



MINUTES
AUDIT AND FINANCE COMMITTEE MEETING
Wednesday, February 21, 2007

AF: A-M. Roll Call and Approval of Minutes for the October 17, 2006 Audit and Finance Committee Meeting.

Ms. Nancy Blosser, Chair of the Audit and Finance Committee, convened this meeting at 9:10 a.m. and roll call commenced documenting member participation and quorum requirements. The following Committee members participated:

Dr. William Bryant (via telecom), Mr. David Feder, Dr. Rajendra Gupta, Mr. Austin Shaw, Mr. Bob Stilley and Mr. Norman Tripp.

The following Board of Trustees member participated:

Mr. Scott Adams and Dr. Roy Levow.

The following University officials participated:

Mr. Frank T. Brogan, President; Dr. Kenneth A. Jessell, Vice President for Financial Affairs; Dr. Norman Kaufman, Associate Provost; Mr. Morley Barnett, Inspector General; and, Mr. David Kian, General Counsel.

Chair Blosser then asked for comments or corrections to the minutes of the October 17, 2006 Audit and Finance Committee and with none forthcoming, called for a motion to approve the minutes without change or modification. A motion was made and seconded. The motion passed unanimously.

At Chair Blosser's request Dr. Jessell began a review of responses to information requested during the October 17, 2006 Audit and Finance Committee meeting:

- FAU Diversity Advisory Committee: The membership list is provided as Attachment A of the October 17, 2007 Minutes.
- University Commons Lease Agreement Revenue Allocations: General Counsel Kian's response as Attachment B of the October 17, 2007 Minutes, along with documentation between former FAU President Catanese and former SUS Chancellor Herbert and excerpts of minutes from a meeting with the State of Florida Board of Trustees of the Internal Improvement Trust Fund. These documents provide clarification to this issue and note that revenues are to be used in support of instructional and research missions of the University, with no specific requirement to allocate revenues to financial aid.

- Establish an FAU Investment Committee: Members were advised of the on-going initiative to gather system-wide information on other committees of this type to assist in establishing the structuring and operational processes of an investment committee.
- Independent Review of Banner SIS Security Measures: Mr. Barnett is working with IRM to ensure security measures are appropriately implemented.
- Area-wide Community College Graduate Numbers: Dr. Pritchett provided these figures for review and discussion during the November 8, 2006 BOT meeting.

AF: A-2. Request for Approval of Increase in Instructional Materials and Supplies Fees for 2007-2008.

Dr. Jessell noted the Florida Statute that authorizes boards of trustees to establish certain course fees for materials consumed in the course of instructional activities. He noted the fees increases being presented are associated and limited to specific course needs where FAU's bulk purchasing power provides savings to student requiring these class materials. Additionally, students avoid the need to personally shop for the materials and supplies as they are provided by the department. Dr. Kaufman then reviewed and explained the requested material and supplies fee increases. Members were assured that these fees are charged solely to students enrolled in the courses noted. The fees are published in the course schedule so students are fully informed. Also, fees are collected and distributed to the college/department in segregated accounts to ensure audit accountability.

Discussion followed on the following topics:

- Usage and availability to students. Members were assured that ample amounts of materials are purchased by these fees to ensure availability to every applicable student as needed. Typically fee increases are necessary only every 2-3 years as the associated cost increases.
- Financial aid considerations of these special course needs. Members were advised that federal guidelines regulate the definition of financial aid need and they do not specifically address individual course by course need; it does factor in basic need and represents a reasonable average within a typical course of study or discipline.
- Creating a model demonstrating actual student cost by discipline, above and beyond the tuition. The goal of this initiative would be to identifying additional financial need that could be addressed with institutional funding. Drs. Kaufman and Jessell noted the administrative route necessary to develop this need differential by having the Director of Financial Aid explore if programming options can be written to address this issue.

Upon query, Members were advised that dissemination to students of financial aid information starts in high school with guidance counselors and/or through the FAU Admissions Office. Additionally, students receive information when they file the Free Application for Federal Student Aid. This document uses a federal methodology to establish a family's expected contribution for higher education. An institution's cost minus expected family contribution equals a student's need/financial aid package. Creating the model discussed earlier would then take a student's need/financial aid and measure it against the actual degree cost to establish the differential need. Developing the model would be the starting point for possible re-engineering of the financial aid package. The feasibility of developing the differential to a level that could influence a student's degree choice is questionable. President Brogan noted that tuition differential has not yet been approved by the BOG or Legislature but should that flexibility ever be given these questions would be answered on a system-wide issue. Trustee Tripp believed that this effort would keep us ahead of the curve and be helpful.

Chair Blosser called for a motion to approve the increase in Instructional Materials and Supplies Fees for 2007-2008. A motion was made and seconded. The motion passed unanimously.

AF: I-1a. Review of Audits: Report #FAU 06/07-1, Broward Cashier's Offices for the Period January 1 through June 30, 2006.

Mr. Barnett took the floor to review this item remarking that this audit as very similar to the Boca Cashier's audit performed a year ago. Twelve recommendations involving transaction accountability, segregation of duties, and asset security were made to improve processes at the Tower and Davie campuses. He noted the recommendations as self-explanatory and asked for Members questions.

Dr. Jessell advised these recommendations have prompted review and corrections at the other campuses in an effort to proactively address similar issues. The difficulty in implementing all corrective actions is the result of managing full cashiering functions at five different locations. The partner campuses have low volumes and limited staffing and as such, perfect segregation of duties or daily deposits aren't always feasible. However, working within existing parameters, plans have been implemented to ensure appropriate checks and balances to satisfy the recommendations.

AF: I-1b. Review of Audits: Summary of Follow-up on Audit Recommendations Scheduled to be Implemented During January 1 through September 30, 2006.

Mr. Barnett commented that as part of the audit process, follow-up to all audit recommendations are made regularly to ensure action plans are implemented. During this period, over half of the 39 audit recommendations were deemed fully implemented, with 14 partially complete and 4 not completed. New completion dates have been provided and follow-up on these issues will be initiated.

Discussion followed, noting that some of the partially or not implemented issues have new implementation dates that have passed. A request was made that the OIG provide a supplemental follow-up to these recommendations. Mr. Barnett advised that these follow-ups are actually mini-audits and that time and staffing constraints limit the ability to provide exact "to date" information. In an effort to address this issue, auditees are advised to attend the Audit and Finance Committee meetings to provide updates personally should Members seek this information.

AF: I-2. Five Year Quality Assessment Review of the Office of Inspector General.

Mr. Barnett was pleased to advise Members that the result of the audit of his office was a declaration of "generally conforming" to IIA standards, which is the best rating possible by the *International Standards for Professional Practice of Internal Auditing*. Several recommendations were made to enhance procedures and all are currently being addressed.

Trustee Tripp noted the recommendation that the Board have a more direct reporting relationship with the Inspector General. With the objective of providing the OIG a measure of independence from management, it was suggested that periodic private meetings be held between the Chair of the Audit and Finance Committee and the Inspector General. Implementation of this recommendation has begun with the first meeting scheduled next week.

AF: I-3. Review Draft of Proposed Charter for the BOT Audit and Finance Committee.

Chair Blosser noted this item as another recommendation of the audit of the Office of Inspector General's office. Because of the critical oversight functions of the BOT Audit and Finance Committee a formal charter documenting statutory, fiduciary and oversight responsibilities should be created and approved by the Board. This initiative was discussed and recommended at the Board of Governors Audit Committee workshop in November 2006. The charter will clearly establish the roles expected of the Inspector General, Administration and the Board.

Dr. Jessell noted that with the expectation of the Sarbanes-Oxley Act provisions being applied to non-profits in the future, initiatives such as these are being implemented in advance. The draft addresses both the auditing and financial functions of the Committee. He then reviewed the charter point by point including the purpose of the charter, member composition provisions, meeting requirements and exemptions, responsibilities and duties related to financial planning and reporting and internal and external audit functions. Mr. Barnett mentioned that upon the approval of this charter a modification of the BOT Operating Procedures currently on the FAU web site will be needed either by addendum or linkage to another web site.

Dr. Jessell requested creation of a sub-committee of AFC members to review and make further recommendations to this charter. Members were advised that while no urgency exists for completion of this document, the goal for final review and approval of the AFC would be the April meeting with full BOT review in May. Discussion ensued rejecting the sub-committee format due to public notice requirements of meetings and suggesting instead that one Committee member could take the lead in gathering comments and suggestions. Trustee Stilley volunteered for this responsibility.

Trustee Levow recommended the language of the first bullet under "General" be modified so annual charter approval is the responsibility of the full Board rather than the Committee. Dr. Jessell advised that was the intent but that the language will be modified for clarity.

AF: I-4. Presentation of the Second Quarter Status of Florida Atlantic University's 2006-2007 Operating Budget, July – December 31, 2006.

Dr. Jessell began this presentation noting the seven budget entities comprising the FAU Operating Budget. He expressed the intent of reviewing only the highlights of each but welcomed any questions.

Educational and General. This budget is comprised of General Revenue, consisting of State of Florida sales tax and corporate income tax collections as well as other various fees; Education Enhancement Trust Fund, consisting of collections from the sale of Florida lottery tickets; and, the Student Fee Trust Fund, consisting of tuition and fees paid by students.

Dr. Jessell reviewed the original budget approved in June 2006, the budget status as of the third quarter, and budget projections to year end. He noted the increase in year end expenditures, versus the original approved budget, as a result of BOG budget amendments to date, i.e. salary increases and Centers of Excellence spending.

Additionally noted was the \$2 million dollar difference in Student Fees reflected between the original and projected budgets. Members were reminded this was discussed during the first quarter and that based on lower than projected enrollment numbers, this funding for the projected shortfall has been placed on hold as

a precautionary measure. On a state-wide basis, K-12, community college and university enrollments continue to be adversely affected, especially in out-of-state enrollment where students pay a higher tuition. Based upon historic data, this \$2 million shortfall should be a worst case scenario. It is believed this amount will be reduced to possibly a \$1.5 million shortfall, or less, in the third quarter. Dr. Jessell assured Members that the University is fully prepared to meet this shortfall with no reduction of services to academic programs. He also advised that more information will be available later this month with the completion of a final report on student enrollments and reinstatements.

Discussion followed after noting the University's continuing procedure of addressing shortfall issues caused by decreases in student levels by cutting travel and/or delaying hiring. A question arose of what student-based operational measures could be implemented instead, such as fewer or blended classes. Members were advised that student access and FTE production are a high priority and any action that could decrease either of those functions would only exacerbate budget shortfalls.

Dr. Jessell reiterated that even with a \$2 million shortfall in student collections, general revenue and lottery should be attained and the educational and general budget will be on track as projected. He advised that per the February General Revenue estimating conference general revenue is on track for 2006-2007 although reductions have been made to 2007-2008 projected collections. The next General Revenue Estimating Conference is scheduled for April.

Student Financial Aid. This budget includes financial aid from all sources including federal and state awards, and scholarships, as well as the fees required by the legislature. This budget is fully on track. It is only a pass-through account where the monies are received and distributed to students.

Grants and Contracts-Sponsored Research. This budget includes funding from federal, state and local agencies, as well as, foundation and other private sources. It also includes the grant funding for the A.D. Henderson University school and payroll and clearinghouse functions for the FAU Foundation, Inc.

To date expenditures are slightly above revenues for this entity. Most of these expenditures have been covered by existing cash balances. However, an approximately \$200,000 negative cash balance remained at the end of this quarter. The bulk of the expenditures involve \$2.7 million in accounts receivable from federal funding sources. December is historically a difficult period to receive monies due. Expenditures are also slightly higher than normal because of some costs associated with the Centers of Excellence. The \$5 million allocation for the Centers of Excellence has been received by the University and is currently included in the E&G budget but will be transferred to Grants and Contracts in the coming weeks upon finalization of the required detailed budget planning process. This influx of funding, along with a FAU Foundation payment received in January, will provide a significant boost to the Contract and Grants revenue levels. Revenues, expenditures, and cash-flows are currently being reviewed and analyzed to improve operations and financial stability.

Auxiliary Enterprises. These are the business services functions of the university that are required to operate on a self-sustaining basis, i.e., food services, housing, bookstore, telecommunications, traffic and parking, etc. This budget is on track to projections. A mid-year review was just completed; this process reviews each budget plan to ensure revenue and expenditure plans remain on track.

Athletics Local. This budget is just over \$12 million and is primarily funded by the student athletics fee of \$13.75 per-credit hour totaling approximately \$8 million. Other revenues include ticket sales, game guarantees, NCAA/Conference distributions, etc. Small amounts are included in the educational and

general relating to waivers, scholarships and Title IX Athletic appropriations. This entity is considered an auxiliary and operates as a self-sustaining enterprise.

The year-to-date revenues are less than expenditures, as was the case last year. Dr. Jessell reminded Members that the bulk of these revenues are received in the Fall and Spring semesters with the majority of football expenses being incurred during the Summer and Fall semesters. Summer athletics fees have yet to be reflected in the budget. Two items being closely monitored are ticket sales and corporate sponsorships as revenues are not reaching targeted projections. A contract with Nelligan Sports Marketing has been initiated to help develop a comprehensive corporate sponsorship program. Progress should be seen in the next few months, increasing sponsorship funding levels.

Work is in progress to ensure a fully balanced Athletics budget by year end. A full review of current year, as well as next fiscal year's Athletics budget, will be held at the annual Athletics Workshop scheduled for March 20.

Student Government/Student Activities. As has been the case in the past, the fiscal responsibility of student leadership is exceptional and this budget remains in great shape. Expenditures were projected to be higher than revenues to address the Wellness Center project and construction begins in August. Cash balances support this level of expenditures.

Concessions. This is a small budget associated with vending and soft drink machines revenues. It remains on track to projections.

Dr. Jessell concluded this presentation noting the final pages providing current to prior fiscal year budget status. No questions or comments followed the conclusion of this agenda item.

AF: I-5. Review of the Governor's 2007-2008 Budget Recommendations and FAU's Budget Construction.

Chair Blosser reminded Members that, per BOG guidelines, in June 2006 the BOT approved the FAU 2007-08 Legislative Budget Request (LBR). The Board of Governors approved the system-wide LBR in August 2006 and on February 2, 2007, the governor released his recommendations. With FAU Days occurring in the near future, she noted the importance of reviewing these figures.

Dr. Jessell concurred with Chair Blosser's observation on the differences in budget recommendations between the Governor and the BOG. He then reviewed the base budget issues for 2007-2008 including comments on the following:

- Enrollment growth reduction to approximately 66% of the BOG request or 6,738 new FTE at \$101 million. FAU anticipates receiving an additional 324 FTE totaling an estimated \$4.7 million. A spreadsheet provided shows the University distribution by component under the new funding model.
- Reduction in PECO funding from \$470 million to \$386 million; FAU estimates receiving approximately \$34 million. He noted optimism that perhaps, as in prior year trends, over the next several weeks increases in PECO and non-recurring funding would materialize.
- The lack of an appropriation for the Ratio of In- and Out-of-State General Revenue. This funding addresses the reduction of student fees association with the continuing decline of international and out-of-state students. Prior to devolution this issue was addressed with annual appropriations. Last year, for the first time in several years, the Legislature provided an appropriation in General Revenue to cover

this revenue reduction. Although FAU and the BOG have requested this funding, the Governor has not recommended an appropriation. As FAU's funding portion could be approximately \$1.8 million to offset the lower tuition, Legislative lobbying efforts are encouraged to address this issue.

- The \$4.7 million in recurring funding for the FAU/UM Medical Education Partnership. He noted that Legislative funding is not guaranteed and receiving this funding is critical to the success of this program. Continuing lobbying on this issue is necessary.
- Tuition increases have not yet been addressed pending legislative guidelines and a review of University competitiveness.
- System-wide issues the Governor recommended i.e. financial aid, nursing workforce initiatives, engineering, World Class Programs, Centers of Excellence, Science/Engineering Economic Programs and salary increases are included in the budget.

He noted that no recommendations are available from the House and Senate at this time, but updates will be provided at future Committee meetings. Also to be presented soon will be university-wide new funding requests with applicable ties to the FAU Strategic Plan.

AF: I-6. Review of the 2007-2008 Work Plan for the Audit and Finance Committee.

Chair Blosser reminded Members that each year a work plan is created for all BOT Committees to ensure clarity in processes and timelines. The plan provided is very similar to prior year which proved successful.

Of special note is the June 6 AFC meeting and the development of the 2008-2009 Legislative Budget Request. Discussion followed and consensus was reached that the FAU Executive Committee will first develop a base Legislative Budget Request. This document should then be submitted for review and analysis by the BOT Strategic Planning and Audit and Finance Committees. By utilizing this process, both management issues and strategic planning priorities can be considered. President Brogan advised Members that meetings are currently in progress to develop management's budget recommendations.

With no corrections or additions forthcoming to the work place, and no further business to discuss, Chair Blosser called for a motion to adjourn the meeting. The motion passed and the meeting was adjourned at 11:15 a.m.