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Florida Board of Governors State University System

New College of Florida
Internal Management and Accounting Control and Business Process Assessment

November 2019

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 the New College of Florida (NCF) 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 assessment precludes us from issuing an opinion on NCF’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 NCF’s control structure.

We concluded that nine of the twelve risk categories we evaluated had a minor residual risk rating, and three categories had a low residual risk rating. We also found several opportunities for NCF 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 NCF management’s responses can be found in the *Observations and Recommendations* section of this report.

NCF Observations Summary

Risk Category	Description	Risk Rating
Financial Reporting	**1. Restricted Funds – Interfund Transfers.** NCF does not restrict interfund transfers through automated (i.e. system) controls nor does it review interfund transfers outside of auxiliary and athletic funds. This increases the risk that a transfer resulting in an unauthorized use of funding may go undetected.	Moderate
Financial Reporting	**2. Monitoring of Budget-to-Actual Performance.** The efficiency of NCF's process to monitor budget to actual spending may be improved through the use of available system controls. Automated "budget-checking" controls are available within NCF's current financial system and would reduce the risk of expenditures exceeding budgeted amounts.	Low
Information Technology	**3. Data Protection – Employee Mobile Device Management Program.** NCF has not implemented a Mobile Device Management policy for employees and contractors which details requirements for mobile device security. This increases the risk that sensitive NCF information may be compromised if a malicious actor gains access to the phone or other mobile device.	Low
Information Technology	**4. Data Protection - Data Center Moisture Detection.** NCF has not installed moisture sensors in the Data center to detect excess humidity or standing water. If left unaddressed, moisture can cause damage to computer components resulting in loss of availability and destruction of the physical hardware.	Low
Information Technology	**5. Information Security - Clean Desk Policy.** NCF does not have a university-wide "clean desk" policy. This increases the risk that sensitive information may be viewed or accessed by unauthorized parties.	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 assessed 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 NCF. 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 NCF 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 NCF’s control structure.

Residual Risk Assessment

We assigned a control 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 nine categories to have a minor level of residual risk and three categories to have a low level of residual risk. NCF’s three highest categories of residual risk were Investment Management, Information Technology, and Financial Reporting and Operations. 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: NCF Inherent vs. Residual Risk by Category

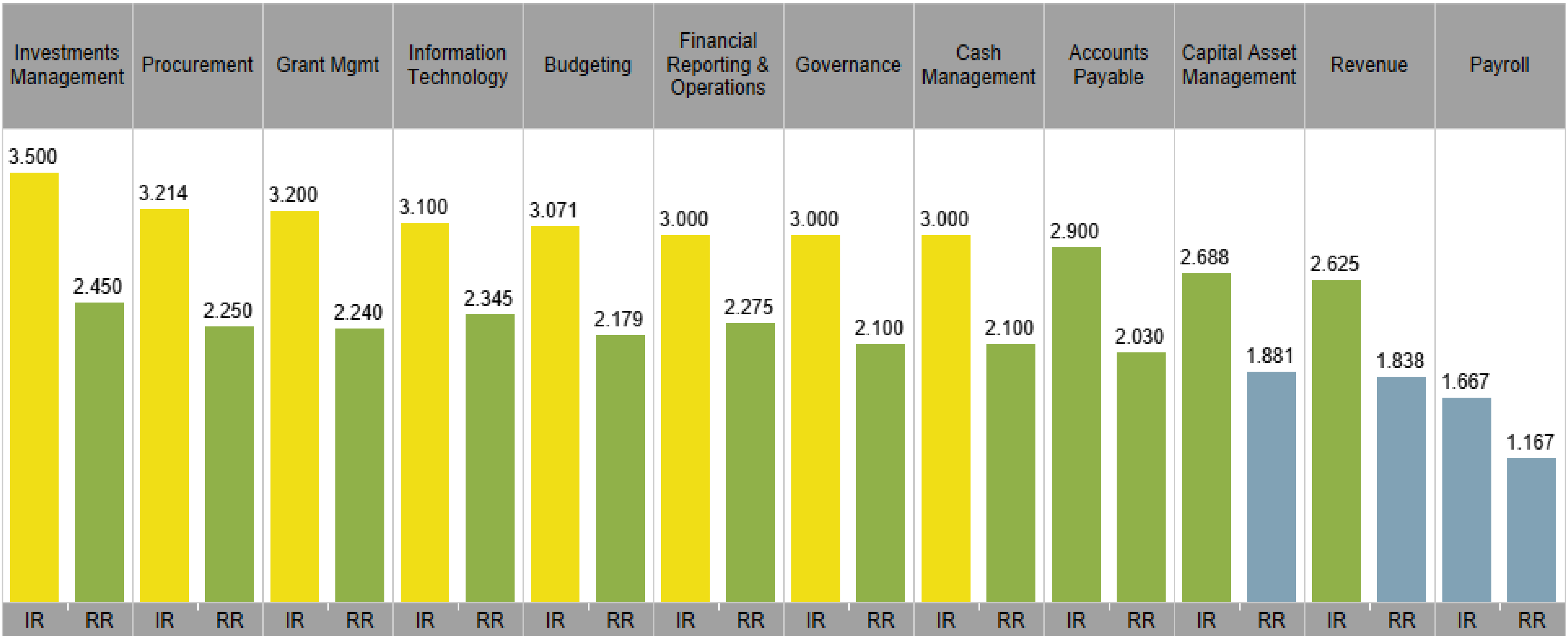
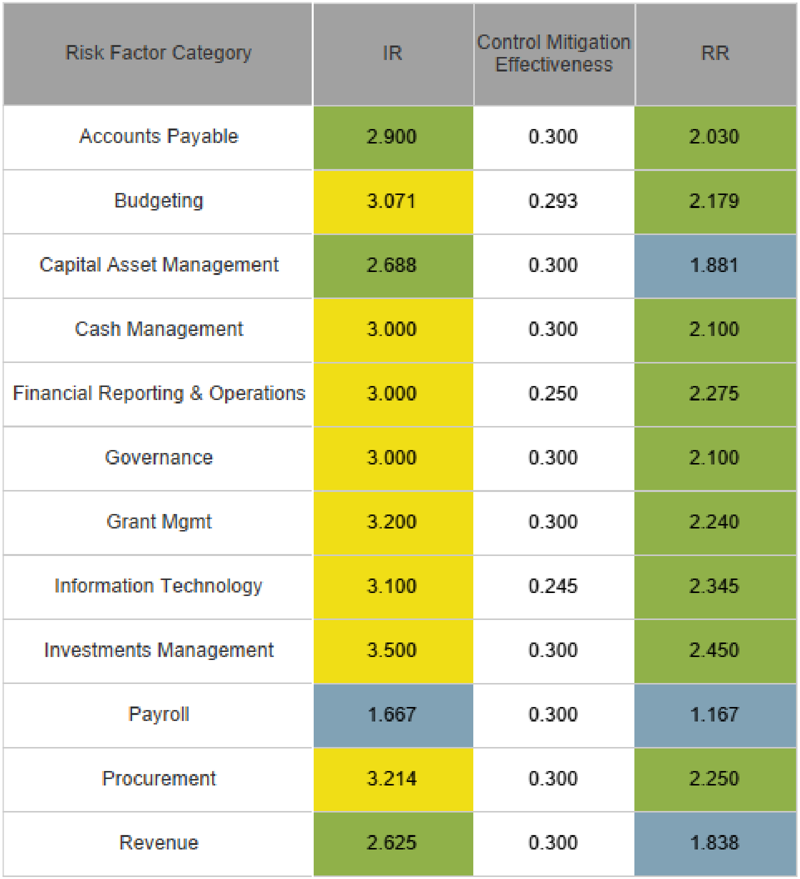


Exhibit 2 highlights similar information but uses different visualizations to illustrate how the control rating reduced the level of inherent risk (i.e. resulting in the residual risk score). The inherent risk represents the baseline score in each category prior to considering internal controls. The 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 these risk categories had average residual risks below our threshold for reportable observations.

Exhibit 2: NCF Inherent vs. Residual Risk with Control Rating



Risk Factor Category	IR	Control Mitigation Effectiveness	RR
Accounts Payable	2.900	0.300	2.030
Budgeting	3.071	0.293	2.179
Capital Asset Management	2.688	0.300	1.881
Cash Management	3.000	0.300	2.100
Financial Reporting & Operations	3.000	0.250	2.275
Governance	3.000	0.300	2.100
Grant Mgmt	3.200	0.300	2.240
Information Technology	3.100	0.245	2.345
Investments Management	3.500	0.300	2.450
Payroll	1.667	0.300	1.167
Procurement	3.214	0.300	2.250
Revenue	2.625	0.300	1.838

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 several areas to improve risk management and control practices. Additional detail on these observations, our recommendations on how NCF could address these observations, and NCF management's responses to our recommendations have been provided in the *Observations and Recommendations* section of this report.

We believe that NCF would benefit from several low-cost, high-value enhancements such as automating controls over fund transfers and budget checking within the Banner ERP system. This would alleviate the administrative effort needed to perform these functions with a relatively limited number of personnel. Additionally, the university could strengthen its control structure over Information Technology risks with several process and procedural enhancements over mobile computing and workspace security, as well as a moderate level of investment to improve safety features for the Data Center.

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 NCF, and to provide observations and recommendations to the NCF Board of Trustees, NCF 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 NCF:

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

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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 NCF 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 NCF'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 NCF 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 five (5) 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
Financial Reporting	**1. Restricted Funds – Interfund Transfers**	Moderate
Financial Reporting	**2. Budget-to-Actual Performance Monitoring**	Low
Information Technology	**3. Data Protection - Mobile Device Management Program**	Low
Information Technology	**4. Data Protection - Data Center Moisture Detection**	Low
Information Technology	**5. Information Security - Clean Desk Policy**	Low

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Observations and Recommendations

Observation 1	Process Area	Priority Rating
Restricted Funds – Interfund Transfers	Financial Reporting	Moderate

Condition: NCF has not implemented controls to prevent or detect transfers in or out of restricted funds. While reports may be run on an ad-hoc basis to detect such transfers, a process has not been established to review these transactions.

Criteria: Interfund transfers should be prohibited, unless extraordinary circumstances prevail, to prevent unauthorized or inappropriate use of restricted funds.

Root Cause: NCF has not yet prioritized resources to implement controls over fund transfers.

Implication: In the absence of preventive or detective control mechanisms, the risk increases that an inappropriate transfer and/or use of funds will go undetected.

Recommendation: We recommend that NCF configure and implement automated controls within their financial accounting system to restrict interfund transfers where possible. In the short-term NCF should establish a review process to identify and validate all interfund transfers.

Management Response:

Management agrees with this finding. We already limit those authorized to make transfer entries into the financial system to four individuals. It requires two of these individuals to make a transfer; one to initiate it and the second to approve the transfer if it is appropriate. We will add an additional level of review by requiring the Associate Vice President of Administration/Budget Officer or the Vice President of Finance and Administration to review and approve all transfers in excess of $100,000 out of any fund type into another. For transfers of $500,000 or more, a report will be automatically generated from our ERP system (Ellucian Banner) and sent to the College President. This additional level of review is now in place. We estimate that programming the automated report will be ready to "go live" by January 31, 2020.

Planned for implementation by February 2020.

Observation 2	**Process Area**	**Priority Rating**
Budget-to-Actual Performance Monitoring	Financial Reporting	Low

Condition: The efficiency of NCF's process to monitor budget to actual spending may be improved through the use of available system controls.

Criteria: Board of Governors Regulation 9.007 (3) (a) (3) regarding State University Operating Budgets states, "Expenditures from any source of funds by any university shall not exceed the funds available. No expenditure of funds, contract, or agreement of any nature shall be made that requires additional appropriation of state funds by the Legislature unless specifically authorized in advance by law or the General Appropriations Act. University expenditures must remain within budget constraints."

Root Cause: NCF relies on manual detective controls (i.e. ad hoc reports) to monitor spending in order to verify that expenditures do not exceed budget limits.

Implication: The efficiency of NCF's process to monitor budget to actual spending may be improved through the use of available system controls. Automated "budget-checking" controls are available within NCF's current financial system and would reduce the risk of expenditures exceeding budgeted amounts.

Recommendation: We recommend that NCF activate the automated controls available in the Banner ERP system to improve the efficiency and effectiveness of budget-to-actual monitoring activities.

Management Response:

Management agrees with this recommendation and will engage its ERP vendor (Ellucian Banner) to provide training to College Controller staff on utilization of the budget checking feature and to assist in implementing the feature. We estimate that the budget checking feature will go " live" no later than March 31, 2020.

Planned for implementation by April 2020.

Observation 3	Process Area	Priority Rating
Data Protection – Mobile Device Management	Information Technology	Low

Condition: NCF has not documented a Mobile Device Management policy for employees and contractors, which details requirements for the security of mobile devices.

Criteria: We relied on the National Institute of Standards and Technology (NIST) SP 800-53 r5 AC-19 as the criteria upon which to evaluate these controls.

Root Cause: NCF has not prioritized resources to implement a mobile device management policy for its employees and contractors who use their personal mobile devices to access NCF email or other applications.

Implication: Employees or contractors who use NCF email on their phones without security protections are at risk of compromising NCF information if a malicious actor gains access to the phone, both physically or remotely.

Recommendation: NCF should develop a policy to inform users of the security controls that are required through the information security program for the user of NCF email on their personal phones. Information security standards should include, but not limited to, full disk encryption, a secure PIN, and a lockout policy. NCF should also consider using a Mobile Device Management solution. For example, while we do not endorse any specific products, the VMware ® AirWatch is one of many solutions that may be implemented to enforce these controls and remotely wipe devices in the event that they are lost or stolen.

Management Response:

Management agrees with this recommendation. A Mobile Device Management "best practices" policy will be developed to inform users of the security controls that are required by those who access NCF email on their personal phones. We estimate that this policy will be drafted and adopted by December 31, 2019, with awareness training to follow in early 2020.

Implementation planned by July 2020.

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Observation 4	Process Area	Priority Rating
Data Protection - Data Center Moisture Detection	Information Technology	Low

Condition: NCF has not installed moisture sensors in the Data center to detect excess humidity or standing water.

Criteria: The audit evaluated controls utilizing regulator guidance and industry best practices, including the National Institute of Standards and Technology (NIST), NIST Cybersecurity Framework and SANS Critical Security Controls

Root Cause: NCF has not prioritized resources to implement moisture sensors in the Data Center.

Implication: If left unaddressed, moisture can cause damage to computer components resulting in loss of availability and destruction of physical hardware.

Recommendation: We recommend that NCF purchase and install moisture sensors in the Data center. These sensors should be capable to alerting NCF IT or facilities staff when moisture levels cross a certain level.

Management Response:

Management agrees with this recommendation. Moisture detection solutions are currently being evaluated. We expect to have the resulting preferred solution installed by December 31, 2019.

Planned for implementation by January 2020.

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Observation 5	Process Area	Priority Rating
Information Security – Clean Desk Policy	Information Technology	Low

Condition: Although some departments have clean desk programs, NCF has not created an enterprise wide clean desk program to enforce the standards across the organization.

Criteria: The audit evaluated controls utilizing regulator guidance and industry best practices, including the National Institute of Standards and Technology (NIST), NIST Cybersecurity Framework and SANS Critical Security Controls.

Root Cause: NCF has not yet prioritized resources to develop a university-wide clean desk policy.

Implication: Lack of a clean desk program can result in users leaving sensitive information where it can be viewed or stolen by unauthorized parties.

Recommendation: NCF should develop a policy to address how physical artifacts deemed sensitive in nature located around an employee's workspace need to be securely stored at the end of each day, or when the employee is away from their desk. The policy should be inclusive of all items that relate to private customer information, passwords, transaction records, private employee information, etc. Suggested requirements include, but are not limited to:

- Locking screens when employees leave their workstation
- Not writing down passwords
- Locking sensitive paper documents when not physically present
- Storing electronic information in designated areas (i.e. not on the local disk)

This policy should be implemented across all departments at NCF. IT should implement a process to periodically perform an inspection of workstation areas to verify departments are compliant with policy.

Management Response:

Management agrees with this recommendation. An enterprise wide clean desk program will be established no later than January 30, 2020. Awareness training will be provided to our compliance partners by March 31, 2020. Our Internal Audit and Compliance Office will perform an audit that will include an inspection of workstation areas to verify departments are compliant with the clean desk policy. This audit will be included in the 2020-2021 Internal Audit and Compliance work plan.

Full implementation planned by July 2021.

I. Appendix - List of Interviewees at NCF

The following individuals were interviewed during our onsite visit to NCF the week of August 18, 2019. The name, title, and interview subject are included below for reference.

1. Student Billing and Accounting:
    a. Kim Bendickson-Diem, Associate Vice President of Finance
    b. Rick Bartelt, Associate Controller
    c. Brian Scholten, Registrar
    d. Alisa Lannon, Assistant Director of Records
2. Capital Asset Management:
    a. Kim Bendickson-Diem, Associate Vice President of Finance
    b. Alan Burr, Director of Facilities
    c. John Martin, Vice President of Finance and Administration
3. Accounts Payable: Kim Bendickson-Diem, Associate Vice President of Finance
4. Cash Management:
    a. Kim Bendickson-Diem, Associate Vice President of Finance
    b. Rick Bartelt, Associate Controller
5. Financial Operations:
    a. Kim Bendickson-Diem, Associate Vice President of Finance
    b. John Martin, Vice President of Finance and Administration
6. Procurement: Jean Harris, Director of Procurement
7. Payroll: Luchi Hernandez, Assistant Director of Human Resources
8. Grants Management:
    a. Kim Bendickson-Diem, Associate Vice President of Finance
    b. Rick Bartelt, Associate Controller

9. Budget:
    a. John Martin, Vice President of Finance and Administration
    b. Kim Bendickson-Diem, Associate Vice President of Finance
10. Internal Audit: Barbara Stier, Chief Audit Executive/Chief Compliance Officer
11. Information Technology: Ben Foss, Director of Information Technology

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