

**MINUTES
BOARD OF GOVERNORS
STATE UNIVERSITY SYSTEM OF FLORIDA
AUDIT AND COMPLIANCE COMMITTEE MEETING
TALLAHASSEE, FLORIDA
September 13, 2022**

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Chair Kent Stermon convened the meeting of the Audit and Compliance Committee on September 13, 2022, at 3:32 p.m. The following Audit and Compliance Committee members were present: Aubrey Edge, Patricia Frost, Edward Haddock, Alan Levine, and Craig Mateer.

1. Call to Order

Mr. Stermon called the meeting to order.

2. Approval of Minutes

Mr. Edge motioned that the Committee approve the minutes of the Audit and Compliance Committee meeting held on September 13, 2022, as presented. Ms. Frost seconded the motion. The minutes were approved.

3. State University System Annual Audits Summary

The Board of Governors Inspector General and Director of Compliance, Julie Leftheris, provided Committee members with a summary of the audits conducted during the 2021-2022 fiscal year on the state's 12 public universities. The audit coverage included the 12 university Auditor General's financial statement audits; the Auditor General's operational audits for five of the 12 universities; the independent CPA administered audits for university affiliated support organizations; and university chief audit executives' internal audits. She noted that for FAMU, there has been a positive trend in reduced findings in the auditor general audits since March 2017.

As required by section 1008.322, Florida Statutes, Ms. Leftheris reported to the Committee each of the auditor general findings that violate Florida Statutes. There were five such findings, and she described the corrective actions each university is or has already implemented to address the auditors' concerns. Additionally, Ms. Leftheris explained that section 1008.322, F.S., requires university boards of trustees to document their compliance with any identified statutory violations. She said her office would contact those universities to document their compliance with the identified statutes.

Related to the independent CPA administered audits, Ms. Leftheris said there were three affiliated organizations that noted at least one material weakness in their financial audit. For USF, the University Medical Services Association (UMSA) had three material weaknesses. The first of those was related to the embezzlement identified in 2020, which was subsequently investigated and reported to the Committee at the August 31, 2021 meeting. This is the event that prompted former Board of Governors Chair, Syd Kitson, to direct a system-wide review of financial controls for university direct and other affiliated support organizations to be conducted, which is a separate agenda item for this meeting.

The other two material weaknesses for the USF UMSA audit related to staffing needs, organization, and timing. The organization has recruited additional accounting resources and was realigned to allow for proper segregation of duties, backup roles, proper reviewing, increased efficiencies, and increased internal controls.

USF's other material weaknesses were noted in the Foundation (such as misclassification of donor contributions) and the Health Services Support Organization (such as accounting for change in ownership investments). Each has implemented corrective actions.

Ms. Leftheris described the significant deficiencies identified in FAU's, Florida Polytechnic's, and FSU's Foundations as well as USF's University Medical Services Association. She affirmed each of the universities has corrected or is in the process of correcting the deficiencies.

For the last area of audit coverage, Ms. Leftheris briefly described the university chief audit executives' responsibilities as provided in Board of Governors Regulation 4.002. One such responsibility is to conduct internal audits, a copy of which is to be provided to the Board of Governors. For the 2021-2022 fiscal year, Ms. Leftheris provided information on the most common internal audit findings, which was internal controls compliance with 47 findings (such as policies and procedures, conflicts of interest issues, documentation and record-keeping, timeliness, and other matters) and information technology with 38 findings (such as access controls, policies and procedures, disaster recovery planning, and security controls). Three universities' internal audit offices (UWF, UNF, and USF) routinely conduct audits of purchasing card (Pcard) use each year. There were a total of 30 Pcard findings related to policies and procedures, timeliness, reviews and approvals, and the charging of state sales tax.

In referring to the graph of internal audit findings that showed that internal controls compliance was the most common audit finding, Chair Lamb asked university presidents and trustee chairs to keep informed of these audit issues and the status of corrective actions. He said they should receive quarterly updates on the status of corrective actions and that they be implemented by their expected completion dates. He asked

Ms. Leftheris to inform Governor Stermon if those audit issues are not on boards of trustees meeting agendas. Additionally, Chair Lamb stressed the importance of trustees and university staff in implementing strong internal controls. He said trustees need to be informed of any internal controls issues for core businesses, athletics, and direct support organizations, and they should be routinely discussed at boards of trustees meetings.

4. SUS External Review of Financial Internal Controls for University DSOs

Ms. Leftheris provided Committee members with a brief background on the financial controls review as directed by the Board of Governors former chair, Syd Kitson. After the discovery of the 2020 embezzlement scheme at the University of South Florida's University Medical Services Association (a university support organization), the Crowe public accounting firm was retained to conduct the financial controls review of all state university system direct support organizations to assess any deficiencies and identify opportunities for improving internal controls.

The review began in the fall of 2021. Mr. Mark Maraccini and Mr. Bill Dykstra, representatives from the Crowe, LLP, firm shared the results of their review.

Mr. Maraccini reviewed the project scope and objectives for the 90 support organizations across the state university system. He said the review focused on 15 areas, most of which were fiscal related operations and controls. Three non-fiscal areas, which were specifically requested, were cultural and ethical considerations; related party transactions; and governance and accountability. The assessment focused on key risks and controls in the areas of segregation of duties, access controls for major information technology systems, account reconciliations, and appropriate reviews and approvals.

Mr. Maraccini detailed the assessment process, which included collecting written policies and procedures, surveys, interviews, and follow-up when additional information was needed. He recognized and thanked the university chief financial officers and chief audit executives for their assistance in the review process.

The Crowe firm's auditors had 95 observations for the 90 direct support organizations. The observations were categorized, with the top three being review and approval (37); completeness, timeliness, and accuracy (23); and segregation of duties (20).

Mr. Dykstra provided information related to the count of observations by direct support organization classification or type: alumni, athletics, capital assets management and development, foundations, health care, museums preservation societies, professional organizations, and research work. The greatest number of observations were in foundations, athletics, and health care organizations. Observations pertained to review and approval as well as segregation of duties among every DSO type. There were also

completeness, timeliness, and accuracy observations among all DSO types except for in athletics.

Regarding the frequency of findings by functional area, Mr. Dykstra said the four functions were cash management, procurement, accounts/pledges receivable, and accounts payable. As for recommendations, he said they were separated into “focused” and “general.” Focused recommendations are those associated with higher risk or that had a higher number of observations. The focused recommendations were to strengthen policies and oversight of expense reimbursement practices and to explicitly prohibit the use of personal accounts to conduct DSO business (such as depositing donations in personal accounts). General recommendations are those common to all DSOs throughout the state university system. The auditors recommended universities work with DSOs to establish documentation and record retention requirements so that they are available upon request and that DSO management should update policies and procedures and strengthen practices over selection and performance monitoring of financial statement auditors. Additionally, the general recommendations for DSOs were to document minimum levels of experience and professional certification for key positions; to conduct risk-based needs assessment training; and to document policies and standard operating procedures for key functions.

Governor Lamb asked university presidents, audit and compliance leaders, and trustees to look at the Crowe report’s recommendations. Implementation of these recommendations by university DSOs will be a standing topic for Board of Governors’ meetings.

5. State University System Chief Audit Executives Panel Discussion

Governor Stermon introduced the next topic, which was a panel discussion with the three university chief audit executives. The topic for the panel discussion was, “University Internal Audit’s Value as Trusted Advisors.” The panelists, Virginia Kalil (USF), Trevor Williams (FIU), and David Blanton (Florida Poly) introduced themselves and described their professional background and experience. Governor Stermon stated the panel discussion would focus on how chief audit executives support and inform their university leaders and boards of trustees while maintaining the necessary objectivity and independence.

Panelists discussed the importance of auditor independence, which is required not only by professional auditing standards but also by Board of Governors Regulation. As a result, CAEs can speak candidly with management on issues or concerns, and it enables them to do their work without hindrance and maintain the credibility of their work products. The panelists also stressed the importance of having strong internal controls and systems in place and that they are operating effectively.

Regarding the relationship between the CAE and their board of trustees, having an open door policy with the trustees is essential to having a strong audit function. The CAEs keep trustees informed of the risks and updates on the status of prior audit findings.

Governor Levine asked if the CAEs are focusing on the likelihood of something happening as well as on the risks. Are they considering the impact of the risks? The panelists said they consider risks in all of their engagements especially relative to their staffing resources. Additionally, they consider the magnitude of the risks as they prepare their annual work plans, which are based on the annual risk assessment. The Board of Governors' fraud regulation was noted as being helpful in that it brings the higher risks to the forefront.

Related to how the CAEs prioritize their university's risk, the panelists reiterated the importance of the annual risk assessment process to develop their annual work plans. They also weigh what is important and worthy of an audit. Doing so is critical to directing their resources to the right place.

Governor Stermon thanked the chief audit executives for attending the meeting and for sharing their time with the Board of Governors.

6. FAMU Athletics and Housing Update

Governor Stermon explained that he had received a letter from about 50 FAMU football players listing their concerns about the university's athletics program. He invited FAMU's president, Dr. Larry Robinson, to provide the Committee and Board with an update on the university's actions to date related to NCAA athlete eligibility issues as well as the university's campus housing challenges, which has also recently generated national attention.

President Robinson stated the university is committed to student success, academic excellence, and long-term fiscal health. Related to the recently-raised issues regarding athletics and student housing, he said the university board of trustees has asked him for more routine reports on these matters and increased accountability.

The football program is the only athletics program that needed an Academic Progress Rate (APR) improvement plan. The university has developed a new and expanded athletics compliance structure, implemented in July of this year. They have added new positions, which should enhance education, monitoring, and compliance in areas such as certification and financial aid. It also includes steps to improve athletes' APR.

Governor Silagy noted some of the concerns reported in the press regarding the university's student athletics and the financial and academic struggles they have encountered. Mr. Silagy said this is a leadership issue, not a money issue. Things need to be done now to ensure the university's student athletes are taken care of.

President Robinson said the university has a responsibility and commitment to supporting all students. In response to Mr. Silagy's question regarding the number of student athletes per academic advisor, Mr. Robinson responded there are three academic advisor positions for approximately 300 athletes, and there are advisors outside of the athletics academic advisors. Not all of these issues are because of poor academic advising. There are other issues, which they are identifying and will address. Mr. Stermon asked Dr. Robinson if he believes the advisors are sufficiently trained in NCAA rules and academic requirements to properly advise the athletes. Dr. Robinson said yes and that they will be adding two more athletics advisors with in-depth knowledge for advising athletes. Mr. Stermon encouraged any other universities who could provide assistance for FAMU's athletics advisors to do so.

Mr. Levine expressed his concerns about how the university's athletes reached the point of going to the press with their complaints. He said this is the second or third time the Board of Governors has had to address FAMU's athletics program. Dr. Robinson said he does not know the path the complaint took and that he has met twice with the athletes. He said they are focusing on fixing all the issues.

FAMU's Board of Trustees Chair, Kelvin Lawson, responded to the concerns expressed by Board of Governors' members. He said there has been a lack of resources at the right level, in the right capacity, and the right positions. He said the board of trustees called a special meeting last week to better understand the issues and prevent them from becoming recurring issues. The board of trustees is involved with President Robinson, the university's compliance officer, and other staff to ensure they address all issues raised.

Governor Lamb stated that Mr. Stermon would be monitoring the university's progress and will be expecting updates within the next three to six months.

Regarding FAMU, Mr. Lamb said Board of Governors members are frustrated and concerned about the recent issues. The university's board needs to address these issues head-on. FAMU has received many accolades, which have been nationally recognized. He encouraged the university to execute their plan to address these issues and to work directly with Governor Stermon to keep him updated. The university's progress does not have to be a standing topic for Board of Governors' meetings, but he said Board members reserve the right to call anyone to present in a meeting if they need more insight.

Mr. Stermon echoed Mr. Lamb's and Mr. Silagy's sentiments. Stability and continuity in the athletes department can solve many of these problems. Getting the right athletics director will be crucial. He would like these concerns to be handled at the board of trustees level but reiterated what Mr. Lamb said that the Board of Governors can reserve the right to monitor their progress. Board members and other universities can

facilitate and lend a hand if FAMU needs it. Mr. Silagy said we need to get them the resources they need to be successful. He supported Mr. Stermon's suggestion to leverage expertise from other universities.

7. Concluding Remarks and Adjournment

There were no other comments by Committee members. The Audit and Compliance Committee was adjourned at 4:56 p.m.

Aubrey Edge, Chair

Lori Clark, Compliance and Audit Specialist