES

During the past fiscal year, the OIGC received 16 complaints. Seven were referred to the appropriate university for final resolution; one matter – a report from a state university system member – required no action; and the remaining cases remain open.

This past year the OIGC held meetings with Board staff, including Academic and Student Affairs, with the goal of developing more timely and efficient handling of general complaints. Discussion topics included establishing criteria for identifying serious complaints that justified OIGC investigations from more general consumer issues best handled by administrative or program staff and establishing a confidential data base, accessible only to OIGC staff, designed to index and track the nature, source, and type of issues raised by complainants.

VI. 2008-2009 OIGC INITIATIVES

In response to the Board's directives and consistent with the duties and responsibilities mandated by law, the OIGC has developed a "Summary Work Plan" that organizes our work for the fiscal year 2008 to 2009 into four primary activity categories. The Primary Activities (PA) are:

1. Establishment of the OIGC
2. Legal and Statutory Requirements
3. Liaison Activities
4. Special Projects

For example, in PA 1, Establishment of the OIGC, the Summary Work Plan lists projects such as final approval of an Audit and Compliance Committee Charter; adoption of policies and procedures for the OIGC; and the development of a Compliance infrastructure model. In PA 4, Special Projects, a priority task will be a six-month follow-up conducted by the Audit Committee of FAMU's progress in implementing its corrective actions.

The OIGC has adopted the theme "We are about making a difference." With the support of the Board, the Chancellor, and staff we look forward to the challenge of promoting accountability, integrity and efficiency in the state university system of Florida.

VII. OIGC CONTACT INFORMATION & RESOURCES

A. OIGC CONTACT INFORMATION

The Board's OIGC may be contacted at:

Office of the Inspector General
and Director of Compliance
Board of Governors
State University System of Florida
325 W. Gaines Street, Suite 1614
Turlington Building
Tallahassee, FL 32399-0400
Phone: (850) 245-0466
Fax: (850) 245-9192

B. RESOURCES

Association of Colleges and Universities Auditors
<http://www.acua.org/>

Association of Inspectors General www.inspectorsgeneral.org

FAMU Task Force Reports
<http://www.flbog.org/about/taskforce/famu/>

Institute of Internal Auditors <http://www.theiia.org/>