

MINUTES  
STATE UNIVERSITY SYSTEM OF FLORIDA  
BOARD OF GOVERNORS  
AUDIT COMMITTEES WORKSHOP  
FLORIDA A&M UNIVERSITY  
TALLAHASSEE, FLORIDA  
MARCH 18, 2015

*Video or audio archives of the meetings of the Board of Governors  
and its Committees are accessible at <http://www.flbog.edu/>.*

Chair Alan Levine convened the Audit Committees Workshop at 9:02 a.m., in the Grand Ballroom, in the Student Union Complex at the Florida A&M University, in Tallahassee, Florida. The following Audit and Compliance Committee members were present: Matthew Carter, Wayne Huizenga, and Ned Lautenbach. Other members present included Norm Tripp, Pam Stewart and Katherine Robinson.

Office of Inspector General and Director of Compliance, Joe Maleszewski was present as were the following university representatives: FAMU AACC Chair Karl White and Audit Services/Investigations Administrator Carl Threatt; FAU Inspector General Morley Barnett; FGCU AACC Chair Robbie Roepstorff and Director of Internal Audit Carol Slade; FIU Trustee Gerald Grant, Jr. and Audit Director Allen Vann; FPU VP/Chief Financial Officer Mark Mroczkowski; FSU AACC Chair Mark Hillis and Chief Audit Officer Sam McCall; NCF VP for Finance and Administration John Martin; UCF Chief Audit Executive (CAE) Robert Taft; UF Finance, Business Audit Committee Chair Charles Edwards and CAE Brian Mikell; UNF Director of Internal Audit Robert Berry; USF AACC Chair Harold Mullis and Executive Director Debra Gula; UWF Trustee Garrett Walton and Interim Internal Auditing and Management Consulting Director Cynthia Talbert.

1. Call to Order

Mr. Levine called the meeting to order.

2. Presentations

Chair Levine and Joseph Maleszewski, Board of Governors Inspector General and Director of Compliance, presented on items per the published agenda. Chief Audit Executives (CAEs), Board of Trustees (BOT), and Board of Governors Audit and Compliance Committee (BOG AACC) members were asked to independently evaluate their functions on a maturity scale from non-

existent, initial (ad hoc), managed, or optimized in the areas of: compliance and ethics; risk assessment; risk management; fraud; and office of CAE - auditing, IT auditing, and investigating.

Mr. Levine expressed concerns about IT security, common risks, and whether current resources are appropriate to mitigate them. He also encouraged CAEs and the OIGC to dialog to identify the risks and to establish a system of objectives for risk mitigations. Mr. Edwards agreed that the Board could be directly involved with contracts.

A summary of the Workshop is provided on the following pages.

3. Concluding Remarks and Adjournment

The Audit Committees Workshop was adjourned at 11:42 a.m.

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Alan Levine, Chair

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Melanie Yopp, Investigations & Audit Specialist

SUMMARY  
AUDIT COMMITTEES WORKSHOP  
FLORIDA A&M UNIVERSITY  
TALLAHASSEE, FLORIDA  
MARCH 18, 2015

1. Call to Order

Mr. Levine called the meeting to order, welcomed all members and workshop attendees, and provided comments regarding:

- Being responsible for managing risks;
- The role of the Board of Governors to verify processes are completed;
- The need to assess system level risks, establish a baseline, and to determine long-term functions.
- To determine whether universities are provided with the proper resources for those functions.
- To learn from each other and then to talk about what we need to do going forward.
- The Board will be asking Mr. Maleszewski to spot-check Performance Based Funding Data Integrity (PBF DI). The Senate is proposing an increase. So, we need to be credible about the data we are using to reward universities.
- PBF DI Audits - 9 of the 11 actually changed some policies and procedures, questioned their own practices, which is a good thing.
- The need to focus our efforts on the commonalities and look at system risks. That is why we are here today. Our Board members needed to hear the dialog. How can the Board of Governors add value?
- We want to hear what participants think. Some of the material today will be redundant, some will be new.
- Compliance is key. We need to allow reporting without fear of retaliation. We are eager to hear from everyone. What are we missing for resources? We need to identify big risk issues.

2. Workshop Goals

Joseph Maleszewski, Board of Governors Inspector General and Director of Compliance, stated the goals of the workshop were to:

- **Enhance synergy** which comes from closer associations of the Board of Governors AACC and the BOT Audit Committees with teamwork and collaboration on audit, investigation and compliance matters;
- **Seek greater alignment** to enhance common understanding of roles and responsibilities of our Office of Inspector General and Director of Compliance (OIGC), CAEs, BOT, and Board of Governors AACC;

- **Educate and inform** based on industry literature, surveys, and studies;
- **To debate issues** as a collegial body of professionals;
- **Identify and celebrate strengths** – providing assurance regarding the value OIGC and CAEs provide to the Board of Governors and BOT Audit Committee Chairs;
- **Identify opportunities** and gaps, as well as making plans to address identified gaps; and
- **Demonstrate our return on investment**, to show that an investment in the internal audit function is a good investment for the State University System (SUS).

### 3. Background

Mr. Maleszewski provided the following background information about governance, which is defined by the Institute of Internal Auditors<sup>1</sup> (IIA) as the combination of processes and structures implemented by the board to *inform, direct, manage, and monitor* the activities of the organization toward the achievement of its objectives.

- A. Mr. Maleszewski explained that governance in the public sector includes:
- **Accountability** –
    - Accountability is one of Chair Hosseini’s big three – Access, Accountability and Affordability;
    - “Who answers to whom for what?”
    - Accountability and transparency are prerequisite values for good governance and essential to maintain the public confidence and trust, which is critical to public institutions.
  - **Transparency** - does not ensure accountability, but is necessary in order to have accountability;
  - **Integrity;**
  - **Standards Setting;**
  - **Ethics ; and**
  - **Risk Management.**
- B. Mr. Maleszewski explained the Florida Higher Education Governance includes the:
- Higher Education Coordinating Council (HECC) which is advisory to the Legislature and Higher Education governing boards;

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<sup>1</sup> The IIA is a guidance-setting body and is the internal audit profession’s global voice, chief advocate, recognized authority, and principal educator (<https://na.theiia.org/Pages/IIAHome.aspx>).

- Articulation Coordinating Committee (ACC) which exists to coordinate ways to help students move easily from institution to institution and from one level of education to the next;
- Board of Governors constitutionally created to oversee the 12 state universities;
- State Board of Education (SBE) which was statutory created to oversee K-12 and the state College system's 28 colleges;
- Independent Colleges and Universities of Florida's 31 institutions; and
- Commission on Independent Education (CIE) which serves as a consumer protection agency for independent postsecondary institutions, ensuring certain standards are met.

C. Mr. Maleszewski discussed governance as it relates to audit, investigations and compliance, including:

- The State University System (SUS) which is composed of the Board of Governors (constitutionally created to operate, regulate and control the entire system), the Board of Governors AACC, a system Chancellor, and the Inspector General and Director of Compliance;
- Constituent universities which each have a BOT responsible to administer the university, an Audit Committee, a university president and a CAE; and
- Legislative oversight through the Joint Legislative Auditing Committee (JLAC); audits performed by the AG; and reviews and studies, performed at the direction of the Legislature, by the Office of Program Policy and Government Accountability (OPPAGA).

Mr. Maleszewski also stated that with regard to audit, investigations and compliance, the clarity, coherence, and appropriateness of our governance structure, policies and practices need to be examined. To be effective, this examination must be introspective and deliberative. We are stronger when we are capable of course corrections as new challenges emerge.

D. Mr. Maleszewski explained in IIA's Three Lines of Defense Model. Each of these three "lines" plays a distinct role within the organization's wider governance framework. Each of these functions has some degree of independence from the first line of defense, but they are, by nature, management functions.

- In the **First line of defense**, operational managers own and manage risks and controls, with responsibilities for

implementing corrective actions to address process and control deficiencies.

- In the **Second Line of Defense**, management establishes various risk management and compliance functions to help build upon and/or monitor the first line-of-defense.
- In the **Third Line of Defense - Internal audit** provides the governing body and senior management with comprehensive assurance based on the highest level of independence and objectivity within the organization. Management establishes and internal audit function to ensure the first two lines of defense are properly designed, in place, and operating as intended.
- Finally, the **external auditors, regulators, and other external bodies** reside outside the organization's structure, but can have an important role in the organization's overall governance and control structure.

In regard to the Three Lines of Defense Model, Mr. Levine stated the workshop members need to talk about where to house compliance because it overlays areas such as internal audit and general counsel.

E. Mr. Maleszewski explained the Principles and Standards for Offices of Inspector General:

- Was published by the Association of Inspectors General.
- Each of our CAEs is an Inspector General equivalent – responsible for audits and investigations.
- Prior to devolution – CAEs were, in fact, Agency Inspectors General under Section 20.055, Florida Statutes.
- The public expects Offices of Inspectors General to:
  - Hold government officials accountable for efficient, cost-effective government operations; and
  - To prevent, detect, identify, expose and eliminate fraud, waste, corruption, illegal acts and abuse.
- This public expectation is best served by inspectors general when they follow the basic principles: *integrity, objectivity, independence, confidentiality, professionalism, competence, courage, trust, honesty, fairness, forthrightness, public accountability and respect for others and themselves.*
- Inspectors general are granted substantial powers to perform their duties. In exercising these powers, inspectors general regard their offices as a public trust, and their prime duty as serving the public interest.

- F. Mr. Maleszewski explained CAEs are our Internal Auditors (IAs). The IIA defines internal auditing as:

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It 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.

After providing this definition, Mr. Maleszewski discussed the tie to governance and expressed that auditors sometimes are quick to focus on controls, especially financial controls, but slower to engage management and the board on issues of risk management, and governance. He viewed these areas as being opportunities to add value.

Mr. Huizenga and Mr. Levine discussed auditors and compliance officers being able to act unilaterally and review risks, which may include looking at the high level positions.

- G. **Pulse of the Profession** – Mr. Maleszewski explained that according to studies conducted by IIA, KPMG<sup>2</sup>, PwC<sup>3</sup>, Protiviti<sup>4</sup>, alignment of stakeholder expectations, and matching skills and capabilities to these expectations, helps internal audit enhance the value delivered to the organization. Surveys gathered have concluded in the past few years that:
- Alignment of stakeholder expectations, and matching skills and capabilities to these expectations, helps internal audit enhance the value delivered to the organization.
  - There really is a chronic sense that internal auditors can deliver even greater value for our organizations and boards.

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<sup>2</sup> KPMG provides audit, tax and advisory services and industry insight to help organizations negotiate risks and perform in the dynamic and challenging environments in which they do business (<http://www.kpmg.com/us/en/services/Pages/Default.aspx>).

<sup>3</sup> PwC focuses on audit and assurance, tax and consulting services. In the US, PwC concentrates on 16 key industries and provides targeted services that include - but are not limited to - human resources, deals, forensics, and consulting services (<http://www.pwc.com/us/en/about-us/index.jhtml>).

<sup>4</sup> Protiviti is a global consulting firm that helps companies solve problems in finance, technology, operations, governance, risk and internal audit ([www.protiviti.com/](http://www.protiviti.com/)).

- H. **Alignment with Stakeholder Expectations** – Mr. Maleszewski explained an important concept from these annual studies is the rising expectations of stakeholders for their internal auditors:
- Historically auditors were relied on for post audit assurance, which adds significant value to our organizations.
  - However, overtime, stakeholders have expected their internal auditors to be problem solvers and insight generators, with the concept that if your internal auditor has a “Seat at the Table” they can maximize the value added to their organizations by serving as a “Trusted Advisor.”
  - If the internal auditor has strong relationship acumen, but weak risk, control and governance expertise, they will be relegated to the upper yellow quadrant as, “Engaged but not strategic” – a good lunch partner.
  - If however, the internal auditor has strong risk, control and governance expertise, but weak “Relationship Acumen” they will find themselves, “Capable but Poorly Aligned” – these internal auditors are your “well-kept secret.”

Mr. Maleszewski explained that these studies point to “**FORESIGHT**”:

- Internal auditors are called upon to shed the image of fault finding, traffic cops, and provide insight to their organizations.
- As Benjamin Franklin stated, “By failing to prepare, you are preparing to fail.”
- Let that quote not describe us – for today, we are **preparing** – considering how we can collectively add value to our organizations through hindsight, insight and foresight.

Mr. Levine, Mr. Hillis, Mr. Mullis and Mr. White discussed the frequency of communication between BOT audit committee chairs with their CAEs. These communications can occur on an as needed basis, during monthly scheduled meetings, and/or during board meetings.

- I. Mr. Maleszewski explained the challenge from Richard Chambers, President and CEO of the IIA:

There is no more enduring challenge for internal auditors than achieving and maintaining alignment with the expectations of our key stakeholders.

- J. **Workshop Materials** – Mr. Maleszewski asked workshop participants to independently evaluate their functions on a



maturity scale ranging from non-existent, initial (ad hoc), managed, or optimized for the discussion topics listed below<sup>5</sup>.

- Compliance and Ethics
- Risk Assessment
- Risk Management
- Office of CAE
  - Auditing
  - IT Auditing
  - Investigating
- Fraud

#### 4. Discussion Topics

Mr. Maleszewski's presentation focused on the following topics:

A. **Compliance and Ethics** - Mr. Maleszewski explained it is important that we communicate the board's expectations regarding ethical conduct and compliance with laws, rules and regulations:

- According to the IIA's Three Lines of Defense Model, compliance is a management discipline, with the 2<sup>nd</sup> Line of Defense typically addressing both Compliance and Ethics.
- In June 2013, the SUS Compliance and Ethics Consortium was established, with participation from six institutions (UCF, USF, FIU, FSU, UWF, and UNF) some interest from FAMU and FGCU.
- All SUS institutions have compliance functions, but not all have a designated Chief Compliance Officer or an overarching compliance infrastructure and program.
- The compliance programs vary in their level of maturity for having a centralized compliance and ethics program.
- A few universities stand out as having more mature programs - such as UCF, USF, FIU and UNF.
- The point is that university compliance and ethics programs vary in their level of maturity as far as having a centralized compliance and ethics function.
- Workshop participants were asked to determine the maturity of their Compliance and Ethics Program.

Mr. Levine, Dr. McCall, Mr. Mikell, and Mr. Edwards discussed the amount of time spent on possible compliance issues, with their workplans and

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<sup>5</sup> NOTE: Due to time constraints, the following topics were not presented: Hotlines, WB Act, Quality Assurance, and Shared Services.

audits considering compliance. However, Mr. Mikell expressed concerns that if internal audit works with the management of compliance requirements, then this means there is a conflict. Mr. Carter asked if these elements should apply to everyone. Mr. Maleszewski said, yes, but it is not intended to be “one size fits all.” University BOTs will have responsibility to determine how to implement their compliance and ethics program.

- **REGULATION DEVELOPMENT:** Mr. Maleszewski explained that per AACC direction - University compliance and ethics program regulation is being drafted with the focus on the overarching element that universities:
  - Shall exercise due diligence to prevent and detect criminal conduct, and promote an organizational culture that encourages ethical conduct and a commitment to compliance with the law.
  - The draft regulation will be consistent with U.S. Federal Sentencing Guidelines - 7 Elements for an effective program:
    1. Establish infrastructure, policies, and procedures;
    2. Exercise effective compliance and ethics oversight;
    3. Exercise due diligence to avoid delegation of authority to unethical individuals;
    4. Communicate with and educate employees on compliance and ethics programs;
    5. Monitor and audit for program effectiveness;
    6. Ensure consistent enforcement and discipline of violations; and
    7. Respond appropriately to incidents and take steps to prevent future incidents.

The draft regulation requires a Chief Compliance Officer, and a BOT committee responsible for compliance matters.

- Considerations for discussion include:
  - Federal Sentencing Guidelines for an effective Compliance and Ethics Program
  - The appointment of a Chief Compliance Officer
  - The organizational Placement/Reporting Structure
  - BOT committee - compliance matters
  - Participation in the SUS Compliance and Ethics Consortium
  - Are you active in any professional organizations such as the Society of Corporate Compliance and Ethics (SCCE) and do you have staff actively pursuing professional certification in

this area – i.e., Certified Compliance and Ethics Professional (CCEP).

Mr. Levine said, the Board of Governors will check to see if Compliance and Ethics programs are effective and sufficiently resourced, but will not tell universities how to manage their programs. According to Mr. Levine, the regulation will be sent out for dialog and to be vetted. Ms. Roepstorff asked about the compliance function being segregated and all agreed a joint function is acceptable with proper controls. Mr. Maleszewski explained that USF and UCF are the more mature compliance functions and will not likely have to make any changes. Mr. Levine explained that some of the universities have general counsels functioning as compliance officers, but the function needs to be “institutionalized.” Mr. Taft agreed and said UCF chief compliance officer serves a broad role and helps with gap analysis. Mr. Levine stressed that the Board is committed to implementing regulations collaboratively.

- B. OIGC Roles, Powers and Duties** – Mr. Maleszewski explained:
- In 2007, Florida Statutes were amended to require that an Office of Inspector General shall be organized using existing resources and funds to: promote accountability, efficiency, and effectiveness and to detect fraud and abuse within state universities (Section 20.155(5), F.S.).
  - The Board of Governors approved a compliance function to promote and support a culture of compliance, risk mitigation, and accountability. This function is part of the role of the Office of Inspector General and Director of Compliance.
  - **REGULATION DEVELOPMENT:** Mr. Maleszewski explained a draft regulation regarding the office's powers and duties as an Agency Inspector General under Section 20.055, F.S. is being developed:
    - To promote accountability, efficiency, and effectiveness;
    - To detect fraud and abuse within state universities;
    - To address allegations of waste, fraud and financial mismanagement;
    - Provided the Board of Governors determines that a state university BOT is unwilling or unable to address credible allegation(s) relating to waste, fraud, or financial mismanagement, the OIGC shall conduct, coordinate, or request investigations into such allegation(s);
    - To make provisions for CAEs to provide the Board with sufficient information to make a determination as to whether a BOT is “unwilling or unable” – both in instances where the

allegation is received by the university and when received by the Board of Governors.

- To identify circumstances where a BOT (and the CAE) are not sufficiently independent and objective to be “able” to independently investigate the allegations – instances where the complaint is about the president, or BOT member.
- To provide requirements for the OIGC to review allegations, along with information provided by the university BOT and recommend Board action when appropriate.

**C. Complaints Against CAEs and Staff**, Mr. Maleszewski explained:

- While complaints against CAEs and their staff are NOT a common occurrence, it is certainly a scenario for which we should be prepared.
- We inquired about the practices of each university if or when a complaint against the CAE is received.
- The table on slide 29 summarizes the responses received. For complaints against the CAE, the most common responses related to the BOT and/or the President and in some cases, the General Counsel. One institution indicated the Board of Governors OIGC.
- For complaints against CAE staff, there were fewer responses, but the most common was that these would be addressed by the CAE.
- Considerations for discussion:
  - Is the current practice acceptable? Is it consistent enough?
  - We should be driven by the principles of independence and objectivity.
  - Does current practice provide for sufficient independence such that the investigative findings would be accepted as fair?
  - Investigators must also exercise objectivity both in fact and appearance in the discharge of investigative responsibilities.
  - Types of complaints – We are not talking about customer satisfaction complaints or performance issues . . . we are talking about instances regarding allegations of fraud, waste, abuse, and wrongdoing.

Mr. Levine, Mr. Huizenga, and Mr. Maleszewski discussed awareness of the percentage of unfounded complaints, that resources may be an issue, but the Board is committed to help secure resources. Mr. Maleszewski said the OIGC must receive information on complaints in

order to fulfill statutory requirements<sup>6</sup> of determining whether a university BOT is unwilling or unable to address substantiated allegations. Mr. Levine and Mr. Huizenga encouraged university CAEs to have dialog with the OIGC, especially for questions about independence as related to complaints against high level staff.

- D. **Audit Coverage** – Mr. Maleszewski provided details about the system audit coverage and the results of the audits which includes:
- The Auditor General (AG) conducts:
    - Annual financial statement audits;
    - Operational Audits at least every 3 years;
    - Annual Statewide Federal Awards audit; and
    - Information Technology Audits of Northwest Regional Data Center.
  - The Office of Program Policy and Government Accountability (OPPAGA) performs Management Reviews/Studies as directed by the Legislature.
  - CAEs perform Internal Audits in compliance with Board of Governors Regulation 1.001(6)(g).
  - Independent CPAs perform financial audits of our affiliated organizations like DSOs in accordance with Board of Governors Regulation 1.001(6)(h).
  - Regarding Auditor General Operational Audit scope, Mr. Maleszewski provided 36 “standard” items within the AG’s normal university Operational Audit scope.
  - Mr. Maleszewski provided a summary of the results of 469 audits conducted over the past 3 years:
    - University Financial Audits were fairly stated, with generally strong internal controls and no noncompliance;
    - Federal Awards – Student Financial Assistance (IT and general management) and Research and Development (Cost accounting exceptions and grant management/monitoring);
    - DSO - Financial Audits were fairly stated, with higher occurrence of noted deficiencies, internal control issues, and one travel-related compliance issue; and

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<sup>6</sup> Section 20.155, Florida Statutes, Board of Governors of the State University System, (5). . . If the Board of Governors determines that a state university BOT is unwilling or unable to address substantiated allegations made by any person relating to waste, fraud, or financial mismanagement, the office shall conduct, coordinate, or request investigations into substantiated allegations made by any person relating to waste, fraud, or financial mismanagement within a state university. . .

- OPPAGA – last three years, focus exclusively on the evaluation of Nursing Program Capacity, Student Enrollment, and Graduates.

Mr. Levine expressed concerns about IT security, common risks, and whether current resources are appropriate to mitigate them. He also encouraged CAEs and the OIGC to dialog to identify the risks and to establish a system of objectives for risk mitigations. Mr. Edwards agreed that the Board could be directly involved with contracts. Dr. McCall and Mr. White also discussed their concerns regarding staffing, training, and a system that looks forward to address the risks associated with IT.

- Mr. Maleszewski also provided details about the areas of common and persistent findings from AG and CAE operational audits which included:
  - IT Security – User Authentication
  - Textbook Affordability
  - Tuition Differential
  - Remuneration Administrative Employees
  - Severance Payments
  - Residency for Tuition Purposes
  - DSO – Line of Credit
  - P-Card
  - Cash Collections
  - Contracting and Procurement
  - Construction
  - Vehicle Fuel Consumption – Vehicle Usage Logs
  - IT Disaster Recovery
- Mr. Maleszewski explained the requirements of IIA Performance Standard 2500 regarding assurance to university boards that audit findings are being addressed and that when university CAEs were surveyed about follow-up:
  - All CAEs require Corrective Action Plans (CAPS);
  - All follow-up periodically (generally either at 3, 6, or 9 months);
  - CAEs escalate issues to President or BOT as necessary; and
  - It is important that acceptance of risk happens at executive/BOT level.

Mr. Maleszewski also explained that when audit findings persist, there is a legislative escalation process and the Board of Governors has oversight and enforcement authority.

Mr. Levine, Mr. Huizenga, and Mr. Maleszewski discussed that this is a standard function the universities are handling well, and the Board of Governors will engage the CAEs if there are 3-peat findings.

- **REGULATION DEVELOPMENT:** Mr. Maleszewski provided the following information about a draft regulation being developed to address the legislative and board oversight role under Section 1008.322, F.S., which requires:
- The AG to notify the Joint Legislative Audit Committee (JLAC) when an audit report of a state university, indicates that the university has failed to correct findings. This occurs when an audit finding was included in two preceding financial or operational audit reports. These are known as a three-peat audit finding
  - JLAC may require the BOT to provide a written statement about corrective action. If this is not satisfactory, JLAC may call the chair of the BOT (or their representative) before JLAC to discuss the failure to take timely corrective action. Finally, JLAC may refer the matter to the Board of Governors to proceed in accordance with Section 1008.322, Florida Statutes.
  - This statute, entitled Board Oversight and Enforcement, authorizes the Chancellor to investigate noncompliance, order compliance, and to take the following actions to address non-compliance:
    - Withhold university funds;
    - Declare a university ineligible for grants;
    - Require Periodic reporting – until compliance is achieved; and
    - Recommend actions to Legislature.

**E. Risk Assessment**

- Mr. Maleszewski stated that risk is the possibility of an event occurring that will have an impact on the achievement of objectives, and provided the following additional details:
  - Categories of risk;
  - Risk is measured in terms of impact and likelihood;
  - We must know about risks to management them within our risk tolerance to an acceptable level of residual risk; and

- Audit risk assessments and audit coverage provides feedback to management and the board about how we are doing.
- Mr. Maleszewski explained that when surveyed, university CAEs reported they:
  - All perform periodical risk assessments. Typically annually – some less frequently with an annual update component;
  - Inquire of executive management and their BOT regarding perceived risk – seeking stakeholder alignment; and
  - CAE’s understand the strategic direction of their universities and seek to be in alignment with the university’s strategic direction.
- Mr. Maleszewski asked workshop attendees, “How mature is your risk assessment and audit work plan process?”
- Mr. Maleszewski stated he thought all would agree there is not audit coverage of all university risks; however, these risks are known and managed within the university and Board’s risk appetite. He also said the questions to consider are:
  - “What is the nature of the remaining Risk?”
  - “Are these risks known and managed?”
  - “Are there gaps that need additional audit coverage and/or management attention?”
- Mr. Maleszewski presented information about IT risks and audit coverage, which are:
  - The most common and persistent area for audit findings;
  - The area where CAE staffing resources and capabilities are the most strained to provide audit coverage; and
  - Included in audits for IT risks, but the coverage could be improved.
- Mr. Maleszewski explained some considerations for risk assessments could consider:
  - Audit Coverage
  - Risk Types
  - Risk Appetite
  - System-wide Risks
  - Fraud Risks
  - Are there risks we are not auditing?

Mr. Huizenga, Mr. Levine, Ms. Robinson, and Mr. Mikell discussed the challenges of being aware of events, universities having a low risk appetite, compliance programs, and audits of student reporting which include reporting of Title IX issues.



## F. Risk Management

- Mr. Maleszewski explained Risk Management:
  - Is a management discipline in the 2<sup>nd</sup> Line of Defense<sup>7</sup>;
  - Is the identification, assessment, and prioritization of risks, followed by coordinated and economical application of resources to minimize, monitor, and control the probability and/or impact of unfortunate events or to maximize the realization of opportunities; and
  - Has not had a BOT committee specifically designated for it;
- Mr. Maleszewski asked, “What is the role of internal audit (our CAEs) with regard to risk management?” and he said:
  - FIU, NCF, USF, and UWF have Risk Management Programs based on CAE survey responses;
  - In 2000, IIA Standard 2120 stated, “Internal auditors SHOULD assess and report on the effectiveness of their organizations risk management framework/ program.”
  - Standard 2120 now reads, “The internal audit activity **MUST** evaluate the effectiveness and contribute to the improvement of risk management processes.”
  - This change imposes increased demands on internal auditors to enhance their practical understanding of concepts like insurance, risk sharing through legal agreements, indemnities, risk appetite statements, and risk tolerance inventories.
- Mr. Maleszewski also asked, “How mature is Risk Management at your institution?”
- Mr. Maleszewski explained some **considerations** are:
  - University Risk Management Programs;
  - Role of Internal Audit;
  - BOT Responsibilities; and
  - Risk Appetite.

## G. Offices of the CAE

- According to Mr. Maleszewski, CAEs are more than just auditors because they often have or share responsibility for:
  - Investigations;
  - Compliance (4 out of 11 have compliance responsibility);
  - Hotlines;
  - Coverage of auxiliary (parking, health) and support services (HR, Legal, accounting) as well as affiliated organizations such as:

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<sup>7</sup> IIA’s Three Lines of Defense model.

- DSO – Direct Support Organizations;
  - Health Support Services Organizations (HSSO);
  - Faculty Practice Plans (FPP); and
  - Self Insurance Program (SIP).
- Mr. Maleszewski also explained the professional standards CAEs follow, their qualifications, and independence.
- Mr. Maleszewski presented the following details about the office resources from the CAE survey:
  - System Total: \$8 Million;
  - University average budget: \$800,000;
  - 27% Report Insufficient Resources;
  - CAE Priorities for Resources:
    - Staffing;
    - Salaries – Retain Staff;
    - Training;
    - Audit Software;
    - Compliance; and
    - Hotlines.
  - System average 1 CAE staff member for every 676 staff
  - Average audit shop budget is .2% of the university expenditures;
  - Seven universities have an IT auditor;
  - Three out of 11 (27%) report they do not sufficient resources in the areas salaries, travel, and training;
  - If provided more resources, the CAE priority items include:
    - Training (FAMU, UNF);
    - Compliance (FAMU, NCF);
    - Staffing (FAMU – Investigations, FAU, FGCU, UWF – IT Auditor, USF – Compliance Officer, FSU, UF, UCF – Audit Staff);
    - Audit Software (UCF, USF, UWF);
    - Hotline (UNF); and
    - Pay Increases to Retain Staff (FAU, FSU, UCF, USF, UWF).

Mr. Levin, Mr. Kuntz, Ms. Robinson, Mr. Vann, Mr. Martin, and Mr. White discussed following Red Book Standards, workloads, staffing issues, AG audits, the critical need for IT resources, and the need for the Board to conduct a benchmark assessment to provide assistance with these issues. Ms. Robinson said the salaries of all of our staff need to be reviewed because they appear to be underpaid. Mr. Levine said for audit in particular, funds are spent to train staff and then they leave because salaries are so low.

- **REGULATION DEVELOPMENT:** Mr. Maleszewski explained that a draft regulation to codify requirements based on Section 20.055, F.S., will include:
  - **CAE Qualifications**
  - **Independence**
    - Appointment and Removal
    - Reporting – Administratively to President & Functionally to BOT
    - Access to information and people
    - Scope limitations
    - Audit Reports
  - **Follow-up on AG and CAE findings and recommendations**
  - **Acceptance of Risk**
  - **Periodic risk assessments and audit plans**
  - **Quality assurance and improvement program**
  - **Investigations:**
    - Cooperation with official investigations
    - Whistle-blower’s (WB) Act determination and investigation
    - Violations of criminal law – report expeditiously to law enforcement
    - Complaint tracking, referral and disposition
    - Freedom from interference with investigations
    - Investigative reports

Mr. Levine commented that this regulation will codify what is in the law, and Mr. Maleszewski said it provides some protections for CAEs.

## **H. Fraud**

Mr. Maleszewski provided information about the categories and frequency of fraud, how universities are affected and asked workshop attendees, “How mature are your fraud management and detection processes?”

Mr. Levine commented we need to be preventive because once you see fraud it is too late. He also said it is easy to become comfortable, the audit chairs need to ask the tough questions, and the Board of Governors ask the BOTs questions and for assurance.

Mr. Levine asked, “What are the resource needs that we have?” Mr. Carter said it is incumbent to be collaborative, and by putting this much time into the workshop shows we are committed. Mr. Tripp remarked how far we have come as a system, and it is good to see everyone here participating. Mr.

Stefano commented that IT security is critical because the students put so much of their personal information online, and tone at the top is key for our institutions.

Mr. Grant recommends the system be like the corporate world, with rewards for those doing best practices. Mr. Edwards said for all to keep doing major points, and he hopes Mr. Kuntz will continue this relationship with trustees when he is the chair of the board, continuing to work together with good communication. Mr. White commented that fraud matters are aggressively handled and forwarded to law enforcement, but to be mindful that many allegations are not substantiated. Mr. Mroczkowski said he will have to be more creative with compliance with the new regulations and will be likely to hire an outside firm to comply with internal audit. Mr. Levine said the goal is not for the Board of Governors to dictate how, but as long as the function is handled.

Mr. Levine and Mr. Maleszewski commented about WBs and that university members were encouraged to ensure they know who on their campus designates WBs.