



STATE
UNIVERSITY
SYSTEM
of FLORIDA
Board of Governors

AGENDA

**Audit and Compliance Committee
Conference Call**

May 12, 2011, 10:00 a.m.

Dial-in: (888) 808-6959, Conference Code: 850-2450

1. **Call to Order** **Governor Norman Tripp**

2. **Approval of Minutes for November 3, 2010,
Audit and Compliance Committee Meeting** **Governor Tripp**

3. **Discussion: Annual Audit Plan** **Mr. Harper**
 - a. **Risk Assessment Process**
 - b. **Proposed Audit-related Activities**

4. **Concluding Remarks and Adjournment** **Governor Tripp**

STATE UNIVERSITY SYSTEM OF FLORIDA
BOARD OF GOVERNORS
Audit and Compliance Committee
May 12, 2011

SUBJECT: Approval of Minutes of Meeting held November 3, 2010

PROPOSED COMMITTEE ACTION

Approval of Minutes of meeting held on November 3, 2010, at the University of Florida, Gainesville.

AUTHORITY FOR BOARD OF GOVERNORS ACTION

N/A

BACKGROUND INFORMATION

Board members will review and approve the Minutes of the Meeting held on November 3, 2010, at the University of Florida, Gainesville.

Supporting Documentation Included: Minutes: November 3, 2010

Facilitators/Presenters: Governor Norman D. Tripp

MINUTES
BOARD OF GOVERNORS
STATE UNIVERSITY SYSTEM OF FLORIDA
AUDIT AND COMPLIANCE COMMITTEE
UNIVERSITY OF FLORIDA
PRESIDENTS ROOM, EMERSON ALUMNI HALL
GAINESVILLE, FLORIDA
NOVEMBER 3, 2010

The chair, Norman D. Tripp, convened the meeting of the Audit and Compliance Committee at 2:35 p.m., in the President's Room, Emerson Alumni Hall, at the University of Florida. The following members were present: Charles Edwards, Patricia Frost (phone), Stanley Marshall, Gus Stavros (phone), and John Temple (phone). Also present were Ava Parker and Gallop Franklin.

1. Call to Order

Mr. Tripp called the meeting to order.

2. Approval of Minutes

Minutes from the June 18, 2010, Audit and Compliance Committee (Audit Committee) meeting were approved.

3. Discussion: Board Compliance Program Model

Derry Harper, the Board of Governors Inspector General and Director of Compliance, announced the establishment of the Board Compliance Committee (BCC). In a statement made by the Chancellor in January 2010, "...the Board of Governors has reserved overall fiduciary responsibility for management of the university system. Part of that responsibility is to be able to demonstrate accountability. The organization needs to be able to demonstrate by empirical and objective evidence that it is achieving that goal." At that time, Mr. Harper asked the Audit Committee for their continued support for the framework for the BCC as represented in slide three of *The Board of Governors Compliance Committee* presentation. The framework follows the COSO model and will include Board senior staff.

In establishing a compliance program that meets best practices and standards, the program must have standards and procedures; establish that there is program oversight; and, consistent with our Charters, show that we are engaged in monitoring and review of Board office policies, procedures, and controls (refer to slide four). Corrective Action is one of the most important components of an effective compliance

program. Our philosophy in establishing this committee involves the following steps (reference slide five): 1) Establish Compliance Program, 2) Identify Key Objectives, 3) Identify Key Compliance Risk Areas, and 4) Establish a Systematic Compliance Program, which is where we are now.

Mr. Harper provided a brief background: We established a working committee in November 2009 and identified key objectives and champions to support this effort. The champions are the Chancellor and the Board Chair. We created a database to identify key risk areas, which we determined are the Board's regulations.

We completed a functional analysis of our regulations to determine if we have internal controls to effectively carry them out. We created an Access database for this project. Refer to the report example of an analysis on page seven of the supplemental meeting materials. Each compliance analyst was asked to review the background and intent of each regulation, list requirements for the State University System institutions and for the Board of Governors, and consider whether current policies and procedures are adequate for implementation. Using the database we developed, we can generate reports on any of the elements.

The assigning of a maturity rating (reference report example on page seven) acted as an "early alert system" to prompt analysts to implement enhancements or corrections as needed. For example, analysts in our Academic and Student Affairs unit created a checklist for universities to use in ensuring they are appropriately implementing Board regulations. Our General Counsel and Budget staff honed several internal procedures. Our unit, the Office of the Inspector General and Director of Compliance (OIGC), created a data request for SUS internal audit reports. The database contains 119 records, and the vast majority are rated yellow, blue, or green (reference slide seven for Maturity Rating Scale).

Mr. Harper continued that in the next year or so, the OIGC will create a standard approach for the BCC to rate regulation reviews (reference slide eight for OIGC Maturity Rating and Analysis scale).

Mr. Tripp stated that he hopes this Board will have very little action. Tools will hopefully be in place and university boards of trustees will know the roles everyone plays. We need to know that universities are in compliance with our regulations as we do not want to put ourselves in their place to do what they should be doing. We have one General Counsel, one Inspector General, and one compliance analyst. We want to work in concert with universities on any issues as needed.

Ms. Parker added that the issue for us as a Board is to determine when we need to interject ourselves in a university issue. She stated that she likes the guidelines we have established for us and university boards of trustees.

Mr. Tripp continued that matters come to our attention via Whistle-blower complaints, student issues, news articles, or from the Legislature. As a Board, we need to review them to determine that the university is handling the matter. The Board's Inspector General will talk to the appropriate university staff if it appears the university is not responding, but we do not want to take over the handling of university matters.

Mr. Harper said that effective audit and compliance activities are conducted at all our campuses. How do our regulations impact universities? How do we demonstrate compliance?

Mr. Tripp stated that we want every university to have a compliance regulation. Once we have reviewed our regulations, he asked that Mr. Harper talk with all university audit and compliance offices to encourage them to establish a compliance office to ensure they are complying with their own regulations and procedures.

Mr. Harper confirmed that all universities do have regulations, audit offices, and compliance structures. He added that we will study how each university is verifying compliance.

For our next step, Mr. Harper explained that we will engage with university inspectors general and general counsels to develop a compliance program. Enterprise Risk Management (ERM) is the next level in the compliance structure. A Code of Ethics is also part of a compliance program.

The BCC will possibly meet in December 2010.

Presentation from Tom King of Accretive Solutions, "The Value of an Effective Compliance Program."

Tom King is the managing partner for Accretive Solutions. He was also on the FAMU Task Force.

Mr. King's presentation, "The Value of an Effective Compliance Program," emphasized the tools needed for an effective compliance program (refer to first slide):

- A. How to measure the effectiveness of a compliance program.
- B. The value of an effective compliance program.
- C. What are the best practices for effective compliance?

Mr. King stated that members of this committee have to evaluate the risks of the State University System not meeting their strategic goals and objectives. When something does go wrong, a Board like this one is expected to have been fulfilling its role as an oversight body.

The Board has made great strides in looking at all its regulations for compliance. University boards of trustees have their own challenges. Loss of grant funds is devastating; negative press can result in low enrollment, future growth, or loss of accreditation. Disaster recovery is one thing, but business continuity is more complex. In the event of a natural disaster, how does the university meet payroll? How does it process grades? Business continuity, cyber attacks, identification theft, and IT security are examples of critical areas to monitor and safeguard.

It is relatively easy to measure the success of an effective compliance program [refer to slide two]. The Auditor General's office conducts annual audits of universities and makes their reports public. Also, university internal auditors produce six to twenty audit reports annually. As reflected in the second bulleted item of slide two, an annual survey of the Board's effectiveness would conform to industry best practices. The Board may decide to include the Legislature, university boards of trustees, and the Auditor General's office as some of the surveyors. Such a survey would allow benchmarking against the effectiveness of other system's boards. The survey could be conducted by an external quality assessment program, or it could be an independent audit. Mr. King offered to send some surveys to Mr. Harper for possible use.

What is the value of a compliance program? How do we enable the system to not have any issues of non-compliance? What is the real value of a compliance program? In a perfect world, the Board's audit staff would have nothing to do. Mr. King's third slide listed benefits of having a robust compliance program:

- There are internal controls to ensure compliance with laws and regulations.
- It promotes efficient and collaborative compliance activities.
- It minimizes instances of noncompliance.
- Fines or penalties are reduced if instances of noncompliance are detected.
- It provides an early identification of systemic compliance issues.
- It provides an enterprise view of compliance.

According to Mr. King, there are two different kinds of controls: 1) preventable controls, which is the preferred approach but is expensive and complex; and 2) detection controls to determine what went wrong and how future risks can be mitigated. A robust compliance program mitigates fines; a weak compliance program results in higher fines.

Regarding the early identification of systemic compliance issues, Mr. Harper already has a process in place to monitor findings in audit reports and for following trends. He can review in more detail with university internal audit reports, which is a new step in this process. The receipt of internal audit reports will permit Mr. Harper and his staff to hone their identification of trends earlier in the process, using key metrics common to all university audit reports.

The latest innovation, according to Mr. King, is the Enterprise Risk Management (ERM) view of compliance. Mr. Harper already has a dashboard in place to identify high risk areas and current trends to make recommendations for mitigative action [refer to slide four for "Establishing a Framework for Identifying Adverse Trends"]:

- Develop summary of lessons learned and risk issues
- Develop a dashboard of early indicators
 - Identify and report high risk areas, audit trends and university financial trends to the Board of Governors;
 - Make recommendations that allow management to benchmark and monitor and mitigate shared risks system wide.

For example, all universities have common risks. Most of them use People Soft, making them comparable.

Mr. King's fifth slide displayed an example trend analysis of findings by state university using the Auditor General's method of classifying them. The graph shows universities average four to five findings per audit except for one that had 17 or so. In slide six, the same data was presented in a grid and reflected approximately 60% of all findings are in the student financial aid cluster. The Board may decide it wants to look at that area and consider where more training or additional software might provide a mechanism for better internal controls in that area across the entire university system.

Continuing with his explanation of a compliance model approach, Mr. King described "entity level controls" where the Board would provide an umbrella of controls that would affect each university. The Board would need to set the "tone" for compliance for the system: for example, compliance would be a requirement and not a suggestion. Referring to slide seven, "the Next Level: Enterprise Risk Management," he introduced ERM, a proactive approach of managing risks:

- Provide reasonable assurance that potentially significant risks have been identified;
- Link strategic level objectives to controls;
- Make key decisions with the evaluation of risk/reward trade-offs; and
- Manage risks on an aggregate basis.

Mr. King stressed that the ERM approach is a top-down one that provides a robust framework for assessing, managing, and mitigating risks as deemed appropriate by this Board. Common threads of risk in the State University System are financial, environmental, et cetera. All risks are reviewed in the aggregate in the ERM approach.

The traditional COSO model looks at what can go wrong. ERM looks at setting strategic goals. For the university system, what are the common goals? The ERM approach identifies impediments to progress. Key decisions are made with a risk/reward trade-off. The ERM methodology would allow the Board to weigh risk

against value. Then it can decide if it wants to accept, reject, or mitigate the risk and how to do so. The Board would need to determine how much risk it can tolerate. Universities have similar risks that can be managed in a similar manner. Again, the Audit Committee is a good forum for an umbrella, entity-level control approach to set the tone from the top for system-wide compliance.

Ms. Parker stated that the Board of Governors has not done a self-evaluation and asked Mr. Tripp and the Audit and Compliance Committee to assume the responsibility for accomplishing this task. Mr. Tripp agreed and assigned it to the Chancellor. He suggested the deadline be 120 days for completion (for a March 2011 presentation) and that we talk to Legislators and universities in this process.

Derry Harper thanked Mr. King for his presentation to the Committee.

4. Discussion: Preliminary Inquiry and Investigation Process and Committee Role

To introduce this agenda topic, Mr. Tripp explained that the Inspector General, the Chancellor, or a Board of Governors member periodically receive communication from a student, parent, staff, or whistle-blower about an issue at one of our universities. Administratively, Mr. Harper reports to the Chancellor, with whom he has an on-going relationship. He also reports to this Committee. Mr. Tripp and Mr. Harper are in frequent conversation about matters Mr. Harper is dealing with. Investigations should take place at the university level, and the Board intervenes only if the university is not responding to the matter. If Mr. Harper receives a complaint, he determines whether the university is handling it. If they are, then there is no reason for the Board to step in. If an issue arises, however, that may need the attention of the Board, Chair Tripp or the Chancellor would make the determination for further review. In those instances, how do we, the Board of Governors, proceed and resolve it? The Committee suggests that if the matter is being fully handled by the university, the Committee can give Mr. Harper the authority not to review further. A number of such issues could arise. If each one were brought before the Committee for review and discussion, the Committee would be required to meet frequently. If there is a matter that Mr. Tripp or the Chancellor feels needs further action, the Committee can review it and decide to refer it to the full Board for review. The only time that would probably happen is if the university refuses to handle the matter.

Ms. Parker asked for examples of the types of issues that arise. Mr. Harper answered that in the more than 30 matters he has reviewed that allege violations of policies or procedures none had sufficient evidence. His role is to confirm the university has been handling the matter appropriately. He added that cooperation from universities has been outstanding, and that they provide him the information he needs to make an objective and independent determination that the university is or isn't handling it. For more complicated and unresolved matters by the university, Mr.

Harper said he keeps the Chancellor and the Committee Chair informed and actively monitors the university's progress.

Lastly, Mr. Harper stated that our Charter and Florida Statutes state that if a university is unable or unwilling to resolve issues, then the Board may direct the Inspector General to take action. Since Mr. Tripp has been on the Committee, the Inspector General's office has looked at over 30 matters, and the majority of them were returned to the University for handling. About 10% required active involvement in reviewing documents and conducting interviews, resulting in a written report. For example, we may receive a complaint that a university has failed to follow their policies and procedures for activation or handling of a financial matter, or it might be a human resources complaint; the complaints vary.

Mr. Edwards provided an example from Florida Gulf Coast University (FGCU) a few years ago that the media and others had questioned the appropriateness of using excess funds from housing projects to pay lawsuit settlements. The university requested assistance from the Board because they felt it would not be appropriate for them to review themselves. The University cooperated fully with the Board's Inspector General during his review. He determined there were no violations of any kind, and the matter was resolved.

Mr. Tripp stated that authority for many areas was granted to university boards of trustees because the Board of Governors expects them to be responsible for those areas. Some of the issues brought to the Board of Governors' attention (via the staff office, for example) are from constituents seeking a review and decision from a higher authority because they did not receive the result they had hoped for from the university. Mr. Harper reviews each matter to determine if the university fulfilled its role in handling it according to the university's own policies and procedures. The purpose of the discussion in this meeting is to establish a process for resolving those matters without requiring the Audit Committee to convene and examine each one.

Mr. Tripp requested approval for a process whereby the Committee Chair or Chancellor can determine, based on Mr. Harper's recommendation, that a matter has been resolved and needs no further review by the Committee. It gives some discretion to the Committee Chair or Chancellor in that he or she may decide a matter should or should not be discussed by the full committee. He asked if Committee members were comfortable with that arrangement. If not, then that would mean the Committee would need to convene each time a matter needs resolution.

Mr. Beard asked if a university has not taken appropriate action in handling a matter, is the Board going to second-guess their review or decision?

Mr. Tripp responded that everyone has a right to go to court if they do not like the board of trustees' decision. But this Board's role is to determine if the university has responded.

Chancellor Brogan explained that there are two "catch points:" is the university unable or unwilling to respond or address the allegations? Is the university following its own policies, procedures, and practices? If we find they are unwilling to carry out their own policies, procedures, or practices in reviewing the matter, then we have the ability to intervene to ensure that are looking at it. Also, the university may feel it cannot or should not review the matter, like the FGCU example Mr. Edwards mentioned where the university asked for assistance because they did not feel they could review themselves. As long as the university is willing to or able to follow their own policies, procedures, and practices, then we cannot re-review or re-investigate to render a second opinion; this group is not an appellate body, and it should not be expected to affirm the university board of trustees' decision. Mr. Tripp is requesting the ability to determine, at the staff level, whether the university is unwilling or unable to review a matter. If neither is the case, then it can proceed to the Committee Chair, the Chancellor, or the full Board, if necessary. If the university is willing and able to handle the matter, and if it is following its own policies, procedures, and practices, then there is no need for further action.

Ms. Parker said that the Committee is to vote on empowering the Committee Chair, the Chancellor, and the Inspector General to filter decisions that might rise to the full committee.

Mr. Tripp said that doing so would permit efficiency in handling such matters.

Chancellor Brogan stated that this policy would provide a good check and balance system because it involves staff and Board members in deciding what stays or what should be brought before the Committee.

Ms. Parker asked what the threshold should be for those items the Board should hear about and those they do not. Perhaps high publicity items that Board members may have heard about from a media source should be reported to the Committee as having been reviewed by the Inspector General, the Chancellor, or the Committee Chair. They can report such matters at each Committee meeting as appropriate and state what determination was made for each. Then Board members will know staff has reviewed it and made a determination. She asks that we add that step to this procedure.

The Chancellor stated that as in the example from Mr. Edwards about FGCU, we can circle back to the Board when a high profile matter arises to let them know it has been reviewed.

Mr. Tripp agreed that for each Audit and Compliance Committee meeting, the Inspector General can summarize and list matters that he has reviewed and what was determined. He then asked the Board's General Counsel, Vikki Shirley, to state the language appropriate to make a motion for approval.

Ms. Shirley stated the motion should be one that "delegates the authority to the Chair to make a determination whether or not a particular matter rises to the level that requires Committee, Chancellor, Inspector General, or General Counsel attention."

The motion was made, seconded, and approved.

5. Discussion: Board of Governors Operational Audit

Mr. Harper informed the Committee that there were three findings, not significant, in the recently concluded Board of Governors Operational Audit by the Florida Auditor General's Office:

i. Financial statement information – Auditors recommended the Board adopt a specific date-certain for submission by universities of gap-level financial statement information. That regulation was amended at the September 2010 Board meeting, so universities will submit additional document by October of each audit year.

ii. Board procedures for social security number use notification – Auditors recommended the Board enhance its procedures for social security number use notification. It is important to provide notice regarding the collection of social security numbers. We had improved those procedures, but the auditors concluded it was not done during the entire audit period.

iii. Economic Development Scholarship program – This was a technical finding that related to the production of a report for economic development scholarships. The report was issued in 2008 but not in 2009, since no funds were available that year. We will, however, issue a report in the future.

The Board concurred with all findings, and Mr. Harper will review their corrective actions in six months. He will submit a six-month follow-up report to the Board.

6. Discussion: Audit and Compliance Committee Handbook

Mr. Harper thanked each committee member for his or her feedback on the *Audit and Compliance Committee Handbook*, the final copy of which was distributed to them at the beginning of the meeting. The handbook will serve as a reference tool for all members and as an orientation for new Board members. It contains in one place all documents that are the foundation of the duties, responsibilities, and activities of the Audit and Compliance Committee. No motion to approve the handbook is necessary.

7. Concluding Remarks and Adjournment

Mr. Harper thanked Committee members for the discussion. The meeting of the Audit Committee was adjourned at 3:42 p.m.

Norman D. Tripp, Chair

Lori Clark,
Compliance Analyst

DRAFT

STATE UNIVERSITY SYSTEM OF FLORIDA
BOARD OF GOVERNORS
Audit and Compliance Committee
May 12, 2011

SUBJECT: Board of Governors Annual Audit Plan for Fiscal Year 2011-2012

PROPOSED COMMITTEE ACTION

Discussion and approval of the Board of Governors Annual Audit Plan for Fiscal Year 2011-2012.

AUTHORITY FOR BOARD OF GOVERNORS ACTION

Article IX, Section 7, Florida Constitution

BACKGROUND INFORMATION

The Board of Governor's Inspector General and Director of Compliance, Derry Harper, will present members with the proposed Board of Governors Annual Audit Plan for Fiscal Year 2011-2012. He will describe the risk assessment process and recommended audit-related activities based on the results of that process.

Supporting Documentation Included: Board of Governors Annual Audit Plan for
Fiscal Year 2011-2012

Facilitators/Presenters: Derry Harper



STATE UNIVERSITY SYSTEM OF FLORIDA
BOARD OF GOVERNORS
Office of the Inspector General and Director of Compliance

ANNUAL AUDIT PLAN FOR FISCAL YEAR 2011-2012

Section 20.055, Florida Statutes, specifies that the Inspector General develop long-term and annual audit plans based on the findings of periodic risk assessments and that the plan show the individual audits to be conducted during each year and related resources to be devoted to the respective audits. By statute, the plan is submitted to the Audit and Compliance Committee, the Board of Governors, and the Chancellor for approval, and a copy of the approved plan is submitted to the Auditor General.

I. Overview of Methodology Used to Determine Areas Selected for Audit

The Inspector General's Office conducted an assessment that included each of the organizational units within the Board of Governor's (Board) office, including the Board's Foundation. We reviewed Board regulations, the Florida Constitution, applicable statutes, financial records, internal operational manuals and handbooks, organizational charts, various reports including prior audit reports, and other available data. We surveyed management regarding the complexity of their operations and obtained insight into operations.

Additional operational or programmatic information was obtained from the Regulation Compliance Review Project (RCR Project). In the fall of 2009, the Board office undertook a comprehensive review of the Board's regulations to determine, among other things, whether additional procedures would be effective in monitoring the implementation of regulations promulgated by the Board. The RCR Project was designed by the Inspector General as a key component in the overall risk assessment process. Appropriate staff conducted an analysis of each regulation. The primary objective was to determine what action or conduct the subject regulation required on the part of the Board or the universities. In addition, staff was asked to describe the existing processes and procedures utilized to implement the regulation and assign a maturity rating indicating the need for immediate remedial action.

We then ranked each auditable unit or activity based upon risk factors such as: complexity and decentralization of operations, existence of certain internal control

elements such as policies and procedures or monitoring systems, and existence of prior audits by the Inspector General, the Auditor General, or other oversight authority. We also considered the potential for loss or theft of assets, possibility of not meeting operational or program objectives, and whether or not there was any health, safety or welfare issues for the public, employees, clients, users, or recipients of program benefits.

II. Results of the Periodic Risk Assessment

CALCULATION OF AVAILABLE HOURS	Total Hours
Direct Hours - Assurance services include internal audits, consulting services, management reviews, audit follow-up, and review of external audits from SUS and Auditor General.	666
Direct Hours - Other initiatives include compliance, preliminary investigative responsibilities for consumer complaints, Committee and Board meeting preparations, and performing other related duties.	1830
Total Indirect Hours - Miscellaneous projects, administrative activities, conduct internal training, receive professional training, authorized holidays and leave.	1664
Total Available Hours - (2080 x 2: Total hours per staff who must divide their areas of responsibilities into three broad categories: Audit, Compliance, and Investigative)	4160

III. Audit Plan for Fiscal Year 2011-2012

Based on the results of our assessment, the following areas were identified as audit priorities for this year and 666 staff hours have been allocated to the following assurance services:

TOTAL ASSURANCE SERVICES	Estimated Hours
Internal Audits	
Institutes and Centers	50
Ethics Climate	50
Tuition Differential/Tuition and Fees Program(s)	250
Board of Governors Foundation	250
Audit Follow-Up	
Six-month Follow-up to Ethics Audit	20
Coordination of External Audits	
Office of Program Policy Analysis and Government Audits - Six- and 18- Month Follow-up Reports as needed	10
Auditor General's 2011 Operational Audit of the Board Office (Anticipated Spring 2012)	36
Direct Hours - Assurance Services	666

We have reserved 1830 staff hours to be allocated to the following initiatives, projects and reports:

OTHER DIRECT SERVICES		Estimated Hours
Special Projects		
2011-2012 Risk Assessment and Audit Plan (Section 20.055(5)(a), Florida Statutes; Section 2010, International Professional Practices Framework, The Institute of Internal Auditors)		200
Inspector General's 2010-2011 Annual Report (Section 20.055(7), Florida Statutes)		100
Completion of Regulation Compliance Review Project, all phases		315
Establishment of SUS Compliance Program		150
Clean up of Data Request System for Collection of SUS External and Internal Audit Reports		50
Development of Robust Trend Tracking System for AG audits, OPPAGA reports, and SUS and Board External and Internal Audit Report Findings and Follow-up		300
Other Projects as Assigned		50
Investigative		
Complaints/Investigations/Preliminary Inquiries		415
Complaints/Investigations/Preliminary Inquiries - Administrative Support		250
Direct Hours - Other Direct Services		1830
Direct Hours - Assurance Services		666
Total Direct Hours		2496

Respectfully Submitted by: _____ Date: _____
 Inspector General

Audit Plan Approved by: _____ Date: _____
 [Chancellor]

Audit Plan Approved by: _____ Date: _____
 [Chair, Audit and Compliance Committee]

Audit Plan Reviewed by: _____ Date: _____
 [Chair, State University System of Florida, Board of Governors]

Risk Assessment and Annual Audit Plan Process: An Overview
Office of the Inspector General and Director of Compliance
State University System of Florida, Board of Governors

I. Internal Audit & the Risk Assessment Process

Internal audit is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. Internal audit helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Authoritative sources define internal control as a process affected by an entity board of directors, management and other personnel. The process should be designed to provide reasonable assurance regarding achievement of objectives relating to: 1) reliability of financial reporting; 2) effectiveness and efficiency of operations; 3) compliance with applicable laws and regulations; and 4) safeguarding of assets. The foundation for all other components of internal control, providing discipline and structure, is the control environment, which sets the tone for the organization. There are seven control environment factors:

- a. Integrity & ethical values
- b. Commitment to competence
- c. Board of directors or audit committee
- d. Management's philosophy and operating style
- e. Organizational structure
- f. Assignment of authority and responsibility
- g. Human resources policies and procedures

The Office of the Inspector General and Director of Compliance (OIGC) is a key component in the Board of Governors' commitment to accountability and achieving its objectives effectively and efficiently. The goal of the OIGC is to assist the Board and management by identifying and evaluating significant exposures to risk and contributing to the improvement of risk management and control systems by offering recommendations for corrective actions. "Risk" in this context is defined as the possibility of an event occurring that will have an impact on the achievement of objectives measured in terms of impact and likelihood. An effective internal audit function adds value to the organization in attaining its stated mission, goals, and objectives.

II. The Risk Assessment Questionnaire

In Phase I of the Regulation Compliance Review Project (RCR), Board Staff analyzed whether policies and procedures exist to implement the duties and responsibilities the Board must fulfill as mandated by the provisions of its regulations. The

information and responses from the Risk Assessment Questionnaire and the analysis by Board Staff of each regulation will be utilized by the OIGC staff to identify all auditable activities of the Board office and evaluate each activity based on related risk factors. Risk factors are the criteria used to identify the relative significance of and likelihood that conditions and/or events may occur that could adversely affect the organization. For example, "Complexity of Operations" is concerned with the complexity of an activity with regard to the number of techniques or procedures that are necessary for completion. Complexity can increase both the probability of error and the effort required to monitor the system.

III. The Audit Plan

The purpose of annual and long-term work planning is to ensure that audits, management reviews, known consultation engagements and other known activities are planned and accomplished in an orderly manner within the OIGC.

Section 20.055(5) (h), Florida Statutes, requires the OIGC to develop an Annual Audit Work Plan and long-term Audit work plans based on the findings of periodic risk assessments. These plans, which are updated and republished each year, shall show the individual audits, management reviews, and known consultation engagements that are scheduled to be completed during each fiscal year that is covered by the plans. Additionally, audit staff resources that are expected to be dedicated to each audit, management review or known consultation engagement shall be indicated on the plans. Finally the plans should reflect known recurring activities for each fiscal year, for example, support of external audit and review entities.

ANNUAL RISK ASSESSMENT QUESTIONNAIRE 2011-2012

RISK FACTORS USED FOR THE 2011-2012 RISK ASSESSMENT Ranking and Description of the Risk Factors

Section	Category	Weight	Question Numbers
A	Internal Control & Risk Management	35	2, 7, 8, 9, 11, 12, 13, 14, 15, 16
B	Complexity of Operations	20	1, 6, 19
C	Changes to Operations	10	4, 10, 17, 18
D	Financial Impact	15	3, 5, 20, 21
E	Management Concerns	10	22, 23, 25
F	Results of Previous Audits	10	24

A. Internal Controls and Risk Management, Adequacy and Effectiveness of - Considers management's approach to assessing objectives, identifying what could cause the objects to not be met, and how to manage that risk. It also considers the adequacy of the internal control system, existence and adherence to policies and procedures, whether controls are automated or manual, and management's oversight of the internal control system.

Risk Rating

5	High Risk - Indications of major material internal control system weaknesses or failures, few to no policies and procedures, little or no adherence to policies and procedures, mostly manual controls, and management oversight of the internal control system is marginal.
3	Moderate Risk - No indications of material internal control system weaknesses or failures, some policies and procedures, some adherence to policies and procedures, some manual controls, and/or management oversight of the internal control system is marginal.
1	Low Risk - No indications of material internal control system weaknesses or failures, mostly automated controls, adequate policies and procedures, full adherence to policies and procedures and /or management's oversight of the internal control system is adequate.

**ANNUAL RISK ASSESSMENT QUESTIONNAIRE
2011-2012**

B. Complexity of Operations - Considers the complexity of the organizational structure, operations, information systems, and whether the unit is centralized or decentralized.

Risk Rating

5	High Risk - A complex organizational structure, operations, information systems, and/or a decentralized unit.
3	Moderate Risk - A moderately complex organizational structure, operations, information systems and/or a partially decentralized unit.
1	Low Risk - A simple organizational structure, operations, information systems, and /or a centralized unit.

C. Changes to Operations - Considers changes to systems, policies and procedures, personnel, management, organizational structure, programs, and compliance/ programmatic requirements.

Risk Rating

5	High Risk - Management has expressed concerns, management has specifically requested audit coverage, and/or the organizational unit has a high public relations impact.
3	Moderate Risk - Management has expressed some concerns, management has not specifically requested audit coverage, and/or the organizational unit has a moderate public relations impact.
1	Low Risk - Management has not expressed concerns, management has not specifically requested audit coverage, and/or the organizational unit has no public relations impact.

D. Financial Impact - Considers the size of the organizational unit, the size of the unit's budget and the volume of transactions flowing through the organizational unit.

Risk Rating

5	High Risk - Large organizational unit, sizeable budget and/or a high volume of transactions flowing through the unit.
3	Moderate Risk - Medium organizational unit, average budget

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2011-2012**

	and/or a moderate volume of transactions flowing through the unit.
1	Low Risk - Small organizational unit, small budget and/or a low volume of transactions flowing through the unit.

E. Management Concerns - Considers management's concerns, management requests for audit coverage, and the public relations impact of the organizational unit.

Risk Rating

5	High Risk - Management has expressed concerns, management has specifically requested audit coverage, and/or the organizational unit has a high public relations impact.
3	Moderate Risk - Management has expressed some concerns, management has not specifically requested audit coverage, and/or the organizational unit has a moderate public relations impact.
1	Low Risk - Management has not expressed concerns, management has not specifically requested audit coverage, and/or the organizational unit has no public relations impact.

F. Results of Previous Audits - Considers the significance of previous findings related to the organizational unit including findings from management reviews and investigations.

Risk Rating

5	High Risk - Previous findings had a major impact on the organizational unit and/or were not implemented.
3	Moderate Risk - Previous findings had a moderate impact on the organizational unit and/or were partially implemented.
1	Low Risk - Previous findings had little impact on the organizational unit and/or there were no previous findings.

ANNUAL RISK ASSESSMENT QUESTIONNAIRE 2010-2011

Date Completed: _____

Name:	
Board of Governors Unit/Section:	

1. Describe the mission, operations, and organizational structure of your organizational unit. Provide attachments if available.
2. Please identify any Board of Governors Regulations, Florida Statutes, Florida Administrative Codes, Federal Code of Regulations, or other rules or standards that authorize, define, or direct the operations of your organizational unit.
3. How many positions are allocated to the organizational unit? Identify OPS and other contracted employees if any.
4. Has the organizational unit added or eliminated positions in the last year? If yes, how many were added or deleted and why?
5. What are the total budgeted expenditures for the organizational unit for the FY 2010-2011? E.g. salaries, estimated expenses, OCO. Etc. What were the actual revenues and expenditures for FY 2009-2010?
6. What software packages are currently in use to help achieve your organizational unit's objectives? When was it developed and by whom, and who is the systems administrator authorized to change code?
7. How does management communicate to employees its views on business practices and ethical behavior?
8. Does management have knowledge of any fraud or suspected fraud affecting the organizational unit?

**ANNUAL RISK ASSESSMENT QUESTIONNAIRE
2010-2011**

Date Completed: _____

9. Please indicate by circling one of the options below regarding the quality of automated controls.
 - a) Controls are nonexistent or no basis for assessment.
 - b) Controls thought to be weak.
 - c) Controls adequate.
 - d) Controls appear to be strong.
 - e) Please explain weaknesses.
10. What could happen in your organizational unit that could prevent you from achieving your organizational objectives?
11. What procedures are in place to assure that you meet your organizational unit's objectives?
12. Does management routinely evaluate the overall effectiveness of the organizational unit's internal control system? If yes, please explain the methodology used in the evaluation (e.g. assess organizational structure, assess policies and procedures, and test controls to ensure they are functioning properly).
13. Are there written policies and procedures encompassing the operations of the organizational unit? If yes, list the procedures and indicate when they were last updated.
14. Do you receive or provide management reports that assist you or other organizational units in management decision processes? If yes, please identify any management reports that you receive or provide to other organizational units.
15. Please describe the types of monitoring and oversight activities performed.
16. Have changes to systems, processes, or policies and procedures been made during the last year? If yes, please describe the changes and their significance to the operations of the organizational unit.
17. Has the unit's organizational structure, programs, or compliance/programmatic requirements changed over the last year? If

ANNUAL RISK ASSESSMENT QUESTIONNAIRE 2010-2011

Date Completed: _____

yes, please describe the changes and their significance to the operations of the organizational unit.

18. Does the organizational unit process grants, contracts, or enter into agreements with third parties? If yes, please provide the total number of and total dollars for each of the following: grants, contracts, or other agreements processed during the last year.
19. Does the organizational unit initiate or approve program payments to external entities? If yes, please provide a total of payments initiated/approved last fiscal year.
20. Does the organizational unit receive cash or checks? If yes, please provide a total received last fiscal year.
21. Does your organizational unit store, transmit or process any credit card data or contract with a service provider who accepts credit card information on behalf your organizational unit?
22. Does the organizational unit have a high, moderate, or low public relations impact or profile?
23. Are any areas within the organizational unit considered to be at a higher risk of fraud, waste, or abuse? If yes, please explain which areas and why.
24. Has an audit or other review of the organizational unit been conducted within the past three years? If yes, who conducted the audit/review and have the major findings and recommendations been implemented? Please also provide a copy of the audit.
25. Are there any programs within the organizational unit which you would like to see receive some audit/review coverage? If yes, please explain why.