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Florida Board of Governors State University System  
Florida Gulf Coast University  
Internal Management and Accounting Control and Business  
Process Assessment

November 2019

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## I. Executive Summary

The Board of Governors (the “Board” or “BOG”) of the Florida State University System (SUS) engaged Crowe LLP to perform a system-wide “Internal Management and Accounting Control and Business Process Assessment”. The purpose of this assessment was to evaluate the existing internal controls and review business processes to identify any areas of risk for the SUS.

The scope of our assessment was focused on financial and operational risks, and regulatory compliance risks among the twelve universities within the SUS.

We have presented the results of our assessment of Florida Gulf Coast (FGCU) in this report. We used our risk rating methodology to evaluate and score sixty-two (62) risks statements grouped into twelve categories. Our conclusions were based on the level of residual risk and any control gaps or weaknesses noted during our assessment. Residual risk refers to the level of risk after considering the internal controls in place and other activities implemented to mitigate that risk. An in-depth discussion of our approach and rating methodology can be found in the *Assessment Overview* section of this report.

### Conclusion

While the scope of our procedures precludes us from issuing an opinion on FGCU’s system of internal controls, based on our procedures we noted no risk categories with a high level of residual risk, or significant control gaps or weaknesses in FGCU’s control structure.

We concluded that six of the twelve risk categories we evaluated had a minor residual risk rating, and six categories had a low residual risk rating. We also found opportunities for FGCU to strengthen internal controls, identified as “observations” in the table below. We have highlighted these observations as specific opportunities to improve controls or risk mitigation activities. The risk rating for each observation is indicative of the risk to university objectives posed by this gap in internal controls and is separate and distinct from the residual risk ratings in each category. Additional information on these observations, our recommendations to address them, and FGCU management’s responses can be found in the *Observations and Recommendations* section of this report.

**FGCU Observations Summary**

Risk Category	Description	Risk Rating
Grant Management	<p><b>1. Segregation of Duties - Grant Drawdown Process.</b> When reviewing FGCU's grant drawdown process, Crowe identified a segregation of duties issue. The office of RSP has sole custody of the grant drawdown process, including drawing down the funds from the funding entities into the general account, transferring the funds from the general account to the grant specific account, and performing the reconciliation.</p>	Moderate
Information Technology	<p><b>2. Employee Management – Employee Security Awareness Training.</b> Although FGCU provides annual security awareness training, the training is not conducted for newly hired employees prior to accessing FGCU information systems.</p>	Low

## II. Assessment Overview

The Board of Governors (the “Board” or “BOG”) of the Florida State University System (SUS) engaged Crowe LLP to perform a system-wide “Internal Management and Accounting Control and Business Process Assessment”. The purpose of this assessment was to evaluate the existing internal controls and review business processes to identify any areas of risk for the SUS. We performed these consulting services in accordance with the Standards for Consulting Services established by the American Institute of Certified Public Accountants. These services do not constitute an audit, review, or examination in accordance with standards established by the American Institute of Certified Public Accountants, and therefore, Crowe did not express an opinion on the accuracy or efficacy of the material reviewed during the performance of these services.

The scope of our assessment was focused primarily on financial and operational risks, and secondarily on regulatory compliance risks. It included the twelve universities within the SUS as follows:

- Florida Agricultural and Mechanical University (FAMU)
- Florida Atlantic University (FAU)
- **Florida Gulf Coast University (FGCU)**
- Florida International University (FIU)
- Florida Polytechnic University (FPU)
- Florida State University (FSU)
- New College of Florida (NCF)
- University of Central Florida (UCF)
- University of Florida (UF)
- University of North Florida (UNF)
- University of South Florida (USF)
- University of West Florida (UWF)

This report represents the results of our assessment of FGCU. As part of our assessment, we obtained an understanding of BOG regulations, university policies, procedures, processes and business requirements. In addition, we sent surveys and conducted interviews with various members of FGCU management. Based on this information, we developed a risk and control assessment, summarized below.

### Inherent Risk Assessment

We developed an inherent risk assessment for each university in the SUS. The inherent risk assessments consisted of a list of risk factors which, based on our research and experience, are relevant, impactful, and likely to occur in a university environment. We rated some inherent risks differently across universities due to environmental or organizational variables (e.g. research-based universities, student enrollment, campus location(s), age of infrastructure, student housing, etc.). At this point in the assessment we did not yet consider the specific risk management and controls that each university had in place to mitigate these risks. It was designed to provide a baseline upon which to measure control effectiveness at the university level.

### Risk Rating Scale

Impact	Score
Low	1
Minor	2
Moderate	3
High	4
Severe	5

Likelihood	Score
Remote	1
Improbable	2
Possible	3
Probable	4
Almost Certain	5

Risk Rating	Score
Low	1
Minor	2
Moderate	3
High	4
Severe	5

We established the threshold for reportable risk levels at a residual risk score of 4 or higher.

We established a risk rating methodology to assign a score to each risk factor in the assessment as illustrated above. Our risk rating methodology considered two criteria, "Impact" and "Likelihood". The "Risk Rating" represents the average of those two scores. The impact criterion addressed the effect on financial, operational, or compliance objectives if the risk factor were to occur. The likelihood criterion addressed the probability that the risk would occur in the current environment. Our scores were based on a five-point rating scale with one (1) representing the lowest, and five (5) representing the highest risk score. We labeled the risk rating in the same manner as the impact criterion for the purpose of simplicity and consistency.

### Control Ratings

We also rated the internal controls in place according to the three criteria below. The percentage assigned to each rating represents the reduction in perceived levels of risk and was used to calculate the residual risk score.

- No Observations Noted (30% reduction to the inherent risk rating),
- Needs Improvement (15% reduction to the inherent risk rating), or
- Inadequate (0%, no reduction to the inherent risk rating)

We based the control ratings on the results of our research, discussions with management, and the supporting documentation they provided to help us analyze FGCU's control structure.

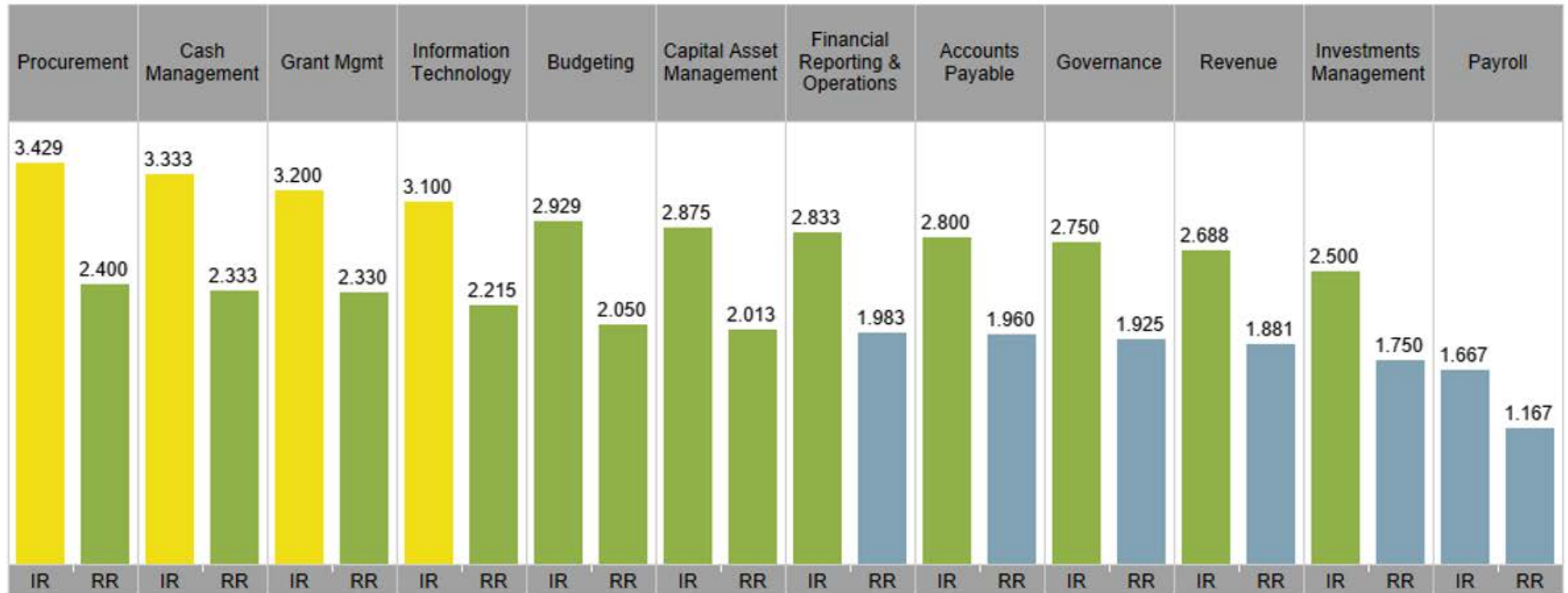
### Residual Risk Assessment

We assigned a control effectiveness rating to each control to arrive at a residual risk rating in a consistent manner. The residual risk assessment was intended to provide an overview of the university's risk management and system of internal control. We recognized that each control and its related risk had unique components that would not be fully represented by the control or residual risk rating. Therefore, we developed an observation and recommendation for controls rated as "Needs Improvement" or "Inadequate" in order to provide additional insight into that specific matter.

We used the risk category ratings, as illustrated in **Exhibit 1** below, to summarize the sixty-two (62) risk statements which we evaluated and scored during this assessment. We assessed the risk factors from the perspective of “inherent risk” (i.e. prior to considering implementation of controls) and “residual risk” (i.e. after consideration of controls in place to mitigate the risk). In total we grouped risks into twelve categories and deemed six categories to have a minor level of residual risk and six categories to have a low level of residual risk. FGCU’s three highest categories of residual risk were Procurement, Cash Management, and Grant Management. However, based on our methodology, all risk categories were below our threshold for a reportable observation.

The bar graph illustrates the difference between the average inherent and residual risk scores for each risk category. Please note that if an individual risk factor exceeded the threshold, we would have reported an observation and recommendation for those factors. However, we did not note any individual risk factors that exceeded the threshold, and these key functions/risk categories also have average residual risk scores below our threshold. This is an indicator that our observations identified were not systemic to the functional area.

**Exhibit 1: FGCU Inherent vs. Residual Risk by Category**



**Exhibit 2** highlights similar information but uses different visualizations to illustrate how the control rating reduced the level of inherent risk (i.e. resulting in the residual risk score). The inherent risk represents the baseline score in each category prior to considering the internal controls. The control mitigation score represents our assessment of the controls in each category. The residual risk score is the net result of the two scores and is used to indicate whether the control structure was adequately designed to mitigate the associated risks to a reasonable level. Again, this exhibit indicates that all risk categories had average residual risks below our threshold for reportable observations.

**Exhibit 2: FGCU Inherent vs. Residual Risk with Control Rating**

Risk Factor Category	IR	Control Mitigation Effectiveness	RR
Accounts Payable	2.800	0.300	1.960
Budgeting	2.929	0.300	2.050
Capital Asset Management	2.875	0.300	2.013
Cash Management	3.333	0.300	2.333
Financial Reporting & Operations	2.833	0.300	1.983
Governance	2.750	0.300	1.925
Grant Mgmt	3.200	0.270	2.330
Information Technology	3.100	0.285	2.215
Investments Management	2.500	0.300	1.750
Payroll	1.667	0.300	1.167
Procurement	3.429	0.300	2.400
Revenue	2.688	0.300	1.881



## Conclusion

Based on our procedures, we noted no individual risk factors which arose to the level of a reportable observation (i.e. a residual risk score of 4 or greater). However, our risk and control assessment enabled us to identify areas to improve risk management and control practices. Additional detail on these observations, our recommendations on how FGCU can address these observations, and FGCU management's responses to our recommendations have been provided in the *Observations and Recommendations* section of this report.

We believe that FGCU would benefit from improved segregation of duties within the grant drawdown process, as errors in this process could damage FGCU financially, reputationally, and also result in non-compliance with grant agreements. In addition, with new cyber-security and technology threats emerging every day, it is critical that FGCU require information security training upon hire, so new users of the FGCU systems are aware of all potential risks. We believe that making these changes will provide an added level of assurance to its Board of Trustees and to the Board of Governors that the university has taken reasonable measures to manage the risks it faces in the course of pursuing its mission.

### III. Objectives and Scope

The purpose of this assessment was to evaluate the existing internal controls and review business processes to identify any areas of risk for the SUS. We accomplished this by completing a risk and control assessment for each university within the SUS, which enabled us to identify gaps or weaknesses in internal controls and make recommendations to the university and the BOG for improvement. In summary, our objectives were to evaluate the risks, controls, and business processes related to financial accounting and operations at FGCU, and to provide observations and recommendations to the FGCU Board of Trustees, FGCU leadership, and the BOG on improving the risk management, controls, and business processes within the university.

The scope of our assessment included the following activities and processes at FGCU:

1. Internal Management and Accounting Controls over:
  - a. Accounting Operations (e.g. Accounts Payable, Accounts Receivable, Payroll)
  - b. Financial Statement Preparation and Issuance
  - c. Grant Management
2. Business Processes and Operations, including:
  - a. Procurement
  - b. Budget Management and Oversight (Capital and Operating)
  - c. Capital Program and Asset Management
  - d. Information Systems Management
  - e. Cyber Security
  - f. Contract Management
3. Compliance matters, including:
  - a. Data Privacy rules and regulations
  - b. Federal and State Grant reporting requirements
  - c. Financial Aid regulations

## IV. Procedures Performed

It should be recognized that internal controls are designed to provide reasonable, but not absolute, assurance that errors and irregularities will not occur, and that procedures are performed in accordance with management's intentions. There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal controls. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes in judgment, carelessness, or other factors. Internal control procedures can be circumvented intentionally by management with respect to the execution and recording of transactions, or with respect to the estimates and judgments required in the processing of data. Controls may become ineffective due to newly identified business or technology exposures. Further, the projection of any evaluation of internal control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, and that the degree of compliance with procedures may deteriorate. A summary of the procedures we completed during our assessment of FGCU have been summarized in the table below.

Summary of Procedures
1. We reviewed BOG regulations, university policies, procedures, processes and business requirements.
2. We prepared an inherent risk assessment, which includes risks arising from our assessment of the above, as well as our experience in common risks within higher education, specific to financial and operational issues.
3. We analyzed risk/control questionnaires completed by university management and identified key controls in place to manage the risks identified above.
4. We conducted interviews onsite with university management for insight into risk management and control perspectives and activities.
5. We evaluated FGCU's risk management and control structure based on the information gathered above.
6. We have identified gaps in controls and process improvement opportunities. These have been documented in this report as observations and recommendations.
7. We have confirmed with FGCU management the factual basis for our observations and recommendations. Management's written responses are included for each recommendation in this report.

## V. Observations and Recommendations

Our procedures yielded two (2) observations which are summarized in the table below. These observations represent areas where we determined that controls were absent or were not adequate to mitigate the associated risk to an acceptable level. In the following section we have provided details and recommendations to address each of these observations. Management's responses to each of our recommendations are also included in this section.

Risk Category	Description	Risk Rating
Grant Management	<b>1. Segregation of Duties - Grant Drawdown Process</b>	Moderate
Information Technology	<b>2. Employee Management - Employee Security Awareness Training</b>	Low

**Observations and Recommendations**

Observation 1	Process Area	Priority Rating
Segregation of Duties - Grant Drawdown Process	Grant Management	Moderate

**Condition:** When reviewing FGCU's grant drawdown process, Crowe identified a segregation of duties issue. The Office of Research and Sponsored Programs (ORSP) has sole custody of the grant drawdown process, including drawing down the funds from the funding entities into the general account, transferring the funds from the general account to the grant specific account, and performing the grant fund reconciliation.

**Criteria:** It is best practice to have more than one person complete a key process as an internal control to prevent fraud and error.

**Root Cause:** The condition was due to a relatively limited number of personnel in the ORSP among which to delegate tasks.

**Implication:** By segregating the steps of the grant drawdown process and having the Controller's office execute the drawdown, this will help mitigate fraud and ensure there is oversight and review to catch errors.

**Recommendation:** Crowe recommends that the drawing down of funds be performed by the Controller's office, while the transferring of the funds and the reconciliation of the grant drawdowns remains in the custody of the ORSP.

**Management Response:**

We concur with the observation and beginning November 1, 2019, the Bursar's Office, which is part of the Controller's Office, will draw down the funds from the funding entities and record the funds in the grant specific account.

Planned for Implementation by November 2019.

Observation 2	Process Area	Priority Rating
Employee Management - Employee Security Awareness Training	Information Technology	Low

**Condition:** Although FGCU provides annual security awareness training, the training is not conducted for newly hired employees prior to granting them access to FGCU information systems.

**Criteria:** We relied on the National Institute of Standards and Technology (NIST) SP 800-53 r5 AT-3 as the criteria upon which to evaluate these controls.

**Root Cause:** FGCU has not prioritized resources to provide security training to new employees as part of the on-boarding process.

**Implication:** If users are not trained prior to working within FGCU systems, they may not be prepared to identify emerging threats and tactics. This may expose the university to an increased risk of a breach.

**Recommendation:** FGCU should require all newly hired employees complete a security training, prior to accessing any FGCU system. This training should be updated at least annually to cover current cybersecurity risks and threats. Users should be required to sign an acknowledgement of this training and these acknowledgements should be tracked.

**Management Response:**

We concur with the observation and beginning January 1, 2020, new employees will receive employee security awareness training as part of their orientation. We will continue to provide our annual security awareness training as well.

Planned for implementation by January 2020.

## VI. Appendix - List of Interviewees at FGCU

The following individuals were interviewed during our onsite visit to FGCU the week of September 8, 2019. The name, title, and interview subject are included below.

1. Accounts Payable & Procurement:
  - a. June Gutknecht – Controller
  - b. Maryan Egan – Director of Procurement
  - c. Renee Garcia – Senior Associate Controller
  - d. Amanda Jobes – Assistant Controller
2. Cash and Investment Management:
  - a. June Gutknecht – Controller
  - b. Renee Garcia – Senior Associate Controller
  - c. Amanda Jobes – Assistant Controller
3. Budget:
  - a. David Vazquez – AVP of Budget
  - b. Megan Clipse, Assistant Director of Budget
4. Financial Operations and Reporting
  - a. June Gutknecht – Controller
  - b. Dee Waigand - Associate Controller
  - c. Amanda Jobes – Assistant Controller
5. Capital Asset Management:
  - a. June Gutknecht – Controller
  - b. Jina Hernandez – Assistant Controller
6. Grants Management
  - a. June Gutknecht – Controller
  - b. Donna Gilmore - Director of Research and Sponsored Programs

7. Internal Audit and Compliance

- a. June Gutknecht – Controller
- b. Bill Foster – Director of Internal Audit

8. Information Technology

- a. Mary Banks – AVP, Business Technology Services and CIO
- b. Sven Hahues – Senior Director of Infrastructure and Operations

9. Revenue:

- a. June Gutknecht – Controller
- b. David Vazquez – AVP of Budget
- c. Mark Rusnak - University Bursar

10. Payroll

- a. June Gutknecht – Controller
- b. Jina Hernandez – Assistant Controller
- c. Sara Wood – Payroll Manager

11. Board of Trustees

- a. Dr. Ken Smith – Board of Trustees Member