

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.

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Norman D. Tripp, Chair

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Lori Clark,  
Compliance Analyst

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