

Minutes

Audit & Compliance Committee

Meeting UWF Board of Trustees

UWF Conference Center, Bldg. 22

February 13, 2020

Committee Chair, Trustee Bob Jones called the meeting to order at 9:03 a.m.

Committee members: Trustee Bob Jones and Dick Baker were present. Trustee Bob Sires was absent.

Other trustees in attendance: Lewis Bear, Jr., Greg Britton, Dave Cleveland, Zenani Johnson, Suzanne Lewis, Sherry Schneider, Alonzie Scott, Jill Singer and Stephanie White.

Others in attendance:

President Martha D. Saunders; Provost & Senior Vice President George Ellenberg; Dr. Kim LeDuff, VP Academic Engagement; Dr. Kimberly McCorkle, Vice Provost; Ms. Betsy Bowers, VP, Finance & Administration; Ms. Pam Langham, General Counsel; Dr. Melinda Bowers, Director, Facilities Operations & Emerald Coast Campus; Ms. Jamie Sprague, Director Human Resources; Dr. Brandon Frye, Dean of Students; Dr. Ed Ranelli, AVP and CEO, BEI; Ms. Cindy Talbert, Internal Auditor, Internal Auditing & Management Consulting; Mr. Matt Packard, Compliance Officer, Internal Auditing; Dr. Elizabeth Benchley, Archaeology; Mr. Dan Lucas, CFO, UWF Foundation; Ms. Elizabeth Mrachek, PCard Auditor, Internal Auditing & Management Consulting; Mr. Jeff Djerlek, University Controller; Ms. Abigale Megginson, UWF Graduate; Ms. Alyssa Lee, UWF Strategic Communication and Leadership Graduate Student; Mr. Ross Dahlstrom, Network Engineer; Mr. Chuck Bell, Telecommunications; Mr. Chase Green, BOT IT; Mr. Cody Thurber, BOT IT; Mr. Angel Sedillo, Sound Engineer; and Ms. Katarina Zatapkova, BOT Graduate Assistant.

CHAIR'S GREETING

Chair Jones welcomed all those present and explained that Ms. Cindy Talbert, Interim Internal Audit Director would present only the first action item on the agenda. Following the first action item, the committee meeting will be adjourned and BOT Chair Cleveland will call the Special Full Board Meeting to order. Following the Special Full BOT Meeting, he would re-convene the Audit and Compliance Committee meeting. At that time, all remaining agenda items will be addressed.

ACTION ITEMS

1. Approval of UWF Internal Auditing Reports Issued: Scholarships: 18-19_005 and Performance Based Funding Data Integrity: 19-20_003. Ms. Cindy Talbert, Interim Internal Audit Director presented this item.

Internal Auditing & Management Consulting completed two audits during the period October 1, 2019 through January 31, 2020: 1) Scholarships and 2) Performance Based Funding Data Integrity 2019.

Scholarships: 18-19_005

The audit period was Fall Semester 2017 through Summer Semester 2018, and was part of the approved work plan for 2018/19. IAMC issued the audit report on December 6, 2019. The audit's primary objectives were to evaluate internal controls over policies and procedures; compliance with federal, state, and University regulations; packaging and award process; tax reporting, application of aid, eligibility, and collaboration between units to identify and centrally report the extent of scholarships available and awarded.

Results:

IAMC noted that internal controls were strong. IAMC found that one department, the Center for Applied Psychology, had awarded a University-funded scholarships for which they were unable to provide any documentation to demonstrate that the award was made in accordance with established criteria; however, the Center had been since that time been suspended and no recommendation was necessary.

Performance Based Funding Data Integrity: 19-20_003

IAMC audit period was "as of September 30, 2019." The audit was part of the approved work plan for 2019/20 and required by the Board of Governors. IAMC issued the audit report on January 27, 2020. The audit's objectives were to 1) evaluate internal controls designed to ensure the accuracy, completeness, and timeliness of data submissions to the Board of Governors, and 2) provide an objective basis of support for the President and Chair of the Board of Trustees to sign the representations included in the *Performance Based Funding – Data Integrity Certification*, to be filed with the Board of Governors by March 2, 2020.

Results:

IAMC found that internal controls over all processes were strong. We made no recommendations.

Following Ms. Talbert's presentation, Chair Jones asked for a motion recommending the full Board, at the March 18, 2020 meeting, accept the UWF internal auditing reports issued: Scholarships: 18-19_005 and Performance Based Funding Data Integrity: 19-20_003 as presented.

Motion by: Trustee Dick Baker

Seconded by: Trustee Bob Jones

Motion passed unanimously.

Chair Jones adjourned the meeting at 9:13 a.m.

Committee Chair, Trustee Bob Jones reconvened the committee meeting and called the meeting to order at 9:53 a.m.

Committee members: Trustee Bob Jones and Dick Baker were present. Trustee Bob Sires was absent.

Internal Auditor, Cindy Talbert, presented the remaining seven action items and the first two information items.

2. Acceptance of the Internal Management and Accounting Control and Business Process Assessment, Crowe, LLP. The Florida Board of Governors engaged Crowe LLP to perform a system-wide “Internal Management and Accounting Control and Business Process Assessment.” The purpose of this Assessment was to evaluate existing internal controls and review business processes to identify any areas of risk for the State University System. Their focus was on financial and operational risks, and regulatory compliance risks. A report was also issued for all State universities combined.

While Crowe LLP did not issue an opinion on UWF’s system of internal controls, they described specific opportunities to improve controls or risk mitigation activities. These opportunities can be summarized as follows:

Risk Rating of “Moderate”:

- Processes for executing shared service contracts should be documented.
- Vendor set-up operating procedures should be documented, including vendor performance monitoring.
- The cybersecurity incident response program should be updated.

Risk Rating of “Low”:

- Personnel should use encrypted devices, their use should be restricted, and removable media should be centrally managed.
- Security awareness training should be required for users annually.
- A policy should be developed related to security controls over cell phone email access.

Chair Jones asked IHMC to please provide the final report to the entire Board of Trustees.

Chair Jones asked for a motion recommending the full Board, at the March 18, 2020 meeting, accept the Internal Management and Accounting Control and Business Process Assessment, Crowe, LLP as presented.

Motion by: Trustee Dick Baker

Seconded by: Trustee Bob Jones

Motion passed unanimously.

3. Acceptance of NCAA Agreed-Upon Procedures Engagement of Intercollegiate Athletics. Once every three years NCAA Bylaw 6.2.3 requires institutions to have an independent accountant perform certain Agreed-Upon Procedures (AUP) related to the Statement of Revenues and Expenses. It states:

“At least once every three years, all expenses and revenues for or on behalf of a Division II member institution's intercollegiate athletics programs, including those by any affiliated or outside organization, agency or group of individuals (two or more), shall be subject to agreed-on procedures approved by the Division II membership (in addition to any regular financial reporting policies and procedures of the institution) conducted for the institution by a qualified independent accountant who is not a staff member of the institution and who is selected either by the institution's president or chancellor or by an institutional administrator from outside the athletics department designated by the president or chancellor. If, within the last three years, the institution has conducted an overall institutional audit that includes a financial audit of all athletics department funds, then the institution is not required to perform a separate financial audit of all athletics department expenditures.”

The independent accountant's AUP were performed to assist the University in evaluating whether the Intercollegiate Athletics Program Statement of Revenues and Expenses is in compliance with the National Collegiate Athletic Program (NCAA) Bylaw 6.2.3 for the year ended June 30, 2019. No exceptions were noted in the Independent Accountant's AUP report.

Chair Jones asked for a motion recommending the full Board, at the March 18, 2020 meeting, accept the NCAA Agreed-Upon Procedures Engagement of Intercollegiate Athletics as presented.

Motion by: Trustee Dick Baker

Seconded by: Trustee Bob Jones

Motion passed unanimously.

Chair Jones commended Director of Athletics, Dave Scott, on this audit and for his exemplary work with UWF athletics.

4. Acceptance of External Audit: Financial Statement Audit – Florida Institute of Human and Machine Cognition for Fiscal Year Ending June 30, 2019. The Florida Institute for Human and Machine Cognition (IHMC) audit has been completed for fiscal year ending June 30, 2019.

In reference to the IHMC, section 1004.447(9), Florida Statutes provides: "The Board of Trustees

of the University of West Florida shall annually certify to the Governor, the President of the Senate, the Speaker of the House of Representatives, and the Board of Governors that the corporation and its authorized subsidiaries are complying with the requirements of this section and are acting in the best interests of the state."

Per the Affiliation Agreement between UWF Board of Trustees and the IHMC, dated April 30, 2004, Item 9 states:

"9. Financial Audit. The IHMC, at its sole expense, shall have an independent certified public accountant prepare an annual postaudit of the corporation's financial accounts and the financial accounts of any authorized and approved subsidiary. Copies of the annual audit report shall include management letters and the IHMC shall submit to the University of West Florida Board of Trustees, the Auditor General, and the Board of Governors for review."

To ensure compliance with the agreement, we performed a cursory review and determined that compliance regarding the annual financial audit exists.

The independent auditor's report expressed an unmodified opinion. The audit report did not identify any material weaknesses in the internal control system and no instances of non-compliance were noted. The auditor's report on compliance for each major federal award program for IHMC expressed an unmodified opinion.

Financial Highlights:

- Net property and equipment as of June 30, 2018 was \$18,487,437.
- Long term debt as of June 30, 2019 was \$9,555,938. During 2019, the County refunded the \$12,000,000 industrial development revenue note and issued \$7,700,000 Capital Improvement Refunding Revenue Bonds, Series 2018. The refunding resulted in a gain of \$869,000.

Chair Jones asked for a motion recommending the full Board, at the March 18, 2020 meeting, accept the External Audit: Financial Statement Audit – Florida Institute of Human and Machine Cognition for Fiscal Year Ending June 30, 2019 as presented.

Motion by: Trustee Dick Baker

Seconded by: Trustee Dave Cleveland

Motion passed unanimously.

5. Acceptance of External Audit: WUWF-FM Financial Statement Audit for Fiscal Year Ending June 30, 2019. The Florida Institute for Human and Machine Cognition (IHMC) audit has been

completed for fiscal year ending June 30, 2019.

Annually, a financial audit is conducted of the WUWF-FM, a public telecommunications entity operated by UWF. This is to comply with the Corporation for Public Broadcasting (CPB) community service grant requirements. The audit report was issued on December 20, 2019. To ensure compliance with these requirements, we performed a cursory review of these special purpose financial statements and determined WUWF was in compliance.

WUWF received a clean unqualified opinion. No deficiencies were identified in the internal controls over financial reporting that were considered to be material weaknesses. Results of testing disclosed no instances of noncompliance or other matters that were required to be reported.

Financial Highlights:

- Operating revenues decreased \$392,314 compared to last year mainly due to a decrease in appropriations from UWF which was related to the prior year's one-time appropriation of approximately \$200,000 for replacement of the damaged radio transmitter, and a decrease in membership income due to a prior year one-time estate gift of \$150,000.
- The decrease in operating expenses of \$147,836 was spread among the categories of programming and production, broadcasting, and program information and promotion functional expenses, with broadcasting seeing the largest share of the decrease due to the prior years' loss on disposal of asset for writing off the old damaged transmitter.

Chair Jones asked for a motion recommending the full Board, at the March 18, 2020 meeting, accept the External Audit: WUWF-FM Financial Statement Audit for Fiscal Year Ending June 30, 2019 as presented.

Motion by: Trustee Dick Baker

Seconded by: Trustee Dave Cleveland

Motion passed unanimously.

Chair Jones commended he was most impressed with the work WUWF does. He enjoyed the tour of WUWF a few months ago on one of the BOT Campus Engagement opportunities.

6. Acceptance of External Audit of Financial Statement of Direct Support Organization – Business Enterprises, Inc. Pursuant to Florida Statute 1004.28(5)¹ and BOG Regulation BOG-9.011(5)², organizations affiliated with or through the University of West Florida (aka Direct Support Organizations) must be audited annually and presented to the University of West Florida

Board of Trustees. As required in the Bylaws of UWF Business Enterprises, Inc. (BEI), the financial statements of BEI have been audited by independent certified public accountants for the fiscal year ending June 30, 2019.

Article 9.2 of the Bylaws states: *“After the close of each fiscal year, the Corporation shall cause a financial audit of its accounts and records to be conducted by an Independent certified public accountant if required by Section 1004.28, Florida Statutes, as amended or supplemented, or other applicable provisions of law, and in accordance with any applicable rules promulgated by the Auditor General of the State of Florida pursuant to Section 11.45, Florida Statutes, as amended or supplemented, or other applicable provisions of law. The Corporation shall provide any copies of its audit reports, together with its federal Application for Recognition of Exception (form 1023) and its Form 990, Return of Organization Exempt from Federal Income Tax, to such persons as may be required by applicable laws of the State of Florida.”*

Master Management Agreement dated December 9, 2011 between the University of West Florida and UWF Business Enterprises, Inc. (BEI) Section 5 of the agreement states: *“Financial and Other Reports. The Corporation shall provide the University such reports and audits as are required by the Act or which the University shall request from the Corporation.”*

BEI received a clean unqualified opinion. The audit was performed in accordance with auditing standards generally accepted in the United States and in accordance with Government Auditing Standards. The audit report did not identify any material weaknesses in the internal control system. Additionally, no instances of non-compliance were reported.

Significant Financial Highlights:

- Dining Services commissionable sales were consistent with the prior year, but the higher commission rate yielded a higher commission for fiscal year 2019.
- BEI received \$2.335 million in capital retail and dining improvements from the new dining services vendor and donated these to the University.
- The signing incentives paid to BEI from the dining services vendor and the bookstore services vendor and all other capital investments made under the new dining services agreement are recorded as unearned income and amortized to revenue over the remaining life of the respective agreements. Unearned service and management arrangement income as of June 30, 2019 was approximately \$8.9 million.

Chair Jones asked for a motion recommending the full Board, at the March 18, 2020 meeting, accept the External Audit of Financial Statement of Direct Support Organization – Business Enterprises, Inc. as presented.

Motion by: Trustee Dick Baker

Seconded by: Trustee Dave Cleveland

Motion passed unanimously.

7. Acceptance of External Audit of Financial Statement of Direct Support Organization – University of West Florida Foundation, Inc. Pursuant to Florida Statute 1004.28(5) and BOG Regulation BOG-9.011(5), organizations affiliated with or through the University of West Florida (aka Direct Support Organizations) must be audited annually and presented to the University of West Florida. As required, the financial statements of the UWF Foundation, Inc. have been audited by independent certified public accountants for the fiscal year ending June 30, 2019.

A cursory review was performed by IAMC to evaluate compliance with the Florida Statute and BOG Regulation. It was determined that compliance appears to exist regarding the annual financial audit.

UWF Foundation received a clean unqualified opinion. The audit was performed in accordance with accounting principles generally accepted in the United States and in accordance with *Government Auditing Standards*. The audit report did not identify any material weaknesses in the internal control system. Additionally, no instances of non-compliance were reported.

Financial Highlights:

- Changes made to Florida Statute Section 1004.28 required the Foundation to follow standards of accounting and financial reporting that are generally accepted for governmental entities. In these financial statements, management has restated the prior period in accordance with the Governmental Accounting Standards Board (“GASB”). As such, prior year net income increased by \$784,283 and prior year beginning net position decreased by \$7,536,898.
- The fair value of investments as of June 30, 2019 was \$94,555,093, an increase of \$2,705,480 from the prior year.

During fiscal year 2019, the net investment in capital assets increased by \$1 million. Contributing to the change, capital assets decreased \$1.6 million (net of depreciation) and bonds payable reduced by \$2.6 million.

Chair Jones asked for a motion recommending the full Board, at the March 18, 2020 meeting, accept the External Audit of Financial Statement of Direct Support Organization – University of West Florida Foundation, Inc. as presented.

Motion by: Trustee Dick Baker

Seconded by: Trustee Dave Cleveland

Motion passed unanimously.

8. Acceptance of Internal Auditing PCard Audit Reports: Quarter 2 Update (October – December 2019). To provide UWF Senior leadership an overview of audit results for the PCard review completed during the quarter. Our main objective is to report the status of PCard audits and any issues or findings requiring action.

Internal Auditing has been charged with auditing PCard holder and approver activity as well as departmental activities and internal controls. The objectives of these audits were to determine if departments complied with UWF PCard policies and procedures, as well as to evaluate the level of understanding of PCard policies among PCard holders and approvers. UWF presently has 383 PCard holders distributed across 143 departments.

Files were well organized. Staff was well trained in PCard procedures. There was strong separation of duties.

Results for Quarter 2 (October – December 2019)

Nine departments encompassing 54 cardholders were examined on a sample basis. Individual reports were distributed to department heads and Procurement & Contracts upon completion of the audits. The totals below show the volume of activity occurring for these nine departments and the amount tested. All reports are available from Internal Auditing.

Number of Departments Reviewed	Number of Cardholders	Number of Transactions Occurring	Number of Transactions Tested	Total PCard Expenditures of Depts.	Total PCard Transaction \$ Tested
9	54	1,991	446 (22%)	\$529,487	\$299,365 (57%)
Audit Opinion for the PCard Audit					
EXCELLENT	GOOD	FAIR	POOR	Total	
9	0	0	0	9	

Departments Audited:		
Continuing Education	Electrical and Computer Eng.	English
Finance and Administration	Financial Aid & Scholarships	Housing & Residence Life
Mechanical Engineering	Registrar	Undergraduate Admissions

Chair Jones asked for a motion recommending the full Board, at the March 18, 2020 meeting, accept the Internal Auditing PCard Audit Reports: Quarter 2 Update (October – December 2019). as presented.

Motion by: Trustee Dick Baker
 Seconded by: Trustee Dave Cleveland
 Motion passed unanimously.

Chair Jones and trustees in attendance commended the university on this excellent report.

INFORMATION ITEMS

1. Florida Small Business Development Center (FSBDC) Financial Examination 2018.

15 USC 648 § 21(k)(1) of the Small Business Act and Code of Federal Regulations 13, Part 130 require the Small Business Administration's (SBA) Office of Small Business Development Centers to perform a financial and programmatic examination of each Small Business Development Center (SBDC) network every two years. This examination was performed on Program Year 2018.

The SBDC received an on-site financial review by SBA because SBDC programs have to have an on-site review at least once every six years. The previous two financial reviews were limited scope desk reviews. Included in the scope of the review were:

- University of West Florida Lead Center, Pensacola, Florida
- University of West Florida, Pensacola, Florida
- University of Central Florida, Orlando, Florida
- University of South Florida, Tampa, Florida
- Indian River State College, Fort Pierce, Florida

The overall objective of the financial examination was to determine whether the FL-SBDC network had controls in place to ensure: 1) the accuracy of reported financial management data; 2) costs incurred and claimed for reimbursement were reasonable, allowable, and allocable; 3) compliance with applicable laws and regulations, policies, operating procedures as it pertains to management. This was accomplished by reviewing samples of Financial Reporting, Cash Disbursements, Indirect Cost, Program Income, and other financial requirements of the SBDC Program.

Overall, the FL-SBDC is in compliance with the financial objectives of the SBDC Program. There were 3 findings, summarized as follow:

1. A Customer Relationship Management (CRM) software application is utilized by the SBDC and shared with another federal grant. The annual cost of the CRM is more than \$10,000 and is paid by SBDC. The SBA stated that the cost of the application should be partially allocated to the other grant. It was also recommended that an allocation plan be developed and submitted for approval. The cost of the CRM has been allocated to both federal grants in the 2020 budget period.
2. Travel expenses of \$2,810 at two locations (Florida SBDC at University of South Florida and Florida SBDC at Indian River State College) were paid, that benefited another grant. It was recommended that this amount be refunded to the SBA and that financial reports be revised.

The Florida SBDC Headquarters Office in coordination with the UWF Research Administration and Engagement Office addressed this finding by transferring the \$2,810 of expenses in question to a non-program fund (Seed Account). This transaction means SBA did not pay for the \$2,810 of travel for another grant as the expense was not included in the final financial report to SBA.

3. The SBDC's "Notice of Award" authorized them to contribute \$2,188,622 for Indirect Cost. The actual amount contributed to Indirect Cost was \$2,259,345.63, or \$70,723.63 more than the amount budgeted/authorized. The SBA recommended that the SBDC establish controls to ensure that Indirect Cost contributions stay within the budgeted amount. The 2018 mid-year financial report did show excess indirect on the match side of the budget. This was corrected in the 2018 final financial report to SBA. The Florida SBDC Headquarters Office and UWF Research Administration and Engagement office prepare supporting documentation that accompany all SBA financial reports. They will introduce formulas in all supporting spreadsheets to flag when indirect is exceeding the budgeted amount. They will then ensure the financial report does not exceed the budgeted indirect amount or ask SBA for a budget modification to request a budget increase as necessary.

2. Update from Internal Auditing and Management Consulting.

Ms. Talbert provided the Committee with an overview of activities within Internal Auditing & Management Consulting including status of audits in process; status of advisory/consulting activities; and other miscellaneous items

3. Office of Compliance and Ethics Update on Activities.

UWF Chief Compliance Officer, Mr. Matt Packard provided the Audit and Compliance Committee with an overview of activities.

ADJOURNMENT

With no further Academic Affairs Committee items to discuss, Chair Jones adjourned the meeting at 10:34 a.m.

Respectfully submitted,
Becky Luntsford, Assistant Corporate Secretary