

Florida Agricultural and Mechanical University
Board of Trustees



Audit & Compliance Committee Meeting

Date: June 5, 2019 * 8:30 AM

Location: The Grand Ballroom

Committee Members: Trustee Craig Reed, Chair
Trustees Harold Mills; Rochard Moricette; Belvin Perry; Robert Woody

AGENDA

- | | | |
|-----|---------------|---------------------|
| I. | Call to Order | Chair Craig Reed |
| II. | Roll Call | Debra M. Barrington |

ACTION ITEMS

- | | | |
|------|--|-----------------|
| III. | Approval of Minutes – Wednesday, March 06, 2019, | Joe Maleszewski |
| IV. | Audit Risk Assessment and Work Plan | |

INFORMATIONAL ITEMS

- | | | |
|----|--|-----------------|
| V. | Update on Division Activities | |
| | a. Audit | Joe Maleszewski |
| | i. 2018 FAMU Grape Harvest Festival Cash Collections Advisory Report | |
| | ii. Enterprise Risk Management | |
| | iii. Audit Follow-up Status Report | |
| | iv. Audit Work Plan Update | |
| | b. Compliance | Rica Calhoun |
| | i. Athletics Update | John Eason |

Adjournment

**Florida Agricultural and Mechanical University
Board of Trustees**



Audit & Compliance Committee Meeting

Date: Wednesday, March 6, 2019

Time: 10:30 AM

Committee Minutes

Members Present: Trustee Craig Reed, Chair
Trustee Belvin Perry, Jr., Vice Chair
Trustee Harold Mills, Trustee Robert Woody

Chair Craig Reed called the meeting to order by requesting Ms. Debra Barrington to call the roll. Ms. Barrington called the roll. A quorum was established.

Chair Reed proceeded noted that there were three (3) action items for discussion: the approval of minutes for June 6, 2018, September 25, 2018, and January 8, 2019. Chair Reed requested a motion for the approval. The motion was moved, second and approved.

Chair Reed requested Rica Calhoun, Interim VP of Audit and Compliance discuss the Audit Plan Modification and the Performance Funding Data Integrity Audit. Both Action Items were motioned on, second and approved.

Ms. Calhoun presented an update on the Division of Audit & Compliance, which included a summary of open audits, external audits, major projects, and a review of the compliance and ethics program activities.

Adjourned by Chair Craig Reed.

Risk Assessment & 3-Year Audit Work Plan



May 29, 2019

Division of Audit and Compliance

Joseph K. Maleszewski, MBA, CIA, CGAP, CISA, CIG, CIGA, CIGI, CCEP
Vice President for Audit and Compliance



Risk Assessment & 3-Year Audit Work Plan

EXECUTIVE SUMMARY

WHAT WE DID

We performed our interim-year risk assessment for Fiscal Year (FY) 2018-19 using qualitative measures. The risk assessment updated the FY 2017-18 risk assessment risk ratings. The results of the FY 2018-19 risk assessment were then used to develop a three-year audit work plan spanning FY 2019-2020, FY 2020-2021, and FY 2021-2022.

WHAT WE FOUND

We found that the overall risk for the University increased slightly from FY 2017-2018 to FY 2018-2019. Specifically, of the eighty areas of risk assessed we found:

- Risk increased in thirteen areas – Emergency Preparedness; Environmental Health & Safety; Athletics; Cash Handling; Academic Administration; Academic Records Management; International Affairs; Governance; Internal Audit; Legal; Export Controls; Health Services; and Stakeholder Relations.
- Risk fell in four areas: Institutional Compliance; Purchasing; Research Compliance; and Financial Aid.

OPPORTUNITIES FOR IMPROVEMENT

While FAMU has addressed some area risks, the University could improve its overall risk levels by:

- Implementing an enterprise risk management program;
- Tasking executive leadership with developing and implementing a risk mitigation plan for risks affecting their areas;
- Training all faculty and staff on risk management best practices and risk-based decision making;
- Allocating resources to the highest risk areas to manage risk;
- Continue efforts to cultivate a culture of accountability;
- Exploring different avenues for resources to mitigate risks outside of state and tuition funding, such as grants and corporate partnerships; and
- Researching and implementing a university-wide framework of internal controls, such as the Committee of Sponsoring Organizations of the Treadway Commission's (COSO) Internal Controls – Integrated Framework.



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BACKGROUND

The Value of a Risk Assessment:

There are many definitions and categories of risk. Entities perceive risk based on the nature of their operations, the organization's culture, and other factors unique to them. Risk Management is the culture, capabilities, and practices, integrated with strategy-setting and performance, that organizations rely on to manage risk in creating, preserving, and realizing value.¹

Every entity exists to realize value for its stakeholders. Value is created, preserved or eroded by management decisions in all aspects of an entity's activities, from strategy setting to daily operations. Entities failing to recognize the risks they face, from external or internal sources, and to manage them effectively, can destroy value. An effective starting point for understanding risk is to take a look at all aspects of an entity's activities.

In developing the 2019-2022 Internal Audit Work Plan, we performed a university-wide internal audit risk assessment, a process that identified and analyzed risks facing Florida Agricultural and Mechanical University (FAMU). The risk assessment served as the primary basis for developing the three-year work plan for the Division of Audit and Compliance (DAC). The sole objective of the risk assessment is to align internal audit resources to those processes that pose the highest risk to the University's ability to achieve its objectives. As a result, the DAC provides valuable information to FAMU senior management, the Board, and stakeholders for decision-making purposes through the assurance and advisory activities it performs.

Risk Assessment Standards:

Professional auditing standards² state that the chief audit executive must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organization's goals. The internal audit activity's plans and resources and resource requirements, including significant interim changes, must be communicated to senior management and the board for review and approval. Additionally, the impact of resource limitations are required to be communicated.

¹ Source: COSO Enterprise Risk Management – Integrating with Strategy and Performance, 2017

² International Standards for the Professional Practice of Internal Auditing (Standards) – Performance Standards 2010 Planning



Risk Assessment

Based on the scope of work and methodologies outlined in Appendix A, we developed a risk assessment heat map and made our observations in the following risk theme areas:





- Asset and Risk Management;
- Auxiliary and Service Departments;
- Financial Management;
- Human Resources Development;
- Information Technology;
- Instruction and Academic Support;
- Leadership and Governance;
- Plant Operations and Maintenance;
- Purchasing;
- Research and Development;
- Student Services; and
- University Relations and Alumni Affairs.

Additionally, we identified areas of risk needing immediate attention that will be addressed in coordination with the Office of Compliance and Ethics and the executive leadership team.

Risk Assessment Heat Map (RAHM):

The RAHM provides a central repository of risks that impact FAMU along with an assessment of whether each risk area presents a low, moderate, or high risk to the achievement of organizational objectives. The risk map provides a comparison look of the FY 2017-2018 and 2018-2019 risk assessment.

The Risk Assessment Heat Map Legend:

-  **Low Risk**– FAMU has an *unlikely* probability of risks occurring that would have at least a material impact on the University’s ability to achieve its strategic objectives.
-  **Low & Rising Risk** – FAMU management (or DAC) has noted new areas of concern that if not addressed in the upcoming fiscal year, will lead to this area being reclassified as a moderate risk.
-  **Moderate Risk** – FAMU has a *medium* probability of risks occurring that would have at least a material impact on the University’s ability to achieve its strategic objectives.
-  **Moderate & Rising Risk** – FAMU management (or DAC) has noted new areas of concern that if not addressed in the upcoming fiscal year, will lead to this area being reclassified as a high risk.



- High & Falling Risk** – FAMU management (or DAC) has noted new controls, processes, or initiatives that were implemented that are expected to decrease the residual risk in this area and could lead to this area being reclassified as a moderate risk in the upcoming fiscal year.
- High Risk** – FAMU has a *likely* probability of risks occurring that would have at least a material impact on the University’s ability to achieve its strategic objectives.
- High & Rising** – FAMU management (or DAC) has noted areas of concern that is causing risk to increase to an *expected* probability of risks occurring that would have at least a material impact on the University’s ability to achieve its strategic objectives.

Risk Area	2017-2018 Risk Level	2018-2019 Risk Level
ASSET AND RISK MANAGEMENT		
Emergency Preparedness	Moderate	Moderate & Rising
Endowment & Development	Moderate	Moderate
Environmental Health & Safety	Moderate	High
AUXILIARY AND SERVICE DEPARTMENTS		
Athletics	High	High & Rising
Auxiliary Enterprise Administration	Low	Low
Bookstore	Low	Low
Housing	Moderate	Moderate
Police	Moderate	Moderate
Recreation & Athletic Centers	Moderate	Moderate
Service Centers Auxiliary	Moderate	Moderate
Special Events Center	Moderate	Moderate
FINANCIAL MANAGEMENT		
Accounting	Low	Low
Accounts Payable	Moderate	Moderate
Accounts Receivable	Low	Low
Capital Asset Depreciation	Low	Low
Cash Handling	Moderate	High
Cash Management	High	High
Closing Process	Low	Low
Expenses	Moderate	Moderate
Financial Management Operations	Low	Low
Financial Reporting	Low	Low
Payroll	Moderate	Moderate
Revenue	Moderate	Moderate
HUMAN RESOURCES DEVELOPMENT		
Human Resources	Moderate	Moderate
INFORMATION TECHNOLOGY		
IT Compliance	High	High
IT Daily Operations	High	High



Risk Area	2017-2018 Risk Level	2018-2019 Risk Level
IT Strategy Planning & Governance	High	High
IT Customer Service	Moderate	Moderate
IT Development & Research	High	High
IT Admin Support	Moderate	Moderate
INSTRUCTION AND ACADEMIC SUPPORT		
Academic Administration	Moderate	Moderate & Rising
Academic IT	Moderate	Moderate
Academic Personnel Administration	Moderate	Moderate
Academic Records Management	Moderate	Moderate & Rising
Academic Reporting	Low	Low
Academic Support	Moderate	Moderate
Course & Curriculum Development	High	High
Instruction	Moderate	Moderate
International Affairs	Low	Moderate
LEADERSHIP AND GOVERNANCE		
Governance	Moderate	High
Institutional Compliance	High	High & Falling
Internal Audit	Low	Low & Rising
Legal	Low	Low & Rising
Strategic Financial Management	Moderate	Moderate
PLANT OPERATIONS AND MAINTENANCE		
Building Maintenance	High	High
Custodial Services	Low	Low
Landscape & Grounds	Low	Low
Major Repair and Renovation	High	High
Motor Pool	Moderate	Moderate
Physical Plant and Administration	Low	Low
Utilities	Moderate	Moderate
PURCHASING		
Purchasing	High	High & Falling
RESEARCH AND DEVELOPMENT		
Animal Research	Low	Low
Research Compliance	High	Moderate
Conflict of Interest	Moderate	Moderate
Export Controls	Moderate	High
Research Facilities & Equipment	Low	Low
Financial Fraud (Research)	Low	Low
Grants Accounting	Moderate	Moderate
Human Subjects Research	Low	Low
Intellectual Property/Technology Transfer	Low	Low



Risk Area	2017-2018 Risk Level	2018-2019 Risk Level
Pre-Award & Award Acceptance	Low	Low
Research Administration	Moderate	Moderate
Research Financial	Moderate	Moderate
Research Quality	Low	Low
Research Safety	Moderate	Moderate
Research Security	High	High
Trademark Licensing	Low	Low
STUDENT SERVICES		
Admissions	Moderate	Moderate
Counseling Services	Moderate	Moderate
Dining	Low	Low
Enrollment Management	Moderate	Moderate
Financial Aid	High	Moderate
Health Services	Low	Low & Rising
Registration	Moderate	Moderate
Student Centers & Activities	Low	Low
Student Judicial Affairs	Low	Low
Student Services Administration	Moderate	Moderate
UNIVERSITY RELATIONS AND ALUMNI AFFAIRS		
External Services	Low	Low
Stakeholder Relations	Low	Moderate

Risk Themes:

The risk themes were developed based on the category of risks outlined in the above risk assessment heat map. The risk themes provide qualitative insights into the changing risk landscape at the University from FY 2017-2018 to FY 2018-2019.

Asset and Risk Management:

The asset and risk management category is comprised of three areas: Emergency Preparedness, Endowment and Development, and Environmental Health and Safety. During discussions with management, DAC was informed that prior year concerns had not been sufficiently addressed for the three areas and the following new concerns dictated a ratings increase for the following two areas:

- *Emergency Preparedness (Moderate & Rising):* The crisis communication for small unexpected events needed improvement and the University did not have a designated storm shelter on campus.
- *Environmental Health and Safety (High):* The University does not have effective procedures and guidelines regulating the purchasing and disposal of hazardous chemicals. Inventory of hazardous chemicals are not being properly documented and labeled. A stockpile of hazardous



chemicals have amassed at the University resulting in a safety hazard for faculty, staff, and students.

Auxiliary and Service Departments:

The Auxiliary and Service Department category is comprised of eight areas: Athletics, Auxiliary, Enterprise Administration, Bookstore, Housing, Police, Recreation & Athletic Centers, Service Centers Auxiliary, and Special Events Center. During discussions with management, DAC was informed that prior year concerns had not been sufficiently addressed for the eight areas and the following new concerns dictated a ratings increase for the following area:

- *Athletics (High & Rising):* While the University has increased its efforts with National Collegiate Athletic Association (NCAA) compliance and initiated an athletics taskforce responsible for oversight of athletics budget, the University was still issued a Level 1-aggravated case letter by the NCAA for lack of control over administration of its athletics program. The resulting penalties will have a long-term impacts on the University's athletic program, financial resources, and ability to meet Florida Board of Governors regulation for the athletics program to be self-sufficient.

While the ratings of the other areas did not change, DAC would like to acknowledge that the Police Department has upgraded all equipment and vehicles for their police force. However, the Police Department has experienced high turnover due to the inability to offer financially competitive salaries compared to other local law enforcement organizations.

Financial Management

The Financial Management category is comprised of twelve areas: Accounting, Accounts Payable, Accounts Receivable, Capital Asset Depreciation, Cash Handling, Cash Management, Closing Process, Expenses, Financial Management Operations, Financial Reporting, Payroll, and Revenue. During discussions with management, DAC was informed that prior year concerns had not been sufficiently addressed for the twelve areas and the following new concerns dictated a ratings increase for the following area:

- *Cash Handling (High):* DAC's 2018 Grape Harvest Advisory Report noted improvements were needed in receipting of cash and management of the change fund. The VP of Finance and Administration indicated during the interview process that this area risk has increased.

While the ratings of the other eleven areas did not change, DAC would like to acknowledge that Moody's Investors Service has FAMU credit rating as stable. Additionally, the University was award \$125 million in capital funding.

Human Resources Development

The Human Resources Development category consists solely of human resources. Over the course of the past year, Human Resources has made improvements in the onboarding process and tracking of leave balances. However, concerns regarding the decentralization of human resources activities between faculty and staff continue to persist. Addition concerns regarding the practice and enforcement of salary agreements with faculty led to human resources maintaining a *Moderate* risk rating.



Information Technology

The Information Technology category is comprised of six areas: IT Compliance, IT Daily Operations, IT Strategy Planning & Governance, IT Customer Service, IT Development & Research, and IT Admin Support. While there was no movement in risk ratings within information technology, DAC would like to acknowledge that Information Technology Services upgraded and hardened all network firewalls, had a gap analysis performed for federal IT compliance for research technology, and obtained funding to begin the process of addressing the issues identified during last year's risk assessment.

Instruction and Academic Support

The Instruction and Academic Support category is comprised of nine areas: Academic Administration, Academic IT, Academic Personnel Administration, Academic Records Management, Academic Reporting, Academic Support, Course & Curriculum Development, Instruction, and International Affairs. During discussions with management, DAC was informed that prior year concerns had not been sufficiently addressed for the nine areas and the following new concerns dictated a ratings increase for the following area:

- *Academic Administration (Moderate & Rising)*: While the University named a permanent Provost during FY 2018-2019, an assessment by Academic Affairs management noted a need for comprehensive evaluations of each college and school. Additional concerns were noted surrounding the management of grants administered by the schools/colleges for compliance.
- *Academic Records Management (Moderate & Rising)*: Concerns were raised regarding effective and efficient records management practices of the Registrar's Office, as well as concerns with the degree audit process at both the school/college and registrar levels.
- *International Affairs (High)*: While the University has policies in place regarding student, faculty, and staff travel abroad; a travel application to assist international travelers; and training to prepare international travelers; not all travelers are utilizing these services. Specifically, concerns were raised regarding several student study abroad trips. Due to the potential safety concerns for our students related to these trips, International Affairs was raised to a high risk rating.

Leadership and Governance

The Leadership and Governance category is comprised of five areas: Governance, Institutional Compliance, Internal Audit, Legal, and Strategic Financial Management. Information gathered during the risk assessment process necessitated rating changes for the following four areas while the risk remained the same in the area of Strategic Financial Management:

- *Governance (High)*: Due to new legislative bills that were passed regarding the requirements for an Internal Control Framework at public institutions and construction carry-forward funds; adequate Board of Trustee trainings; governance of data privacy; and governance of information technology the risk rating was increased to high.
- *Institutional Compliance (High & Falling)*: While concerns remained regarding compliance in many of the areas throughout the University from the previous year, the University did see gains in compliance in athletics, research integrity, and payroll. As the Compliance function continues to mature, DAC has noted a positive change in the culture of compliance within the University.



- *Internal Audit (Low & Rising)*: The Internal Audit function has experienced a division split from Compliance which included the loss of their primary investigator; an increase in scrutiny of activities by the Florida Board of Governors due to incidents at sister institutions in the Florida State University System; and has a need for increased staffing to meet the demands of management requests for assurance and advisory services. All of these items has led to a rating increase of low and rising.
- *Legal (Low & Rising)*: While the Legal area risk remain rather low, the rating was increased to low and rising to reflect concerns regarding the speed at which legal requests are processed and concerns with adequate and timely information being transmitted to the University Insurance Risk Officer for insurance purposes.

Plant Operations and Maintenance

The Plant and Operations Maintenance category is comprised of seven areas: Building Maintenance, Custodial Services, Landscape and Grounds, Major Repair and Renovation, Motor Pool, Physical Plant Administration, and Utilities. While there were no change in risk ratings for any of the seven areas, DAC would like to acknowledge that part of the \$125 million received in Capital Financing will go toward making the needed \$50 million of deferred maintenance. Additionally, FAMU was recommended by the House and Senate to receive full funding for the Center for Academic Student Success building as part of the 2019 Florida Legislative Session. Construction is an area that is receiving heightened oversight and scrutiny by state and federal regulators making the insufficient staffing levels and lack of appropriate construction project management software a concern for the University.

Purchasing

The Purchasing category consists solely of purchasing. While the risk in this area is still significant, controls and improvements put in place by new management within purchasing has led to a lower risk rating of *High & Falling*.

Research and Development

The Research and Development category is comprised of sixteen risk areas: Animal Research, Research Compliance, Conflict of Interest, Export Controls, Research Facilities & Equipment, Financial Fraud (Research), Grants Accounting, Human Subjects Research, Intellectual Property/Technology Transfer, Pre-Award & Award Acceptance, Research Administration, Research Financial, Research Quality, Research Safety, Research Security, and Trademark Licensing. Information gathered during the risk assessment process necessitated rating changes for the following two areas while risk remained the same in all other areas:

- *Research Compliance (Moderate)*: Research does not have a dedicated compliance officer to ensure that all grants meet compliance requirements. The lack of a compliance officer, combined with the lack of attendance of principal investigators at trainings increases the risk of noncompliance for the millions of grants maintained by the University. Additionally, the University has had significant turnover in Sponsored Programs which is charged with the oversight of subcontracts. However, the University has established a compliance committee for research that has been working to implement changes throughout all areas covered under research at the instruction of the Chief Compliance Officer. With increased oversight and no official grant findings issued in this area, the risk rating was lowered from *High* to *Moderate*.



- *Export Controls (High)*: Increased training and oversight of the transport of University electronic devices on university travel, particular by faculty and staff, was noted during the risk assessment process leading to an increased risk rating of *High*.

Student Services

The Student Services category is comprised of ten risk areas: Admissions, Counseling Services, Dining, Enrollment Management, Financial Aid, Health Services, Registration, Student Centers & Activities, Student Judicial Affairs, and Student Services Administration. Information gathered during the risk assessment process necessitated rating changes for the following two areas while risk remained the same in all other areas:

- *Financial Aid (Moderate)*: Financial Aid is an inherently risky area due to the amount of financial transactions that occur each year. Although there is some concerns that remain with the retroactive withdrawal practice of the University that is negatively impacting the return of Title IV funds process, the risk rating was lowered to *Moderate* as a result of recent state and federal audits that showed no issues with Financial Aid processes and procedures.
- *Health Services (Low & Rising)*: While Student Affairs has increased the staffing for mental health services, the location of the mental health office is a deterrent for students who need these critical services. This risk is expected to be addressed in the construction of the Center for Access and Student Success.

DAC would like to acknowledge that Student Affairs has taken over the Academic Advisement Unit and hired five additional advisors to provide students with needed services.

University Relations and Alumni Affairs

The University Relations and Alumni Affairs category consisted of two risk areas: External Services and Stakeholder Relations. While External Services maintained its *Low* risk rating, the risk rating of *Stakeholder Relations* was increased to *Moderate* as a result of concerns related to perceived ineffective institutional controls by key stakeholder groups which could result in reduced fundraising and student recruiting capabilities for FAMU.

DAC would like to acknowledge that the University has improved stakeholder relations with government officials, board of trustees, and the Florida Board of Governors through increased engagement and leadership changes.



Overview of Areas of Risk Identified for Immediate Management Action:

The Division of Audit and Compliance (DAC) seeks to provide management with timely information regarding high risk areas and control deficiencies within the University. As a result, DAC has implemented a new process as part of the risk assessment where we will issue Management Letters to the appropriate executive leadership in areas of risk concerning health or safety or control deficiencies that require action to be started in the immediate future. Management Letters will address the aforementioned areas where executive leadership acknowledged risk or control deficiencies were taking place during the interview process. All issues outlined in the Management Letters will be added to our normal audit finding follow-up process. Therefore, executive leadership is expected to produce an action plan to address all issues outlined in the Management Letters.

The following Management Letters will be issued requesting action plans be developed for follow-up tracking:

- **Environment Health & Safety – Hazardous Lab Chemicals (Interim VP of Research, Charles Weatherford):** There were noted lack of controls regarding the purchasing, inventory, stock piling, and disposal of hazardous lab chemicals. As a result, the University's current stockpile of hazardous chemicals pose a safety risk to faculty, staff, and students. In addition, remediation efforts could result in a financial loss for the University as the cost to dispose of excess chemicals will exceed the asset value.
- **Purchasing – Vendor Contracts (VP of Finance & Administration/CFO):** There were noted lack of controls regarding vendor contract processing and legal reviews.
- **IT Compliance-ADA Website Compliance (VP of Finance & Administration/CFO):** The University website is not fully ADA compliant. As the fines continue to increase in the amount and frequency levied against institutions of higher education for non-compliance the University must take action to ensure compliance.
- **IT Strategy Planning & Governance-IT Governance Committee (VP of Finance & Administration/CFO):** The University lacks an IT Governance Committee that is typically responsible for all major IT decision-making for the University enabling the University to align IT goals, resources and projects with the University's strategic goals and mission through a collaborative approach between IT and business executives.
- **Environmental Health & Safety – Stadium (VP of Finance & Administration/CFO):** The University has not followed its established repair and maintenance plan for the football stadium, completing only one of the five years. The University has already experienced a structural collapse of stands at the stadium where fortunately no injuries occurred. However, due to the continued risk to the safety of faculty, staff, students, and the public who attend stadium events, the maintenance and repair plan needs to be assessed for needed changes, funded, and completed.
- **Emergency Preparedness (VP of Finance & Administration/CFO):** The University lacked a dedicated funding source to cover major emergencies, evacuation and facility agreements for students, and an on campus storm shelter.



3-Year Work Plan (FY 2019 – 2022)

Project Description	Risk Area	Covered in 2018-19	Planned Coverage For Fiscal Year		
			2019-20	2020-21	2021-22
Governance					
Performance Based Funding Metrics	Governance, Academic Reporting, Academic Records Management	X	600	X	X
Review Process for Adopting and Changing Policies	Governance, Legal		160		
Culture & Ethics - Red Book 2110.A1	Governance, Compliance		160		
Effectiveness of Student Success Efforts	Governance, Academic Administration, Academic Support, Student Services Administration			X	
Effectiveness of Customer Service Initiative	Governance, Academic Administration, Academic Support, Student Services Administration, Admissions, Registrar, Financial Aid				X
IT Governance	IT Strategy Planning & Governance				X
Financial					
Athletics - BOT Policy 2005-16 (Section 2)	Athletics		320	X	X
Boosters - BOT Policy 2005-18 (Section 5)	Athletics	X	160	X	X
Decentralized Cash Collections	Cash Handling, Cash Management	X	160	X	X
Knight Foundation Grant Quarterly Expense Review	Financial Management, Grants Accounting		160		
FAMU Foundation: Payment Approval Process	Endowment & Development			X	
P-Card	Financial Management, Purchasing	X			
Athletics Expense Review		X			
Compliance					
Research: Sub-Recipient Monitoring	Research Compliance, Grants Accounting			X	
Export Controls Review	Export Controls		320		
Band Eligibility Compliance Review	Student Centers & Activities, Student Services Administration, Institutional Compliance	X			
IT-DAVID System				X	



Project Description	Risk Area	Covered in 2018-19	Planned Coverage For Fiscal Year		
			2019-20	2020-21	2021-22
Construction: \$125 Million U.S. DOE HBCU Capital Financing Program Loan	Major Repair & Renovation			X	
FAMU Summer Camps	Institutional Compliance, Academic Personnel Administration				X
Operational					
Financial Aid: Department Review	Financial Aid	X		X	
Registrar Office: Department Review	Registration		260		
Admissions Office: Department Review	Admissions				X
Online Education & Support	Academic Administration, Instruction, Academic Support				X
FAMU/FSU College of Engineering	Academic Administration, Academic Support, Course & Curriculum Development, Financial Management		400		
College of Pharmacy	Academic Administration, Academic Support, Course & Curriculum Development, Financial Management			X	
College of Law	Academic Administration, Academic Support, Course & Curriculum Development, Financial Management				X
School of Business & Industry	Academic Administration, Academic Support, Course & Curriculum Development, Financial Management			X	
Licensure Program Assessment	Academic Administration, Course & Curriculum Development, Instruction, Academic Support			X	
Title III: Department Review	Grants Accounting, Research Compliance, Research Administration				X
IT -Active Directory Security & Management	IT Daily Operation	X	80		
IT-Cloud Security (Operations)	IT Daily Operations			X	
IT- Physical Security	IT Daily Operations			X	
IT- ImageNow	IT Compliance, IT Daily Operations				X



Project Description	Risk Area	Covered in	Planned Coverage For Fiscal Year		
			2018-19	2019-20	2020-21
IT - Change Management	IT Development & Research		320		
Construction: P3 Process Review	Major Repair & Renovation				X
Construction: Center for Access & Student Success (CASS)	Major Repair & Renovation		200		
Construction: Source Funding Review	Major Repair & Renovation		180	X	X
Procurement Policy & Procedure Review	Purchasing, Legal, Institutional Compliance			X	
Deferred Maintenance	Major Repair & Renovation				X
Intellectual Property	Intellectual Property/Technology Transfer				X
IT-Cloud Security (Governance)	IT Strategy & Governance	X			
Continuous Monitoring Services					
Athletics Operations & Financial Review (Task Force)	Athletics	X	200	X	X
Faculty & Staff Leave	Academic Personnel Administration, Human Resources		80	X	X
Construction Management Review	Major Repair & Renovation	X			
Total Hours Audits & Assurance		—	3760	—	—
Management Advisory Services					
Athletics Budget Review	Athletics, Financial Management Operations		160		
Textbook Affordability	Academic Administration, Bookstore, Course & Curriculum Development, Academic Reporting	X	80		
Construction: Florida House Recommendations	Major Repair & Renovation, Purchasing		160		
Athletics: NCAA Compliance	Athletics		160		
Band Eligibility Compliance	Student Centers & Activities, Institutional Compliance			X	
Medical Marijuana Program Development	Institutional Compliance, Research Administration	X	80		X
Return of Title IV Funds Process	Financial Aid				X



Project Description	Risk Area	Covered in	Planned Coverage For Fiscal Year		
			2018-19	2019-20	2020-21
Monitor Strengthening of Compliance Program	Institutional Compliance	X			
HR Onboarding & Exit Process Review	Human Resources				X
Enterprise Risk Management	Governance	X	40		
State of Cybersecurity	IT Strategy planning & governance, IT daily Operations, IT Compliance	X	40		
Departmental Training Assistance	Various	X	100	X	X
Audit Liaison with External Auditors	Various	X	100	X	X
Management Requests	Various	X	800	X	X
HCM 9.2 Upgrade Review	Human Resources, IT Compliance, IT Development & Research	X			
Knight Foundation Grant Unallowable Cost Review	Grant Accounting	X			
Total Management Services		—	1720	—	—
Follow-ups, Risk Assessment, and Investigations					
Follow-Up: Audit	Various	X	800	X	X
Follow Up : Investigation	Various	X	400		
Follow-Up: Advisory Services	Various	X	400		
Risk Assessment	Various	X	200	X	X
Investigations	Various	X	1200	X	X
Total Follow-Up, Risk Assessment & Investigations		—	3000	—	—
Internal Audit Administration					
Professional Development	Internal Audit	X	695	X	X
Divisional Admin Projects	Internal Audit	X	1280	X	X
Whistle Blower Training	Internal Audit		80		
General	Internal Audit	X	3500	X	X
Leave	Internal Audit	X	525	X	X
Total Internal Audit Administration		—	6080	—	—
Total All Hours		—	14560	—	—

APPENDICES

APPENDIX A – RISK ASSESSMENT SCOPE AND METHODOLOGY

The **scope** of the engagement included assessing changes in risk levels from August 2018 to May 2019.

While completing this year’s risk assessment, we met with the senior management team to identify risk spheres in which the University’s risk changed from the prior year’s risk assessment as a result of new programs or initiatives implemented during 2018-19 to mitigate risks, and changes that could adversely impact risks, such as legislation or other factors. We also considered the results of various Division of Audit & Compliance audits, investigations, and advisory activities that disclosed risks or mitigating controls affecting risk. Further consideration was given to the results of external audits and assessments, such as the operational audit performed by the Office of the Auditor General and the May 21, 2019, NCAA Florida A&M University Infractions Decision.

The **methodology** included:

The development of the Risk Assessment Matrix is a three-step process:

1. Determine the risk universe for FAMU;
2. Determine the likelihood of occurrence having a material impact on the University; and
3. Risk definition (low, moderate and high).

Risk Universe

The risk universe was compiled using a standard risk universe for Universities and adjusting for operations applicable to FAMU. The adjustments to the risk universe were made from our knowledge and experience with the University’s operations, prior internal audit reports, and from discussions with executive staff and department management.

Likelihood of Material Impact of Occurrence

Likelihood

The risk related to each category was scored based on the likelihood of having a material impact on the University. Likelihood was assessed based on the risk assessment survey each department’s management completed which assessed the controls that are in place to mitigate risks related to that particular category. Improper, incomplete, or insufficient controls increased the likelihood that a risk event could occur in that area.



Impact

DAC determined the impact of the control not being in place by information gathered through the leadership interview process; DAC's review of audits, investigation and advisory work related to the department performed during FY 2018-19; and knowledge obtained through information sharing with DAC staff from management, staff, faculty, and others. The information gathering process allowed DAC to determine if the impact to the University would be Low, Moderate, or High:

- **Low Impact:** Loss of confidence limited to 1 stakeholder group (students, faculty, Board of Governors, Board of Trustees, donors, alumni, SACS, USDOE, etc.); Minimum refinements or adjustments to University's operating plans and execution; Minor interruptions to University operations; Management unaffected; Minimal liabilities; Limited or no Regulatory attention; Financial Impact is less than \$1 million
- **Moderate Impact:** Loss of confidence limited to 2 stakeholder groups; 1 or more changes in senior leadership; Significant changes to University's operating plans and execution; Moderate interruptions to University operations; Legal reserve established; Regulatory investigation; Financial impact of \$1M-\$10M
- **High Impact:** Loss of confidence by 3 or more stakeholder groups; 2 or more changes in senior leadership; Potential closing of University; significant changes to University's strategic plan; Significant interruptions to University operations or inability to continue normal operations across the entire University; Management challenges; Large-scale legal actions or liabilities; Regulatory fines or sanctions; Financial impact of more than \$10 million

Additionally, DAC identified in certain cases where the risk impact was falling or increasing but not enough to change the actual risk rating.



APPENDIX B – RISK ASSESSMENT INTERVIEW LIST

INTERVIEW DATE/TIME	NAME	DEPARTMENT/DIVISION
April 25, 2019 9:00 AM - 10:00 AM	Charles Weatherford	Vice President Research
April 25, 2019 :00 PM - 2:00 PM	Wanda Ford	Vice President Administrative & Financial Services
April 25, 2019 4:15 PM – 5:15 PM	Maurice Edington	Provost & Vice President for Academic Affairs
April 29, 2019 8:30 AM - 9:30 AM	Sameer Kapileshwari	Associate Vice President Facilities, Planning, Construction and Safety
April 29, 2019, 10:30 AM - 11:30 AM	Rica Calhoun	Compliance Officer
May 1, 2019 1:00 PM - 2:00 PM	John Eason	Athletic Director
May 3, 2019 8:30 AM - 9:30 AM	William Hudson, Jr.	Vice President Student Affairs
May 3, 2019 1:00 PM - 2:00 PM	Craig Reed	Chair of Audit Committee, Board of Trustees
May 6, 2019 9:30 AM - 10:30 AM	Archie Bouie III	Associate Vice President, Administrative and Financial Services
May 6, 2019 2:30 PM - 3:30 PM	Ronald Henry	CIO & Associate Vice President EIT
May 7, 2019 3:00 PM - 4:00 PM	Shawnta Friday-Stroud	Vice President University Advancement
May 8, 2019 9:00 AM - 10:00 AM	Joyce Ingram	Assistant Vice President and Chief Human Resources Officer
May 8, 2019 3:30 PM - 4:30 PM	Shira Thomas	Office of General Counsel
May 9, 2019 9:00 AM - 10:00 AM	Terrance Calloway	Chief of Police
May 9, 2019 10:30 AM - 11:30 AM	Kelvin Lawson	Chair, Board of Trustees
May 9, 2019 2:00 PM - 3:00 PM	Larry Robinson	President
May 10, 2019 2:00 PM - 3:00 PM	Beverly Barrington	Vice President, Strategic Planning, Analysis & Institutional Effectiveness
May 13, 2019 4:00 PM - 5:00 PM	Kathy Times	Executive Director, Office of Communications



APPENDIX C – WORK PLAN DEVELOPMENT SCOPE AND METHODOLOGY

The **scope** of the Division of Audit work plan is a three year period covering fiscal years 2019-2020, 2020-2021, and 2021-2022.

The **methodology** for developing the work plan included the following steps:

1. Perform Risk Assessment;
2. Conduct DAC Work Plan Brainstorm Meeting;
3. Identify work plan initiatives and risk items to be addressed immediately through management letters based of Steps 1 and 2;
4. Compile a draft of the work plan; and
5. Finalize work plan.



DISTRIBUTION

Responsible Manager:

Larry Robinson, Ph.D., President

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- John Eason, Director, Athletics
- Kathy Y. Times, Director, Communications, Marketing, and Media Relations

External Distribution:

Julie Leftheris, Inspector General and Director of Compliance, Board of Governors



PROJECT TEAM

Engagement was conducted by:

Project Lead

- Deidre Melton, CFE, CIA, CISA, CISM, CRISC, Internal Auditor/Investigator

Project Staff

- Jessica Hughes, CCA, CFE Audit Services/Investigations Administrator
- Ruoxu Li, CIA, CISA Audit Services/Investigations Administrator
- Carl Threatt, CIA, CRMA, CIGA, CIGI, Audit Services/Investigations Administrator
- William Knight, CIGA, Internal Auditor/Investigator

Approved by:

Joseph K. Maleszewski, MBA, CIA, CGAP, CISA, CIG, CIGA, CIGI, CCEP
Vice President for Audit and Compliance

STATEMENT OF ACCORDANCE

The Division of Audit and Compliance's mission is to provide independent, objective assurance and consulting services designed to add value and improve the University's operations. It helps the University accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

We conducted this risk assessment and work plan development in accordance with the International Standards for the Professional Practice of Internal Auditing. Those standards require we plan and conduct a risk assessment to use as a basis for the development of the audit work plan aligned with university goals. We believe the evidence obtained provides a reasonable basis for our risk assessment, work plan, and conclusions based on our objectives.

Please address inquiries regarding this report to the Division of Audit and Compliance at (850) 412-5479.

<http://www.famu.edu/index.cfm?AuditandCompliance&AboutAuditandCompliance>

Report #18-19-0001

Advisory Service Report

2018 FAMU Grape Harvest Festival

Cash Collections



May 3, 2019

Division of Audit and Compliance

Joseph K. Maleszewski, MBA, CIA, CGAP, CISA, CIG, CIGA, CIGI, CCEP
Vice President for Audit and Compliance



Advisory Service #18-19-0001

EXECUTIVE SUMMARY

WHAT WE DID

We reviewed the on-site cash collection procedures for the August 2018 FAMU Grape Harvest Festival. In addition we reviewed physical safety plans, food vendor liability insurance, volunteer authorization and training, and outside employment approval for this event.

WHAT WE FOUND

The cash collection process, in general, was satisfactory and internal controls were in place and operating as intended to ensure cash collected was fully accounted for, safeguarded, properly deposited, and reconciled. Furthermore, controls over physical safety plans, food vendor liability insurance, volunteer authorization and training, and outside employment approvals were appropriate.

OPPORTUNITIES FOR IMPROVEMENT

To increase the efficiency and record keeping accuracy for on-site cash collections for the 2019 Grape Harvest Festival, we recommend the Grape Harvest Festival Executive Committee work with the FAMU Controller's Office and other University departments, as appropriate, to consider the following items:

- Accepting credit cards as an additional source of payments;
- Implementing an alternate method for receipting cash such as use of pre-numbered double roll tickets color-coded to each festival activity;
- Assigning additional volunteers to assist with non-cash-collection gate duties; and
- Obtaining a sufficient change fund in accordance with the University's *Cash Collection and Controls Manual*.



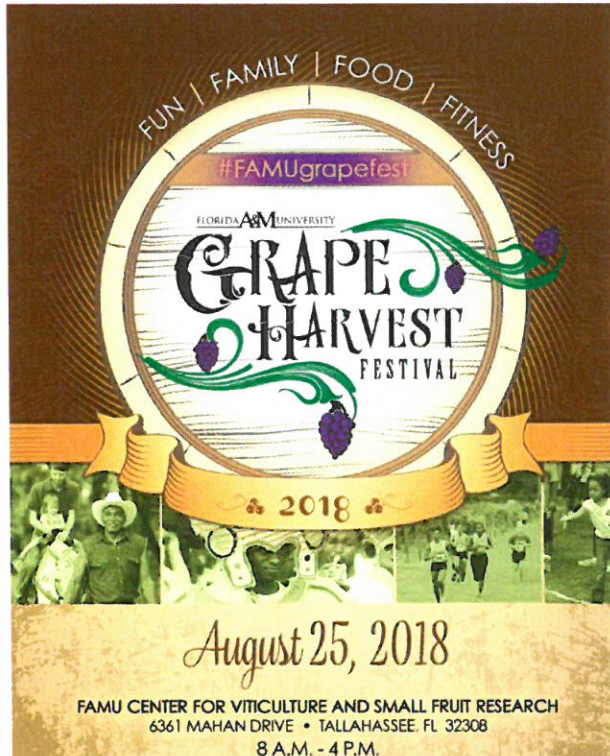
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BACKGROUND

The 18th Annual Grape Harvest Festival was held at the FAMU Center for Viticulture and Small Fruit Research (CVSFR) on Saturday, August 25, 2018. The Festival was in recognition of FAMU's role as a national leader in viticulture research.



Featured activities included:

- Grape stomping contest;
- Kids petting zoo;
- Water slides;
- Grape throwing competition;
- Grape and wine sampling;
- Hula hoop competition;
- Live entertainment;
- 5K/2K vineyard run and walk-a-thon;
- Grape picking;
- Health fair; and
- More than 60 community exhibitors and vendors.

The festival generated a total of \$8,247 from vendors and attendees. Of the proceeds, \$3,164 was collected via the University Foundation online giving system and \$5,083 was collected onsite at the festival.

Festival guests were able to pay for general admission and fee-charging events on the Festival's website using credit cards before August 22, 2018. Only cash was accepted onsite on the day of the event. The University Foundation managed the onsite cash collection process.



The 2018 Grape Harvest Festival was led by the Executive Committee members listed below.

Executive Committee:

- Sharon Robinson, Honorable Chair
- Robert Taylor, Ph.D., Chair
- Violeta Tsoleva, Ph.D., Coordinator
- Angela Harper, Administrative Assistant

Members:


Audrey Alexander	Kenneth Kirksey
Anthony Ananga	Stephen Leong, Ph.D.
Andrew Berry	Darlene Moore
Mildred Brickler, DPT	Vonda Richardson
Bradley Close	Zubair Shahid
Carmen Cummings	Mehboob Sheikh
Islam El-Sharkawy	David Smithwick
Freddie Hall	Cristopher Thomason
Frank Humphries	Sabrina P. Thompson
Kendall Jones	Pamela C. Zackery



OBSERVATION

Observation 1: Cash Collections	
Element	
Criteria	<p>FAMU related cash collections must conform to the requirements contained in the Division of Administrative and Financial Services, Office of the Controller Cash Management Department, <i>Cash Collection and Controls Manual</i> (Revised March 2016). This manual, among other requirements, ensures that the following internal control objectives for cash collections are achieved:</p> <p>Accountability – Ensure cash transactions are authorized, properly accounted for, documented and identifiable to specific cash handlers.</p> <p>Safeguarding – Cash collected during the event and in transition for deposit are safeguarded.</p> <p>Segregation of duties – Separating cash handling duties including collecting, depositing, recording, and reconciling among different people.</p> <p>Reconciliations – Ensure all transactions are recorded correctly and completely.</p>
Condition	<p>The cash collection process, in general, was satisfactory and internal controls were in place and operating as intended to ensure cash collected was fully accounted for, safeguarded, properly deposited, and reconciled. However, total cash collections of \$5,083 exceeded the \$4,119 total receipted amount by \$964.</p>
Cause	<p>Cash collections exceeded receipted amounts because:</p> <ul style="list-style-type: none"> • Some cash was collected without a receipt being issued; and • Some prepared receipts were illegible because cash collectors did not always use a divider barrier between the carbonless receipts. <p>Factors contributing to these receipting issues included:</p> <ul style="list-style-type: none"> • A large number of attendees at the payment booth during peak times; • Cashiers multi-tasking with other festival duties (i.e., providing information and passing out registration forms); and • Insufficient change fund for each cashier both in terms of overall dollar amount and denominations.
Effect	<p>Receipting issues increase the cash collections risks such as not accounting for all funds collected and the risk of cash being misappropriated without detection.</p>



Element	Observation 1: Cash Collections
Recommendation	<p>We recommend that the 2019 Grape Harvest Festival Executive Committee consider:</p> <ul style="list-style-type: none"> • Accepting credit cards as an additional source of payments; • Implementing an alternate method for receipting cash such as use of pre-numbered double roll tickets color-coded to each festival activity; • Assigning additional volunteers to assist with non-cash-collection gate duties; and • Obtaining a sufficient change fund in accordance with the University’s <i>Cash Collection and Controls Manual</i>. 
Mgmt. Response	<p>“Please be advised that in my capacity of the event coordinator I am in agreement with the evaluation and the recommendations presented in the Advisory Service Report "2018 FAMU Grape Harvest Festival" Cash Collections.</p> <p>The following improvement plan will be discussed with the 2019 FAMU Grape Harvest Festival Committee and presented for implementation:</p> <ul style="list-style-type: none"> • Office of Continuing Education will manage on line registration and on-site cash collections for the event. • Pre-numbered double roll color-coded tickets will be utilized as method for receipting for on-site cash collections. • Adequate numbers of volunteers will be secured for non-cash collations duties at on-site registration. • Adequate change fund will be provided in accordance with the University's cash Collection and Controls Manual.”

In addition to our observation regarding cash collections, we reviewed physical safety plans, food vendor liability insurance, volunteer authorization and training, and outside employment approvals for this event.

Physical Safety Plans:

The Festival’s Executive Committee developed procedures to address safety and security issues including parking, traffic control, fire safety, equipment use, temporary alcohol use, and medical emergencies. The goal was to prevent University property from damage and harm and protect participating individuals from injury and accidents. The detailed safety plan and procedures were reviewed and approved by Leon County emergency services (Tallahassee Fire Department, Leon County Sheriff’s Office, Leon County Emergency Medical Services, and Leon County Public Works) as part of the Special Events Permit application approval process. The Festival safety aspects were



reviewed and approved by the University internal facilities request review process which included team members from FAMU Police, Risk Management, Plant Operations and Maintenance, and Fire Safety. Accordingly, the physical safety risks were adequately addressed.

Food Vendor Liability Insurance:

Five outside food vendors participated in the 2018 Grape Harvest Festival were required to obtain proper *Certificate of Liability Insurance* including coverage on personal injury, property damage, and medical expenses. Food vendor insurance coverage was reviewed and approved by University Risk Management to ensure adequate coverage. Accordingly, risks associated with food vendor liability insurance were adequately addressed.

Volunteer Authorization and Training:

The volunteer authorization process ensured volunteers signed the University volunteer form and received training regarding their roles and responsibilities. For each volunteer reviewed, we found a properly approved volunteer form on file. Processing the form provides volunteers with state liability protection (Section 768.28, F.S.) and workers' compensation (Chapter 440, F.S.) coverages. We also noted that the volunteers attended the mandatory volunteer orientation meeting and training on August 23, 2018. Accordingly, volunteer authorization and training were appropriate.

Outside Employment Approval:

We reviewed compliance with University Regulation 10.122 regarding outside employment activities or financial interests. Such activities or interests can interfere with an employee's obligations to the University. The Regulation requires outside employment be approved by the employee's supervisor to ensure that the outside employment does not conflict with or interfere with an employee's University work responsibilities. Employees must have an approved *Request for Approval of Additional Employment* form before they can be paid additional compensation for working at the 2018 Grape Harvest Festival.

Our review disclosed that the following four FAMU employees received additional compensation for collecting cash at the Festival.

- Sharon E. Brooks, Office Manager
- Kimberly L. Brown, Senior Fiscal Assistant
- Andre Crumity, Senior Fiscal Assistant
- Monica Hobbie, Administrative Assistant

Each of the employees had completed the required *Request for Approval of Additional Employment* form with appropriate approvals. Their hours of work were monitored by the Director of Center for Viticulture and Small Fruit Research (CVSFR) and their cash collection processes were supervised by Senior Director of Finance Operations of Foundation. Accordingly, outside employment approvals were in place and appropriate.

APPENDICES

APPENDIX A – PURPOSE, SCOPE, AND METHODOLOGY

The **purpose** of this advisory service was to review the effectiveness of the University's processes, controls, and procedures used to manage the 2018 Grape Harvest Festival and provide recommendations for improvement in the following areas:

1. Cash collections and management;
2. Physical safety plans;
3. Food vendor liability insurance;
4. Volunteer authorization and training; and
5. Outside employment approvals.

The **scope** of the engagement was the 2018 Grape Harvest Festival event and related planning processes.

The **methodology** included obtaining an understanding of the internal controls by interviewing University personnel and, as appropriate, applying procedures to determine that internal controls were working as designed, and to determine the University's compliance related to our objectives. We reviewed the Foundation's detailed cash collection procedures; observed the cash collection activities onsite; and examined records related to cash collected, deposited, reconciled, and recorded. These procedures included reviewing policies and procedures, prior and current years' event records, walkthroughs, interviews, onsite-observation, and testing of selected transactions.



APPENDIX B – MANAGEMENT RESPONSE



FLORIDA A&M UNIVERSITY
**VITICULTURE
& SMALL FRUIT RESEARCH**
COLLEGE OF AGRICULTURE AND FOOD SCIENCES

Attention: Joseph K. Maleszewski
Vice President for Audit and Compliance
Florida A&M University

RE: Advisory Service Report "2018 FAMU Grape Harvest Festival" Cash Collections

Dear Sir,

Please be advised that in my capacity of the event coordinator I am in agreement with the evaluation and the recommendations presented in the Advisory Service Report "2018 FAMU Grape Harvest Festival" Cash Collections.

The following improvement plan will be discussed with the 2019 FAMU Grape Harvest Festival Committee and presented for implementation:

- ✓ Office of Continuing Education will manage on line registration and on-site cash collections for the event.
- ✓ Pre-numbered double roll color-coded tickets will be utilized as method for receipting for on-site cash collections.
- ✓ Adequate numbers of volunteers will be secured for non-cash collations duties at on-site registration.
- ✓ Adequate change fund will be provided in accordance with the University's cash Collection and Controls Manual.

Respectfully, Violeta Tsoleva

Dr. Violeta M. Tsoleva - Professor and Director | Center for Viticulture and Small Fruit Research,
Florida A&M University | 6361 Mahan Drive, Tallahassee, FL 32308 | Phone: (850) 599-3996,
(850) 412-7394 Fax: (850) 5612617, E-mail: Violeta.Tsoleva@fam.u.edu | [www.fam.u.edu/
Viticulture](http://www.fam.u.edu/Viticulture)



DISTRIBUTION

Project Manager:

Dr. Violeta M. Tsolova, Associate Professor, Land Grant Matching Research
Coordinator – 2018 FAMU Grape Harvest Festival

Internal Distribution:

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- Sharon Robinson, Honorable Chair of the 2018 Grape Harvest Festival
- Dr. Maurice Edington, Provost and Vice President for Academic Affairs
- Dr. Shawnta Friday-Stroud, Vice President, University Advancement and Executive Director, FAMU Foundation
- Dr. Robert Taylor, Dean, FAMU College of Agriculture and Food Sciences
- Juanita Johnson, Senior Director of Finance Operations of FAMU Foundation
- Angela Harper, Administrative Assistant, FAMU College of Agriculture and Food Sciences, CVSFR

External Distribution:

Julie Leftheris, Inspector General and Director of Compliance, Board of Governors



PROJECT TEAM

Engagement was conducted by:

Ruoxu Li, CIA, CISA, Audit Services/Investigations Administrator

Approved by:

Joseph K. Maleszewski, MBA, CIA, CGAP, CISA, CIG, CIGA, CIGI, CCEP
Vice President for Audit and Compliance

STATEMENT OF ACCORDANCE

The Division of Audit and Compliance's mission is to provide independent, objective assurance and consulting services designed to add value and improve the University's operations. It helps the University accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

We conducted this advisory service in accordance with the International Standards for the Professional Practice of Internal Auditing and Generally Accepted Government Auditing Standards. Those standards require we plan and perform the advisory service to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our engagement objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our objectives.

Please address inquiries regarding this report to the Division of Audit and Compliance at (850) 412-5479.

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Report #18-19-0002

Advisory Service Report

Enterprise Risk Management



May 20, 2019

Division of Audit and Compliance

Joseph K. Maleszewski, MBA, CIA, CGAP, CISA, CIG, CIGA, CIGI, CCEP
Vice President for Audit and Compliance



Advisory Service 18-19-0002

EXECUTIVE SUMMARY

WHAT WE DID

We studied the value proposition of implementing Enterprise Risk Management (ERM) practices at Florida A&M University (FAMU). This engagement included review of the benefits of implementing an ERM program as well as an assessment of FAMU's current risk management practices. We also made recommendations regarding ERM program implementation, structure, costs, and timeline.

WHAT WE FOUND

We found that FAMU uses a traditional risk management approach but would benefit from implementing an ERM program through a phased approach.

OPPORTUNITIES FOR IMPROVEMENT

FAMU's risk management practices could be improved by:

- Appointing an executive ERM sponsor – Chief Risk Officer with established administrative and functional reporting lines;
- Establishing an ERM framework;
- Establishing an ERM Advisory Committee, perhaps as a subcommittee to the Enterprise Compliance Committee;
- Implement an ERM software management system;
- Establishing a risk tolerance/appetite statement;
- Performing an enterprise-wide risk assessment fully aligned with the University's strategic plan and performance funding goals; and
- Establishing risk treatment plans with periodic monitoring.



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BACKGROUND

Risk Management and Enterprise Risk Management:

Risk management is those processes that ensure university management and the board of trustees identify, assess, manage, and control potential events or situations to provide reasonable assurance regarding the achievement of institutional objectives. Enterprise Risk Management (ERM) is a business process, led by senior leadership and the board, that extends the concepts of risk management to include identifying risks across the entire enterprise; assessing the impact of risks to the operations and mission; developing and practicing response or mitigation plans; monitoring the identified risks, holding the risk owner accountable, and consistently scanning for emerging risks. ERM can be viewed as an extension of traditional risk management with the hallmarks of a good ERM program including:

- Enterprise-wide Approach;
- Executive-level Sponsorship;
- Defined Accountability;
- Intentional, Systematic, and Structured;
- Defined risk tolerance/appetite;
- Establishment and communication of risk management process goals and activities; and
- Monitored treatment plans (i.e., avoidance, accept and monitor, reduce the likelihood, reduce the impact, or transfer).

The underlying premise of ERM is that every institution exists to provide value for its stakeholders and all institutions face uncertainty. The challenge for our board and leadership team is to determine how much uncertainty to accept as we strive to grow stakeholder value. Uncertainty presents both risk and opportunities, with the potential to erode or enhance value.

ERM is widely adopted by industry and required of all federal agencies. However, only about a quarter of institutions of higher education employ some form of ERM. Within the higher education space, the Association of Governing Boards, United Educators, and the National Association of College and University Business Officers (NACUBO) each advocate for and provide supporting resources for ERM programs.

Many key higher education risks such as hazing, underage drinking, mass shootings, sexual assault, and cybersecurity would not be in the purview of the traditional risk manager but would be given consideration under an ERM program. Experience tells us that an institution of higher education cannot effectively manage risk in silos as no one area, in and of itself, is equipped to handle the myriad of risks the institution faces.



ERM Standards:

The Committee on Sponsoring Organizations of the Treadway Commission (COSO) ERM framework is one of two widely accepted risk management standards organizations use to help manage risks:

- COSO *Enterprise Risk Management – Integrating with Strategy and Performance*: Focuses on the importance of considering risk in both the strategy-setting process and in driving performance.
- ISO 31000 – *Risk Management*: A family of standards relating to risk management codified by the International Organization for Standardization.

The following diagram provides an overview of *Enterprise Risk Management – Integrating with Strategy and Performance*'s five interrelated components and 20 principles.



Enterprise Risk Management Framework: Integrating with Strategy and Performance © 2017 Committee of Sponsoring Organizations of the Treadway Commission (COSO). All rights reserved. Used with permission.

Integrating ERM with business practices results in better information that supports improved decision-making and leads to enhanced performance. It helps organizations to:

- Anticipate risks earlier or more explicitly, opening up more options for managing the risks;
- Identify and pursue existing and new opportunities;
- Respond to deviations in performance more quickly and consistently;
- Develop and report a more comprehensive and consistent portfolio view of risk; and
- Improve collaboration, trust, and information-sharing.



Internal Audit's Role:

The Division of Audit and Compliance (DAC) began this study as part of our professional obligations under professional auditing standards. In pertinent part, professional audit standards¹ tell us that the internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes while refraining from assuming any management responsibility by actually managing risks. The auditor's role is determining whether risk management processes are effective by assessing whether:

- Institutional objectives support and align with the institution's mission;
- Significant risks are identified and assessed;
- Appropriate risk responses are selected that align risks with the institution's risk appetite; and
- Relevant risk information is captured and communicated in a timely manner across the institution, enabling staff, management, and the board to carry out their responsibilities.

State University System of Florida Board of Governors' ERM Focus:

In the fall of 2017, the State University System of Florida Board of Governors surveyed member institutions regarding their risk management practices to determine if the institutions:

1. Utilized traditional risk management practices to manage risks;
2. Communicated risks to senior management;
3. Maintained an enterprise-level risk inventory;
4. Had a board-level committee responsible for risk management;
5. Had a management-level risk committee;
6. Had an enterprise risk management (ERM) governing document; and
7. Board of Trustees communicated a risk tolerance/appetite.

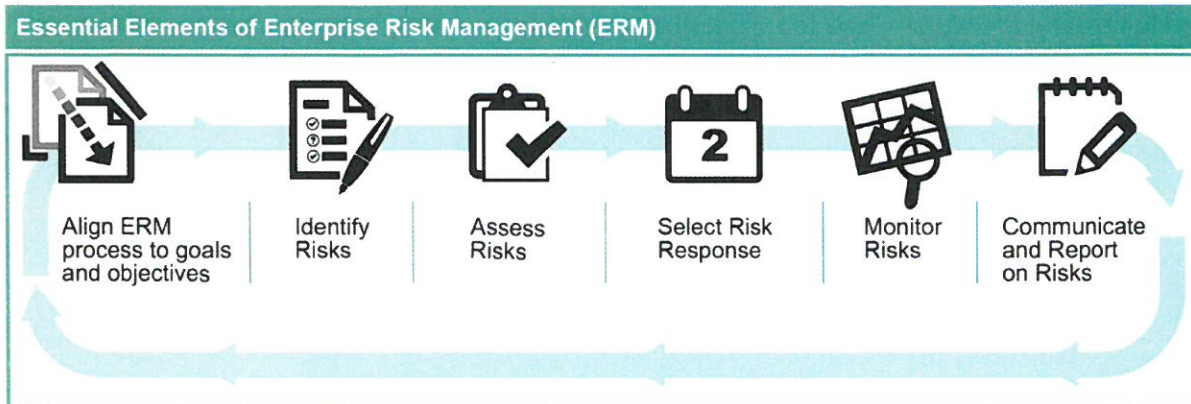
At that time, FAMU only had two of the seven surveyed areas implemented, including traditional risk management (Item 1) and assigning the Board of Trustees Audit and Compliance committee the responsibility of risk management (Item 4). However, as we will cover in the observations section of this report, FAMU already has some essential building blocks for an ERM program in place.

¹ International Standards for the Professional Practice of Internal Auditing, Standard 2120 – Risk Management



Federal Government Focus on ERM:

In July 2016, the Office of Management and Budget (OMB) issued Circular No. A-123 requiring federal agencies to implement ERM to ensure federal managers are effectively managing risks that could affect the achievement of agency strategic objectives. In addition, the Government Accountability Office (GAO) has studied ERM best practices in federal agencies and the graphic below depicts the best practices process they recommend.





OBSERVATIONS

Based on the scope of work and methodologies outlined in Appendix A, we make our observations in the following areas:

- Benefits of implementing an ERM program at FAMU;
- Risk tolerance/appetite;
- FAMU's current risk practices;
- FAMU's status on implementing ERM best practices;
- Recommended ERM program structure;
- Estimated cost for implementing a FAMU ERM program; and
- Recommended ERM implementation timeline.

Benefits of Implementing an ERM Program at FAMU:

The ability of FAMU to transform current risk management practices into an ERM program would allow for the University to develop a systematic approach for monitoring and measuring risk related to the achievement of strategic plan and performance funding goals. According to COSO, implementation of an ERM program could provide the University the following benefits:

- **Increasing the range of opportunities:** By considering all possibilities—both positive and negative aspects of risk—management can identify new opportunities and unique challenges associated with current opportunities.
- **Identifying and managing risk entity-wide:** Every entity faces myriad risks that can affect many parts of the organization. Sometimes a risk can originate in one part of the entity but impact a different part. Consequently, management identifies and manages these entity-wide risks to sustain and improve performance.
- **Increasing positive outcomes and advantage while reducing negative surprises:** Enterprise risk management allows entities to improve their ability to identify risks and establish appropriate responses, reduce surprises and related costs or losses, while profiting from advantageous developments.
- **Reducing performance variability:** For some, the challenge is less with surprises and losses and more with variability in performance. Performing ahead of schedule or beyond expectations may cause as much concern as performing short of scheduling and expectations. Enterprise risk management allows organizations to anticipate the risks that would affect performance and enable them to put in place the actions needed to minimize disruption and maximize opportunity.
- **Improving resource deployment:** Every risk could be considered a request for resources. Obtaining robust information on risk allows management, in the face of finite resources, to assess overall resource needs, prioritize resource deployment and enhance resource allocation.



- **Enhancing enterprise resilience:** An entity’s medium- and long-term viability depends on its ability to anticipate and respond to change, not only to survive but also to evolve and thrive. This is, in part, enabled by effective enterprise risk management. It becomes increasingly important as the pace of change accelerates and business complexity increases.

Beyond these COSO-identified benefits, implementing an ERM program ahead of possible Board of Governor’s regulations allows FAMU time to fully develop a program that is optimal to the University’s structure, goals, and financial constraints at a measured pace that is conducive to current operations. A phased ERM program implementation would allow the University time to adequately train all leadership, faculty, and staff on ERM principles, their roles in the process, and effect a positive cultural change in the way the University does business.

Risk Tolerance/Appetite:

The University of Alberta has an institutional risk tolerance statement² that could be used as a model for a FAMU Board of Trustees risk tolerance/appetite statement. This policy provides a quantitative and qualitative approach to communicating risk tolerance in the following key risk areas:

- Reputation,
- Infrastructure (financial and physical),
- Education/research,
- Human resources, and
- Safety/security.

Adapted to FAMU’s environment and needs, this risk tolerance statement would provide an effective method for communicating risk tolerance, mitigation, and escalations procedures based on the likelihood and impact of certain risks being realized. This is an important step for the Board of Trustees in implementing a board-driven risk approach. A risk tolerance statement sets the tone by defining the Board of Trustees’ risk appetite on a continuum that ranges from risk averse, to risk neutral, to risk aggressive.

Establishing a risk tolerance/appetite statement is an important step to driving risk-aware decision making.

² <https://policiesonline.ualberta.ca/PoliciesProcedures/Procedures/Risk-Management-Policy-Appendix-A-Institutional-Risk-Tolerance-Statement.pdf>



The graphic below highlights the relative placement of establishing risk tolerance/appetite along an ERM maturity continuum from risk-naïve to risk-enabled.



FAMU’s Current Risk Practices:

FAMU’s risk management currently focuses on mitigating the loss of physical and financial assets within each department. FAMU does not have a comprehensive process in place for coordinating risk management actions across departments; requiring identification, reporting, and monitoring of risks; or that require management and staff to consider risk factors in their decision making processes. The Division of Strategic Planning, Analysis, and Institutional Effectiveness does, however, conduct ongoing evaluations of administrative and academic units and makes recommendations for increasing efficiency and effectiveness. These evaluations provide some insight into the risks facing the University.

While not specifically a risk management activity, the Division of Audit and Compliance annually conducts two risk assessments. The first is focused on identifying risks to allocate limited audit resources and ensure appropriate audit coverage. This risk assessment focuses on financial, strategic, compliance, and operational risks across the University. The second risk assessment is performed by the DAC’s compliance function.³ This compliance risk assessment goes in-depth into compliance issues identified by University vice presidents, associate vice presidents, directors, and compliance coordinators. The University’s Enterprise Compliance Committee assigns risk owners for each identified compliance risks and works with the owners to implement risk mitigation plans. University executive leadership is provided updates on the status of these mitigation efforts.

³ The Compliance function will be removed from the Division of Audit and Compliance effective July 1, 2019, and therefore these two risk assessments will be performed by separate functional units in the future.



FAMU’s Status on Implementing ERM Best Practices:

The following table provides a status of FAMU’s implementation of 6 key ERM best practices. The comments section of the table provides details and information relevant to implementing these best practices at FAMU.

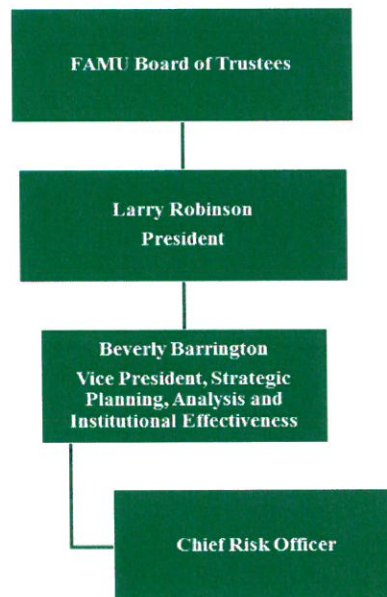
Best Practice	Implemented at FAMU	Comments
1. Establish an ERM Framework	No	The University has not established an enterprise risk management framework. There are two widely accepted risk management standards: COSO and ISO 31000. We recommend FAMU use the COSO ERM Framework for implementation, as it aligns more directly with the University’s focus on strategic plan and performance goals. The ISO 31000 risk management guidelines can be used to provide enhanced guidance around the COSO ERM Framework.
2. Appoint an Executive ERM Sponsor	No	The University has not appointed an Executive ERM Sponsor. However, Mrs. Beverly Barrington, Vice President of Strategic Planning, Analysis, and Institutional Effectiveness agrees that her role would be suitable to serve as the executive sponsor with the Chief Risk Officer (when appointed) housed within her division.
3. Formed a Risk and Compliance Council with accompanying charter	Partially	The University formed an Enterprise Compliance Committee (ECC) that is led by the University’s Chief Compliance Officer. The ECC is comprised of approximately 30 individuals made up of vice presidents, associate vice presidents, directors, and compliance coordinators through-out the University, ensuring that the Committee has a presence and representation throughout the University. The ECC has established a comprehensive process for assessing and identifying compliance risk, identifying risk owners, developing risk mitigation plans, and monitoring plan completion. Additionally the ECC regularly provides advice and feedback to leadership on compliance and risk matters.
4. Develop an Annual Risk Heat Map	Yes	DAC creates two annual risk heat maps. The first heat map is developed by the Chief Audit Executive and encompasses University financial, operational, compliance, and strategic risks. The second heat map is led by the Chief Compliance and Ethics Officer and provides a more focused evaluation of University compliance issues. Implementation of ERM would task the Chief Risk Officer (once appointed) with developing a comprehensive risk heat map aligned to the University’s strategic plan and performance goals.
5. Triennial Enterprise-Wide Risk Assessment Performed	Partially	DAC performs an enterprise-wide annual risk assessment limited in scope to support allocation of audit resources each fiscal year and not designed to align fully with the University’s strategic plan or performance goals.
6. Risk Mitigation Follow-up Process in Place to address identified risks	Partially	DAC will perform assurance activities, consulting services, and compliance reviews in areas of high risk which often results in management implementing risk mitigation processes. However, there is no requirement currently, for management to mitigate moderate or high risk factors outlined during the risk assessment process performed by the DAC.



Recommended ERM Program Structure:

Our recommended structure for enterprise risk management would include the following:

- **Appoint a Chief Risk Officer:** Appoint a Chief Risk Officer (CRO) from within the University community. Gallagher Higher Education Practice stated in their, *Road to Implementation: Enterprise Risk Management for Colleges and Universities* report, “The ERM leader is often appointed from an existing position rather than from outside the institution. Internal candidates are most familiar with the institution and have already established relationships with key individuals. They know how to get things done, which is invaluable for large scale initiatives.”
- **Establish Administrative and Functional Reporting Lines:** The CRO would report administratively to the Vice President of Strategic Planning, Analysis, and Institutional Effectiveness (SPAIE) and functionally to the Board of Trustees Audit and Compliance Committee. This reporting structure will ensure any major risks are timely reported to the Board of Trustees without constraints from management. The reporting relationship should be established through policy or charter. Administratively reporting to the VP of SPAIE would collocate the function with one already focused on strategic planning and performance. Furthermore, this organizational placement would avoid independence concerns which would be created if it were placed within the Division of Audit and Compliance.



Chief Risk Officer Responsibilities: The CRO would have the following responsibilities:

- Responsible for the development, oversight and implementation of core ERM tools including risk identification, assessment of risk on the operations and mission, prioritization, development and implementation of response to mitigation plans, monitoring, reporting templates and communications tools.



- Lead the annual and on-going assessment of the ERM framework working directly with risk owners to complete risk analysis and develop risk documentation and reporting mechanisms. Act as an advisor and partner to campus leaders.
 - Responsible for development and maintenance of strong consultative and collaborative relationships across all levels of the organization, especially with other risk assurance professionals; maintain confidentiality and trust-worthy work relationships with management and the corporation.
 - Lead projects to develop and execute risk optimization strategies for key strategic initiatives. Conduct custom strategic risk and opportunity assessments; maintain an ongoing awareness of emerging external and internal risks and opportunities; consult with subject matter experts as needed; report on those risks and/or opportunities; assist responsible officials to assess and respond to emerging risks. Identify and address gaps in the organization, recommend solutions, develop policies and develop standard reporting mechanisms.
 - Oversight and management of the Risk Management Committee/Risk Council including development of agenda, reports and presentations. Consult with and assists Vice Presidents and Deans, Directors and other administrative and academic leaders to develop, maintain and report on a response plan for all risks and opportunities assigned to them to help ensure effective risk management, policies, procedures and controls.
- **Establish an ERM Advisory Committee:** The CRO, would establish and chair an ERM Advisory Committee. The main goal of the ERM Advisory Committee would be to bring people with knowledge of specific risks together with those familiar with institutional policies, procedures, and resources in a coordinated effort to manage strategic planning and performance risks across the University.
 - **ERM Advisory Committee Responsibilities:** The responsibilities of the ERM Advisory Committee may include assisting with the elimination of functional, cultural, and departmental barriers of dealing with risks; assisting with risk identification, mitigation strategies, and monitoring; advocating risk awareness throughout the University through trainings and discussions; advising departmental risk managers on risk management activities; providing risk management reports and advisory services to executive leadership and board of trustees as requested; and developing a common risk vocabulary for the University. To avoid duplication of effort, the ERM Advisory Committee could be a sub-committee of the current Enterprise Compliance Committee (ECC). In this scenario, the ECC responsibilities could be expanded to include financial, operational, and strategic risk.



Estimated Cost for Implementing a FAMU ERM Program:

The following table provides an estimated cost associated with the phased implementation of an ERM program at FAMU.

ITEM	Description	FY Budget Impact	Approximate Annual Cost
ERM Leader: Chief Risk Officer	The Chief Risk Officer (CRO) is a leader and facilitator for the University regarding institution level risk and opportunities. The CRO will lead the evolution of the University’s ERM program through the development and deployment of risk management tools and practices. The CRO will initiate and manage the annual enterprise-wide risk assessment process resulting in the establishment and/or revision of FAMU’s highest risks and opportunities that could impair and/or advance the achievement of the university's mission, vision, strategic goals and competitiveness. The CRO will act as an advisor to executive leadership and provide relevant information for informed decision making.	FY 2019-2020	\$133,640 ⁴ salary
ERM Software Management System	There are various tools that can be utilized for risk management. The University currently has ACL ⁵ which can be expanded to include risk management. There are also other dedicated ERM solutions that were reviewed, including: <i>Active Risk Manager</i> , <i>Cammsrisk</i> , and <i>Logicgate</i> . All offer cloud solutions and comprehensive options for managing risk across the University. User licenses for these products have an annual fee range of \$400 to \$1200. The University would need approximately 40 licenses to ensure each department, school/college, and appropriate leadership have access. However, inclusion onto the system, may best be approached in a phased in process.	FY 2020-2021	\$16,000 - \$48,000 for 40 licenses
TOTAL			\$149,640 - \$181,640

⁴ Market analysis performed by HR in May 2018.

⁵ ACL Services, Ltd. (Audit Command Language) is a privately owned software as a service company recently joining another company (Rsam) and rebranding as Galvanize.



Recommended ERM Implementation Timeline:

The following table provides a recommended ERM implementation timeline using 4 phases.

Phase	Phase 1: ERM and FAMU	Phase 2: Building an ERM Foundation	Phase 3: Implementation	Phase 4: Sustain ERM Program
Time Frame	Present	Year 1 FY 2019-2020	Year 2 FY 2020-2021	Year 3 FY 2021-2022
Goals	<ul style="list-style-type: none"> ✓ Understand the University's plans, environment, and culture ✓ Determine the status of existing risk management processes. Compare with best practices ✓ ERM goals and objectives ✓ Perform cost analysis ✓ Develop implementation timeline ✓ Obtain top-level support for ERM • Obtain top-level commitment, financial support, and participation 	<ul style="list-style-type: none"> • Name an ERM leader • Develop ERM policy or charter • Develop ERM plan • Select or design ERM framework • Create a Cross-Functional Risk Committee • Create mission and goals statement for the Risk Committee • Develop a shared vocabulary and definitions • Develop an institution-wide system for communication 	<ul style="list-style-type: none"> • Develop a risk portfolio • Assess your risks: validate and prioritize • Assign ownership and take action 	<ul style="list-style-type: none"> • Assess results of actions taken in year 2. • Review and align risk treatment with available resources • Collaborate with traditional risk management functions (insurance, claims management, safety, and compliance) • Review ERM framework for any necessary modifications • Refine institution-wide system for communication and tracking progress (technology)



APPENDICES

APPENDIX A – PURPOSE, SCOPE, AND METHODOLOGY

The **purpose** of this advisory service was to review Florida A&M University’s risk management practices; assess Enterprise Risk Management (ERM) best practices; propose an ERM structure; estimate initial ERM program costs; and suggest a proposed phased implementation timeline.

The **scope** of the engagement was University risk management practices from fall of 2017 to present.

The **methodology** included:

- Conducting interviews with senior management and other key staff regarding ERM;
- Reviewing prior DAC risk assessments and methods;
- Reviewing the State University System of Florida Board of Governors’ 2017 study of System institutions risk management practices;
- Reviewing established university ERM programs throughout the United States (including New York University, University of Vermont, Indiana University, Columbia University, Georgetown University, University of South Carolina, and San Francisco State University);
- Reviewing documentation related to the COSO Enterprise Risk Management Framework and the ISO 31000 Risk Management Guidelines;
- Reviewing ERM articles and consulting reports from the Association of Governing Boards of Universities and Colleges, Gallagher Higher Education Practice, and various other reputable sources; and
- Analyzing the University’s strategic plan, performance goals, current structure, and financial constraints for determining the best methods for integrating enterprise risk management into the University.



APPENDIX B – MANAGEMENT RESPONSE

The Division of Audit and Compliance (DAC), as part of the audit risk assessment process, interviews the Board of Trustee Chair, the Board of Trustees Audit & Compliance Chair, all senior management, and select management in high risk areas. As part of the 2017-18 and 2018-19 risk assessment processes DAC explained the premise of enterprise risk management and inquired regarding whether or not they support the implementation of ERM risk management practices at FAMU from each interviewee. In both years, we received unanimous support for the implementation of an ERM program. Some of the highlights from these interviews over the two year period regarding ERM include:

- Kelvin Lawson, Board of Trustee’s Chair, commented that the establishment of an ERM program could lead the University to making better decisions in regards to allocating funding.
- Dr. Larry Robinson, President, commented that the establishment of an ERM program is a necessity for the University.
- Shira Thomas, Interim General Counsel, commented that the University should begin implementing ERM now to get ahead of the curve.
- Dr. Shawnta Friday-Stroud, Vice President of Advancement/Dean of School of Business & Industry, commented that implementing an ERM program will cause a cultural shift within the University to decision making being more proactive instead of reactive.

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PROJECT TEAM

Engagement was conducted by:

Deidre Melton, CFE, CIA, CISA, CISM, CRISC, Internal Auditor/Investigator

Approved by:

Joseph K. Maleszewski, MBA, CIA, CGAP, CISA, CIG, CIGA, CIGI, CCEP
Vice President for Audit and Compliance

STATEMENT OF ACCORDANCE

The Division of Audit and Compliance's mission is to provide independent, objective assurance and consulting services designed to add value and improve the University's operations. It helps the University accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

We conducted this advisory service in accordance with the International Standards for the Professional Practice of Internal Auditing. Those standards require we plan and perform the advisory service to obtain sufficient, appropriate evidence to provide a reasonable basis for our observations and conclusions based on our engagement objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our objectives.

Please address inquiries regarding this report to the Division of Audit and Compliance at (850) 412-5479.

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