



Item: AF: A-M

AUDIT AND FINANCE COMMITTEE

December 15, 2010

SUBJECT: ROLL CALL AND APPROVAL OF THE REVISED MINUTES OF THE OCTOBER 20, 2010 AUDIT AND FINANCE COMMITTEE MEETING.

PROPOSED COMMITTEE ACTION

Initiate roll call to document member participation to ensure appropriate quorum numbers are achieved and to approve the minutes of the October 20, 2010 Audit and Finance Committee meeting.

COMMITTEE MEMBERS

Mr. Robert Stilley, Chair	_____
Mr. Thomas Workman, Jr., Vice Chair	_____
Ms. Nancy Blosser (ex-officio)	_____
Dr. William Bryant	_____
Mr. David Feder	_____
Mr. Armand Grossman	_____
Dr. Tim Lenz	_____
Mr. Ayden Maher	_____
Mr. Robert Rubin	_____

BOT MEMBERS

Mr. Anthony Barbar	_____
Dr. Jeffrey Feingold	_____
Dr. Rajendra Gupta	_____
Ms. Sherry Plymale	_____



REVISED DRAFT MINUTES
AUDIT AND FINANCE COMMITTEE
Wednesday, October 20, 2010

AF: A-M. Roll Call and Approval of Minutes of the June 9, 2010 Board of Trustees Audit and Finance Committee meeting.

Mr. Robert Stilley, Chair of the Board of Trustees (BOT) Audit and Finance Committee (AFC), convened this meeting at 10:15 a.m. Roll call commenced with the following Committee members, in addition to Mr. Stilley, participating: Mr. Thomas Workman, Jr., Ms. Nancy Blosser, Dr. William Bryant (via teleconference), Mr. David Feder, Dr. Timothy Lenz, Mr. Ayden Maher, and, Mr. Robert Rubin.

Other Trustees attending the meeting included: Mr. Anthony Barbar and Dr. Rajendra Gupta.

The following University officials participated: Dr. Mary Jane Saunders, University President; Mr. Dennis Crudele, Senior Vice President for Financial Affairs; Mr. Morley Barnett, Inspector General; Dr. Edwin Bemmell, Director, Contracts and Grants; and, Mr. David Kian, Senior Vice President for Strategic Relations and General Counsel.

Upon call for approval of the minutes of the June 9, 2010 AFC meeting, a motion was made and seconded to approve the minutes without change or correction. No discussion or commentary followed. **The motion passed unanimously.**

AF: A-1. Request for Approval of Revised Debt Management Policy.

Mr. Crudele advised members that the key change in this policy is the inclusion of modified functional relationship language. A history of the policy followed noting the adoption of the Debt Management Guidelines by the FAU BOT effective April 2006 with an amendment approved in June 2010 which included guidelines on variable rate debt and interest rate swaps.

In May, Board of Governors' (BOG) staff held a workshop with system-wide university representatives and Division of Bond Finance staff to develop functional relationship language. This language is meant to provide clarification and better written direction on securing auxiliary enterprise debt funding to BOT and Direct Support Organizations for the issuance of debt and debt management. The document articulates which debt may be issued without BOG approval and provides the requirement that debt needing BOG approval be submitted to BOG staff 60 days prior to a regularly scheduled BOG meeting. On September 16, 2010 the BOG adopted these revised Debt Management Guidelines and requires each BOT to adopt the revisions and notify the Chancellor of this adoption no later than mid-January ~~2010~~ 2011. Mr.

Crudele advised that upon approval of the AFC, this issue will be presented to the BOT at its November 2010 meeting.

With no questions or comments following, a motion was made and seconded to recommend to the BOT approval of the revised Debt Management Policy, **the motion passed unanimously.**

AF: A-2. Request for Approval of Amendments to Regulation 6.012, Employee Debt Collection.

Mr. Crudele noted the Regulation amendments provide procedures for collection of funds owed by university employees. The changes include sending billing notices and collection procedure information to an employee through the FAU email system rather than sending certified mail. Additionally, it simplifies the payroll deduction calculation for amounts owed in excess of \$100.

Discussion followed with members learning that the changes represent a technological enhancement to the process. Funds currently owed the university are small at approximately \$20,000 and encompass limited areas including traffic and parking, matriculation fees associated with the Employee Educational Scholarship Program and library fees.

A motion was made and seconded to recommend to the BOT approval of the amendments to Regulation 6.012, Employee Debt Collection. No further questions or commentary followed. **The motion passed unanimously.**

AF: I-1. Office of the Inspector General's Report of Annual Activities for Fiscal Year Ended June 30, 2010.

Mr. Barnett reminded members that this report is presented annually to appraise the Committee of OIG staff accomplishment during the fiscal year. A summary review of the five audits, the time spent in follow-up efforts, various consulting services and investigations performed during the year followed.

AF: I-2a. Review of Audits: Report No. FAU 09/10-3, Student Health Services for the Fall 2009 Semester.

Beginning review of this audit, Mr. Barnett noted that pharmacy operations had recently been audited by the Auditor General and, as such, were not included in this audit. Auditing focused on financial accountability, medical records/supplies security, licensing requirements and immunization practices and procedures.

Two findings relating to accountability over fee-for-services revenues and another for documentation supporting diagnostic lab fee schedules were given to the department to enhance operations. Satisfaction was expressed that departmental management will address the recommendations made to enhance their processes.

AF: I-2b. Review of Audits: Report No. FAU 09/10-4, Bank Account Reconciliations for the Period October 1 through December 31, 2009.

Mr. Barnett advised that cash needed to meet the operational requirements of the university is held in eight accounts which are managed by the Cash Management department of the Controller's Office. The objective of the audit was to assess procedures and internal controls over reconciliation processes. These controls were found to be in compliance with applicable laws, rules and regulations, except for tardy reconciliation timelines which were completed during the course of the audit.

Two other recommendations for improvement were made regarding segregation of duties and writing off unidentified reconciling items. Each recommendation is anticipated to be implemented by the end of the month.

Upon query referencing past due implementation dates contained within the Student Health and Bank Account Reconciliation audits, the Committee was advised that the results would be presented in the IG's next Summary of Follow-up on Audit Recommendations report, but confirmation was given by Mr. Crudele that recommendation within the Bank Account Reconciliation audit scheduled for implementation in September had been completed.

AF: I-2c. Review of Audits: Report No. FAU 09/10-5, Institutes and Centers for Fiscal Year 2008/09.

Mr. Barnett advised that this is the first internal audit performed on the Institutes and Centers (I&C). He noted that in 2007 the Auditor General's operational audit had referenced data accuracy issues in a mandated report to the BOG and that training sessions had been held to address those issues. This audit was initiated to determine if the I&C were following the policies and procedures established for required annual reporting to the BOG.

Testing noted that BOG requirements and University procedures had been followed in developing and publishing guidelines for establishing, operating, evaluating, reviewing, and disbanding University institutes and centers; in reporting new I&C; in the timely completion of annual reporting; in completing formal evaluations and reviews of I&C; and, that dissolution/closeout procedures of I&C were completed properly.

Additional training was recommended to identify common data sources and refinements for consistent reporting of accurate information most specifically in reporting expenditure and full-time equivalent data and summarizing close-out activities utilizing checklists.

Discussion followed verifying the existence of 46 FAU institutes and centers and noting that implementation results would follow on the next Summary of Follow-up on Audit Recommendations report.

Upon query, Mr. Bommel reviewed the functions and purposes in creating the various I&C with each entity addressing specific College research and mission objectives designed to provide research, service and instructional activities which supplement and extend programs of instruction and research offered by FAU.

AF: I-2d. Review of Audits: Summary of Follow-up on Audit Recommendations to be Implemented during the period January 1 through June 30, 2010.

Mr. Barnett began this report that follows up on the status of recommendations made by his office and the State Auditor General's office. During this period 33 recommendations were due to be implemented. Of these, 16 were fully implemented, 15 partially implemented and two were no longer applicable. He noted that the partially implemented items have new dates upon which complete implementation is expected and his office will check again and provide status updates to the Committee through this reporting forum.

The lack of timely reporting on the updated status of each recommendation was discussed, particularly as implementation dates on this report are already past due. Further discussion centered on status reporting responsibilities; specifically, having each responsible department provide status updates rather than the OIG initiating follow-up action. It was noted that management is always notified their presence may be needed at these meetings to provide updates; participation is not always optimal. Mr. Crudele suggested a modification to the OIG Follow-up matrix to provide this updated information and advised that the Financial Affairs area is assigning an employee to assist in assuring timelier follow-up.

AF: I-2e. Review of Audits: Report No. 2010-190, Florida Atlantic University Schools: Florida Education Finance Program (FEFP) Full-time Equivalent (FTE) Students for the Fiscal Year Ended June 30, 2009.

Mr. Crudele noted this audit as one performed by the State Auditor General to determine and report of the number of full-time equivalent (FTE) students under the Florida Education Finance Program (FEFP) at A. D. Henderson University School and the Palm Pointe Educational Research School.

He noted two recommendations for improvement were made for the A. D. Henderson University and five recommendations for the Palm Pointe Educational Research School at Traditions. A review of each recommendation followed indicating the need to ensure that students in English for Speakers of Other Languages (ESOL) are properly assessed prior to their ESOL-placement being continued beyond the initial three-year base period; that evidence showing required members of an Individual Educational Plan Committee meeting are present and accounted for; that Exceptional Student Education students are reported in accordance to their *Matrix of Services* forms; that teachers are properly certified or, if out-of-field, are approved by the Schools' Advisory Board to teach out-of-field; that teachers earn the required number of in-service training points in ESOL strategies, pursuant to their in-service training timelines; and, that the parents of students taught by out-of-field teachers are appropriately notified of the teachers' out-of-field status.

Members were informed that these recommendations indicate some control deficiencies but none are considered material weaknesses in the school's controls. Additionally, the deficiencies resulted in a small loss in FTE funding of less than \$10,000.

No questions or discussion followed.

AF: I-2f. Review of Audits: Report No. 2011-003, Florida Bright Futures Scholarship Program, Operational Audit for the Fiscal Year Ended June 30, 2009.

Mr. Crudele advised this audit was conducted to determine the extent to which Florida's public universities and colleges have implemented procedures to administer the Florida Bright Futures Scholarship Program during the fiscal year.

Florida Atlantic University had no findings or recommendations.

AF: I-3. Review of the Fourth Quarter Status of Florida Atlantic University's 2009-10 Operating Budget, July 1 – June 30, 2010.

Mr. Crudele reviewed the status of the seven components comprising FAU's Operating budget as of the end of the fiscal year, June 30, 2010:

Educational and General. This component was budgeted for expenditures at approximately \$240 million and at the end of the year expenditures totaled approximately \$224.1 million. This budget is funded by general revenue, lottery funds, student matriculation fees and tuition and federal stimulus monies.

The largest change to this budget this year was the risk management amendment which was funded by BOG reserves with no revenue loss to the University.

Mr. Crudele reminded members of the mid-year amendments to the Student Financial Aid, Grants and Contracts, Auxiliary Enterprises, Athletics and Student Activities budgets which had been necessary to appropriately reflect revenues and expenditures to that period of time. The final status of these amended components followed:

Student Financial Aid. Actual revenues totaled approximately \$142.5 million with expenditures at \$141.9 million.

Grants and Contracts. Revenues totaled \$56.8 million with expenditures at \$54.4 million. Members were informed that grant funding had increased by almost \$3 million over prior year.

Auxiliary Enterprises. This component realized revenues over original budget estimates. Revenues at year end totaled approximately \$111.9 million and are a result of the increases in student health and traffic and parking fees, as well as the implementation of the Technology fee

and holding the \$12 million associated with the Innovation Village project. Expenditures at year end were approximately \$92.1 million.

Athletics. Mr. Crudele noted that Athletics had a very good year with revenues of approximately \$14.1 million and expenditures of approximately \$13.3 million. A large part of the increase in revenues can be attributed to increases in the athletics fee and fiscal year credit hours. Members were informed that these additional funds would be held in reserve for funding needs associated with the Innovation Village Stadium project.

Additionally, members were informed of the bi-weekly Athletics budget meetings being held between Financial Affairs and Athletics. These meetings are to ensure that this component stays within budget and that management practices meet the requirements associated with the stadium financing.

Student Activities. As has been standard practice, Student Government planned this fiscal year budget utilizing their full reserve resulting in a large expenditure budget. The revenues and expenditures budgets were adjusted to \$6.4 million and \$7.7 million respectively. Actual revenues realized were \$6.8 million, a result of the increased athletic fee and the credit hours from increased enrollment growth. Final expenditures tallied at \$6.2 million, less than anticipated but slightly over prior year.

Dr. Brown continues critical oversight of this budget component to ensuring the financial health of the student union, campus recreation and student wellness facilities.

Concessions. Mr. Crudele noted that concession revenues have declined with \$433,306 produced by year end. This decline is due to less use of vending machines and more use of the multitude of convenience stores on campus which offer more product variety. A cash balance was available to handle the expenditure overage. While not yet a critical issue, it was noted that an analysis of where revenues are actually being received to enable possible redirection of some of those monies.

Discussion followed recognizing multi-year concession revenue declines and associated decreases in spending.

Mr. Crudele noted the data provided on current year budget in comparison to prior year, but focused on student credit hours. These figures were highlighted noting the importance of related funding the university receives. Credit production was up 3.9 percent and FTE was up approximately 5.5 percent. While continuing increases in credit hours were anticipated, budgeting was based on prior year data enabling reserve funding to cover further budget reductions should it become necessary.

Discussion followed, with kudos expressed to management teams on increasing enrollment figures.

Chair Stilley introduced this next item as one he supports as a proactive managerial oversight tool.

AF: I-4. Discussion on Proposal for Managers' Certifications of Internal Controls.

Mr. Barnett introduced this item noting its development history as an offshoot of management representation letters already required of the president and chief financial officer to the State Auditor General were both provide written confirmation on the integrity of the University's financial statements, disclosures, compliance with laws, provisions of contracts and grants, any knowledge of fraud, among other items that are affected by FAU's operations and internal control environment. As regulatory changes have occurred this letter has grown from a single page to its current three page format.

Additionally, while the Sarbanes-Oxley Act (SOX) doesn't apply to non-profit organizations, as a result of SOX, the National Association of College and University Business Officers issued best practices recommending that institutions consider implementing sub-certification requirements from leaders responsible for the financial results of units, departments, or schools to provide assurance on the underlying numbers and controls.

Mr. Barnett recommends initiating sub-certification to enhance control environments; to ensure managers think about and analyze what basic controls should be in place to reduce audit criticisms. At this time, mostly areas within the Financial Affairs are being considered and conversation continues between himself and Financial Affairs to identify which areas with major impact on university operations that should be included in this process.

Discussions followed indicating overall approval by Committee members and President Saunders. It was noted that in the public sector SOX had been mandated and already implemented and belief that it's only a matter of time before variant requirements will be defined for areas within the government arena.

Implementation costs, effort levels, and reporting structures were discussed and envisioned as an additional responsibility within the OIG. Mr. Barnett related his vision as being planned, managed, self-reported and monitored by senior management in each area of responsibility.

Update on New Florida Initiative.

Mr. Crudele wanted the Committee to be aware of the status of the New Florida initiative spearheaded by the BOG, Governor Crist and the Legislature. He noted this initiative was launched this year and is the State University System's collaborative effort to provide and sustain high-technology, high-wage jobs in the fields of science, technology, engineering and mathematics.

The 2010 Florida Legislature appropriated \$10 million in *non-recurring* funds to create competitive grants in three areas entitled Commercialization Assistance Grants Program, New Florida Scholars Boost Grants Program, and the New Florida Clustering Grants Program.

FAU has been awarded \$65,000 for its submission of the Queen Conch Pearls proposal within the Commercialization Assistance Grant. The Clustering Award Program and the Scholars Boost Program will be announced within the next two weeks. It is anticipated that FAU will receive in total approximately \$790,000 in New Florida funding for 2010-11.

Mr. Crudele advised that New Florida Initiative legislative budget request planning began in July 2010 with funding requests due to the BOG in August 2010. In compliance with the FAU Work Plan BOT approved by the BOT in May, FAU has forwarded a request for approximately \$11 million as follows: Student Access and Opportunity, \$3,985,981; Teaching and Learning, \$3,000,000; and, Recruiting Faculty to Support Stem Disciplines, \$4,000,000.

The BOG LBR request was reviewed at the September 16, 2010 BOG meeting in Jacksonville. As soon as further directives are received from the BOG, requests for review and approval will be brought before each appropriate BOT Committee.

With no questions or other discussion items put forth, a motion was made and seconded to adjourn this meeting. **The motion passed unanimously.** The meeting was adjourned at 11:15 a.m.