

Minutes

Audit and Compliance Committee Meeting

UWF Board of Trustees

November 16, 2017

Committee Chair Bob Jones called the meeting to order at 11:08 a.m.

Committee Member Dick Baker had to leave the meeting early, so Chair O'Sullivan served as an ex officio committee member.

Other trustees in attendance: Lewis Bear, Jr., Dave Cleveland, Suzanne Lewis, LuTimothy May, Kishane Patel and Dave Ramsey.

Others attending:

Dr. Martha Saunders, President; Dr. George Ellenberg, Interim Provost; Ms. Betsy Bowers, IVP Administrative Services; Dr. Pam Northrup, VP, Innovation and Strategic Research; Dr. Joffery Gaymon, Vice President Enrollment & Student Affairs; Dr. Kim LeDuff, Vice President, Academic Engagement; Ms. Pam Langham, General Counsel; Ms. Janice Gilley, AVP External Affairs; Mr. Dave Scott, Athletic Director; Dr. Melinda Bowers, Director, Emerald Coast Campus; Ms. Cynthia Talbert, Internal Auditor III; Ms. Karen Rentz, Executive Director, Office of Equity & Diversity; Dr. Jenae Burkart, Faculty Technology Support Specialist, ITS; Ms. Sandra Thompson, Director, ITS; Mr. Ross Dahlstrom, Network Engineer; and Mr. Chase Green Technology Engineer, ITS.

CHAIR'S GREETING

Chair Jones welcomed everyone in attendance and announced there were six action items and two information items on the committee's agenda.

ACTION ITEMS

1. Approval of 2017 Florida Educational Equity Act Report was presented by Ms. Karen Rentz, Executive Director, Office of Equity & Diversity.

The Florida Education Equity Act Report is completed annually by each Florida public university and includes information on the University's progress in implementing strategic initiatives related to equity and access in academic services, programs, and student enrollment; equity in athletics; and equity in employment as required by Regulation 2.003 Equity and Access. Each University's Florida Educational Equity Act Report is approved by the Board of Trustees and is submitted to the Board of Governors. The Student Enrollment and Employment reporting focuses on females and members of specified racial/ethnic groups. The Athletics portion of the report focuses on gender equity on the basis of Accommodation of Interests and Abilities. The 2017 Florida Education Equity Report is based on 2015-2016 data.

In 2014, a UWF Student Diversity Goals committee was formed. The purpose of this committee was to collectively set student diversity goals for the annual Florida Equity Report. As a result, the student diversity goals were changed to three-year goals that will now cover the 2014/2015, 2015/2016, and 2016/2017 Academic Years ("AY").

Chair Jones asked for a motion recommending the full Board, at its December 14, 2017 meeting, Approve the 2017 Florida Educational Equity Act Report as presented.

Motion by: Trustee Mort O'Sullivan

Seconded by: Trustee Bob Jones

Motion passed unanimously.

2. Acceptance of UWF Internal Auditing Reports Issued: Faculty/Staff-Led Student Travel 2016-17; Market Rate Tuition 2016-17; Petty Cash and Change Funds 2017-18. Presented by Internal Auditing Director, Cindy Talbert.

To provide UWF Senior leadership a short, clear overview of the PCard audits completed during the quarter and highlight results. The main objective was to report the status of PCard audits and any issues or findings requiring action.

Internal Auditing & Compliance (IAC) completed three audits during the period August 1, 2017, through October 31, 2017: Faculty/Staff-Led Student Travel, Market Rate Tuition, and Petty Cash and Change Funds.

Faculty/Staff-Led Student Travel 16-17 006

The audit period was January 1, 2015 through December 31, 2016 and was part of the work plan for 2016/17. The audit report was issued on August 22, 2017. The audit's objectives were to evaluate controls over roles and responsibilities, safety and security, minimization of University exposure to liability, approval of travel events, qualification and/or training of faculty or staff who supervise student travel, monitoring of financial activity related to travel, and the additional requirements of international travel events for students.

Results:

Notable Strength: Some improvements to the standard University form "Travel Authorization Request" were noted during the audit entrance conference; we commend the Controller's Office for promptly following through to make the needed changes to this form. This audit included three recommendations:

1. General Counsel and Environmental Health & Safety should collaborate to develop consistent, thorough, written policies and procedures, specifically designed to ensure the safety and security of student-travelers.

2. The University should develop training for faculty, staff, alumni, and registered volunteers who travel with students, that informs them of the risks involved and appropriate methods for responding to risks.
3. The University should ensure that adequate training is provided to students about how to mitigate risks involved with University-related travel.

Management's Actions: Management has outlined various courses of action with the goal of everything being implemented by February 2018.

Market Rate Tuition 16-17 007

The audit period was August 22, 2016 through April 28, 2017 and was part of the work plan for 2016/17. The audit report was issued on August 10, 2017. The audit's objectives were to ascertain compliance with BOG Regulations, to determine whether Continuing Education participated in the program and offerings, to determine if adequate procedures and/or policies were in place to ensure proper accountability, and to identify any metrics in place and/or monitored to measure the success of the program.

Results:

Notable Strength: The Director of Budgets in the Office of the Provost had established a comprehensive set of financial data that served to provide accurate and up-to-date information regarding the profitability of the program and enrollment statistics. One recommendation:

1. Departmental procedures related to market rate tuition should be enhanced and reviewed periodically for necessary revisions.

Management's Actions: Management has outlined a course of action to meet implementation by October 2017.

Petty Cash and Change Funds 17-18 002

This audit was part of the 2017/18 internal auditing work plan approved by the BOT at its June 2017 meeting. The audit period was July 1, 2016 to June 20, 2017. The report was issued on August 11, 2017.

The audit's objectives were to evaluate controls over petty cash and change funds, including authorizations, training, documented policies and procedures, periodic reconciliations, and physical security.

Results:

Notable Strength: Internal Auditing conducted an unannounced cash count that was in the custody of the Accountant in Business & Auxiliary Services. Despite this unexpected challenge,

the Accountant carried out a complex count involving numerous locations and computer systems, in a methodical, thorough, and conscientious manner, resulting in a count that agreed to the change fund issued. Internal controls were found to be strong, yet the following recommendations were made:

1. Recreation & Sports Services should ensure that responsibility for change funds is terminated when an employee leaves their position.
2. Business & Auxiliary Services should request a replenishment of the long-term shortage in the Postal Services change fund.
3. The Controller's Office should make corrections to the change fund general ledger account balance as needed, and conduct periodic reconciliations to ensure that accurate balances exist.

Management's Actions: Management has outlined various courses of action with the goal of implementing everything by December 2017.

After Ms. Talbert's presentation, Chair Jones asked for a motion recommending the full Board, at its December 14th meeting, Approve the Acceptance of UWF Internal Auditing Reports Issued: Faculty/Staff-Led Student Travel 2016-17; Market Rate Tuition 2016-17; Petty Cash and Change Funds 2017-18.

Motion by: Trustee Mort O'Sullivan

Seconded by: Trustee Bob Jones

Motion passed unanimously.

3. Acceptance of External Audit of Financial Statements of Direct Support Organization – UWF Business Enterprises, Inc. Presented by Internal Auditing Director, Cindy Talbert.

Pursuant to Florida Statute 1004.28 and BOG Regulation BOG-9.011(4)¹, 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, 2017.

Results

BEI received a clean unqualified opinion. The audit was performed in accordance with auditing standards generally accepted in the United States and in accordance to *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:

- BEI reported a donation to the University in the amount of \$84,637 in FY17 and \$670,798 in FY16 for the Nautilus Market renovation.
- Of the \$1 million advance commission paid to BEI from the dining services vendor in June 2012, \$352,707 remained unearned as of June 30, 2017.
- As of June 30, 2017, Unearned Service and Management Arrangement Income was approximately \$6 million and primarily related to the unamortized investment from the dining services contract.
- The assignment of Parking and Transportation Services to BEI as an Assigned Function ended June 30, 2017.
- Subsequent to year end on August 31, 2017, BEI sold the Scenic Hills Country Club and Golf Course at an approximate loss of \$1 million.

After Ms. Talbert's presentation, Chair Jones asked for a motion recommending the full Board, at its December 14th meeting, Approve the Acceptance of External Audit of Financial Statements of Direct Support Organization – UWF Business Enterprises, Inc.

Motion by: Trustee Mort O'Sullivan

Seconded by: Trustee Bob Jones

Motion passed unanimously.

4. Acceptance of External Audit of Financial Statements of Direct Support Organization – University of West Florida Foundation, Inc. Presented by Internal Auditing Director, Cindy Talbert.

Pursuant to Florida Statute 1004.28 and BOG Regulation BOG-9.011(4), 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. The UWF Foundation, Inc. audit report was issued October 20, 2017. To ensure compliance with the Florida Statute and BOG Regulation the Interim Director for Internal Auditing & Compliance performed a cursory review and determined compliance regarding the annual financial audit exists.

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

In its financial statement audit report, several significant financial activities as of 6/30/17 for the UWF Foundation were noted:

- The fair value of long-term investments was \$88,223,825.
- Net Contributions Receivable increased \$5,364,789 compared to the prior year.
- Net property and equipment was \$49,071,972.

Bonds payable, net of unamortized discount was \$48,211,464. For the year ended June 30, 2017 the Foundation issued advanced refunding revenue bonds for the purpose of consolidation and to achieve debt service coverage savings. The transaction reduced total debt service payments by approximately \$3,723,000. A loss on extinguishment of debt of \$3,693,269 was reported in unrestricted student housing system expenses on the statement of activities

After Ms. Talbert's presentation, Chair Jones asked for a motion recommending the full Board, at its December 14th meeting, to Approve the Acceptance of External Audit of Financial Statements of Direct Support Organization – University of West Florida Foundation, Inc.

Motion by: Trustee Mort O'Sullivan

Seconded by: Trustee Bob Jones

Motion passed unanimously.

5. Certification of External Audit of Financial Statements of Direct Support Organization – West Florida Historic Trust, Inc. Presented by Internal Auditing Director, Cindy Talbert.

Pursuant to Florida Statute 1004.28, BOG Regulation BOG-0.011(4) and the agreement between UWF and West Florida Historic Trust, Inc. affiliated entities (aka Direct Support Organizations) must be certified annually by the University of West Florida. West Florida Historic Preservation, Inc. (dba UWF Historic Trust) is such an entity and has been audited for the fiscal year ending June 30, 2017.

Agreement provision between UWF and WFHPI: Section 13 of the agreement between the University of West Florida and the West Florida Historic Preservation, Inc., (WFHPI), dated July 1, 2001, requires UWF shall certify on an annual basis, after consideration of the information provided by the Corporation (WFHPI) that the corporation is complying with the terms of this agreement and in a manner consistent with the goals and purposes of UWF and in the best interest of the State. Such certification shall be made annually and reported in the minutes of the meeting of the Board of Trustees of UWF.

Results:

To ensure compliance with the agreement, the Interim Director of Internal Auditing & Compliance performed a cursory review of the documents and determined the West Florida Historic Trust met the requirements.

The West Florida Historic Trust received a clean unqualified opinion. The audit was performed in accordance with auditing standards generally accepted in the United States and in accordance to *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:

Significant financial highlights for the year ended 6/30/2017 included:

- The UWF Foundation transferred ownership of the Pensacola Museum of Art collection appraised at \$642,465 to the West Florida Historic Trust.
- Investment in capital assets as of 6/30/2017 was \$5,071,904.
- A litigation settlement of \$226,136 related to the Deepwater Horizon Oil Spill was received during the year.

After Ms. Talbert's presentation, Chair Jones asked for a motion recommending the full Board, at its December 14th meeting, to Approve the Certification of External Audit of Financial Statements of Direct Support Organization – West Florida Historic Trust, Inc.

Motion by: Trustee Mort O'Sullivan

Seconded by: Trustee Bob Jones

Motion passed unanimously.

6. Acceptance of Internal Auditing PCard Auditing Reports: Quarter 1 Update (July 2017 – September 2017). Presented by Internal Auditing Director, Cindy Talbert.

To provide UWF Senior leadership a short, clear overview of the PCard audits completed during the quarter and highlight results. Our main objective is to report the status of PCard audits and any issues or findings requiring action.

Background

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 427 PCard holders distributed across 154 departments.

Notable Strengths

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

Results for Quarter 1 (July 2017 – September 2017)

Eight (8) departments encompassing 55 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 eight 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 Transactions Tested
8	55	1,552	426	\$535,799	\$327,584
Audit Opinion for the PCard Audit <small>Error! Bookmark not defined.</small>					
EXCELLENT	GOOD	FAIR	POOR	Total	
5	2	0	1	8	

Most Common Findings for Quarter 1 (July – September 2017)

1. The purpose of the transaction was not clear.
2. The Department Head did not review and sign the monthly reconciliation reports.
3. The monthly reconciliation report was not prepared.

Implementation: For PCard audit reports issued during the first quarter (July – September 2017), management will implement corrective actions to be completed in fiscal year 2017/18. Internal Auditing will follow up to determine if adequate corrective actions occurred.

Ms. Talbert explained that the one “poor” audit - FPAN – a remediation plan has been received by Internal Auditing. She said Dr. Lees was present and could answer questions from the Board. No questions were posed.

Chair Jones asked for a motion recommending the full Board, at its December 14th meeting, to Approve the Acceptance of Internal Auditing PCard Auditing Reports: Quarter 1 Update (July 2017 – September 2017).

Motion by: Trustee Mort O’Sullivan
Seconded by: Trustee Bob Jones

Discussion: Chair O’Sullivan asked Ms. Talbert why there is never a fully clean PCard report made to the Board. He asked if there is a way to address this.

Ms. Talbert responded by stating that Internal Auditing only wants to see excellence in PCard audits from this point forward. She reported that Internal Auditing reviewed the PCard training offered to university employees and found there were gaps in the training process. Internal Auditing is working with UWF Procurement on enhancing PCard training.

Ms. Talbert went on to explain that some newly-enrolled PCard participants may not completely understand their responsibilities. Internal Auditing identified new card holders, approvers, reconcilers and supervisors and have begun pre-audit visits with these individuals and providing critical information to enhance PCard training.

Ms. Talbert explained that in the first round just completed of 15-20 university employees were visited by Internal Auditing. The second round of pre-audit visits are beginning now. Internal Auditing has developed an email blast process, sending out reminder emails every 3-6 months of Pcard rules and responsibilities. Internal Auditing is hopeful that the audits will improve within 6-9 months of these new processes being put in place.

Chair O’Sullivan asked Ms. Talbert and her team to please tell university Pcard holders and approvers that the Board is tired of the problems, and want to see these problems solved.

Trustee Ramsey ask about patterns of poor PCard audits. Ms. Talbert explained the process is cyclical and Internal Auditing works toward auditing every Pcard holder once every two years. She explained that her team is auditing transactions within a 6-month period that has just ended. Internal Auditing is not looking over a multi-year span, only the preceeding 6-month period of time.

Chair Jones asked that when an area scores “poor”, is that university area or department automatically looked at within the next auditing cycle. Ms. Talbert explained that follow-up by Internal Auditing is conducted based on the recommended Management actions of each audit.

Trustee Lewis asked if there is a threshold of purchasing. She suggested if employees are not using Pcards, UWF should not continue to issue cards to these individuals. Ms. Talbert explained that some university employees only travel once or twice a year and using the Pcard for their travel is preferred.

Ms. Talbert went on to explain that Internal Auditing works with Procurement to monitor spending and spending limits.

Motion passed unanimously.

INFORMATION ITEMS

- 1. Internal Auditing Update on Activities** – An update on Internal Auditing activities was presented by Cindy Talbert. Ms. Talbert gave an update on upcoming internal and external DSO audits.

Ms. Talbert reported and congratulated UWF Internal Auditing's Graduate Assistant and Federal Work Student who were each awarded \$750 scholarships from the Northwest Chapter of Internal Auditors at the national conference.

- 2. Compliance Update on Activities** – An update on Compliance activities was presented by Matt Packard, Compliance Officer.

OTHER COMMITTEE BUSINESS

None

ADJOURNMENT

With no further Audit & Compliance items to discuss, Chair Jones adjourned the meeting at 11:54 a.m.

Respectfully submitted,
Becky Luntsford, Assistant Corporate Secretary