

Florida Agricultural and Mechanical University  
Board of Trustees



Audit Committee  
Grand Ballroom  
February 6, 2013

Committee Members: Karl White, Chair  
Torey Alston  
Spurgeon McWilliams  
Narayan Persaud  
Belinda Reed Shannon

**AGENDA**

I. Call to Order

**Action Item**

II. Approval of Minutes

Chairman White

**Informational Items**

III. Update on the following reports

Vice President Givens

- a. Board of Governors Report
- b. Auditor General Operational Audit

IV. Audit Committee Training provided by Ernst & Young

V. Adjournment

Florida A&M University  
Minutes of the Meeting of the Audit Committee  
Wednesday, October 31, 2012

Trustee Karl White, Chairman, called the meeting to order at 12:00 p.m.

Members Present: Chairman Karl White, Trustee Torey Alston, Trustee Spurgeon McWilliams, Trustee Belinda Shannon, and Trustee Naryan Persaud

Others Present: Interim President Larry Robinson, Interim Vice President & Provost Rodner Wright, Vice President William Hudson, Vice President Thomas Haynes, Vice President K. Ken Redda, Vice President Richard Givens, Attorney Linda Barge-Miles, and Attorney Avery McKnight

Janet Snyder, Audit Investigation, Audit Committee, Roll Call:

Chairman Karl White, Trustee Torey Alston, Trustees Spurgeon McWilliams, Trustee Narayan Persaud, Trustee Belinda Shannon

Trustee Torey Alston represented Trustee White, with Trustee White being on the phone line. Trustee Alston asked for the review and approval of the committee minutes for the meeting of August 15, 2012. Trustees Solomon Badger made a motion to approve the minutes and it was seconded by Trustee Torey Alston. The motion carried.

Mr. Chairman, the Audit Committee has several items for information.

**Informational Items Report:** Richard Givens, Interim Vice President, Division of Audit and Compliance

**Report on Audit of 800 Bed Residence Hall:**

**Background:**

The University published an Invitation to Negotiate (ITN) to renovate Sampson and Young dormitories and construct a new 800 bed residence hall. The University wanted to complete construction of the 800 bed residence hall by July, 2013, so that it would be ready for occupancy by August, 2013. Opening the dormitories in the middle of an academic year is not practical, since most students would already have made living arrangements at the start of the academic year. We were informed that a design-build contract is usually the preferred contracting method under tight schedule circumstances, and it is intended to save time. A design build approach allows for construction of portions of the project immediately once the design is completed.

After going through the selection process, the University entered into a design-build agreement with Premier Construction & Development Inc. (Premier) for design-build services dated December 5, 2011. The design-build agreement provides that the budget for the project is set forth in exhibit A of the agreement, and that the design builder shall use its best efforts to design the project so that the GMP proposal does not exceed the budget for the work. The University's construction project budget was established in exhibit A of the agreement at \$34.6 million.

On June 28, 2012, Premier met with University representatives to communicate that the subcontractor bids were higher than anticipated and the construction cost was estimated at \$48 million. In response to the University's concerns over the cost increase, Premier was requested to provide an explanation for the cost increase of 37%. In correspondence dated, July 12, 2012, Premier provided contributing factors for the increase as well as four options as how to proceed with the project.

None of the options provided for completion of the project by July, 2013, at the budget of \$34.6 million. As a result of the substantial cost increase and inability to come to an acceptable agreement, the University recommended re-opening the bid for the completion of the work. The Board of Trustees (BOT) voted to terminate the contract with Premier and re-bid the contract.

The BOT also directed that an audit be conducted of the processes and events that led to this existing situation with the 800-bed residence hall project. The results of our audit are recorded below.

## **CONTRACTOR SELECTION:**

### **Qualifications and Experience Requirement:**

The ITN did not require that the contractor have experience in building similar types of structures. Requiring similar experience, e.g. building dormitories, classrooms, or laboratories, provides assurance that the contractor has the capability to meet the construction objectives.

### **Reference Checks:**

The ITN did not require that reference checks be performed as part of the selection process. Performing reference checks is a good business practice and provides assurance that the prospective contractor has satisfactorily performed work in prior contracts. Our review disclosed that reference checks were not performed for any vendors.

## **FINANCING:**

The University was delayed in securing funding for construction of the residence hall. Without financing, the University could not enter into a GMP Amendment to the contract for the total cost of construction. The University attempted to keep the project on schedule by executing limited scope GMP Amendments for portions of the construction, which were funded from existing University moneys. Because of the delay in funding for the project, bidding of the subcontracts was also delayed. The subcontract bids for the remainder of the construction work were received without execution of the GMP for the total construction cost. The subcontractor bids exceeded the \$34.6 million budget; however, the University did not have a GMP for the total construction cost nor did it have a performance bond to guarantee satisfactory completion of the work or protect the University from monetary loss. Typically, the final GMP is established prior to receipt of the subcontractor bids. If financing had not been delayed, the GMP for the total cost of construction cost would have been executed prior to receipt of contractor bids.

## **COST INCREASE:**

### **Causes of Cost Increase:**

As noted above, Premier was requested to explain why the project could not be built within the project budget. Premier provided a written Status Report for Bid/Cost Analysis and Solutions and Options dated July 12, 2012. Premier provided the following reasons for the cost increase:

<u>Contributing Factors to Cost Overruns</u>	<u>Dollar Increase</u>
Time, Overtime, and Liquidating Damages	\$2,500,000
Slow Project, Fast-track	\$850,000
Unforeseen: Poor soils	\$1,000,000
Uncertainty and Funding Delays	\$1,000,000
Recession Impacts	<u>\$1,500,000</u>
<b>Total</b>	<b><u>\$6,850,000</u></b>

The analysis provided explanations for \$6.85 million (approximately 50% of the cost increase). In a letter to the BOT dated August 27, 2012, Premier provided additional explanation relating to the cost increase. A review and analysis of Premier's explanations for the cost increase is given in the following paragraphs.

### **Time Compression, Overtime, and Liquidating Damages**

Construction was anticipated to begin April 16, 2012 per the schedule provided by Premier. Through limited scope GMP Amendments, construction started in May 2012. Although there is a documented delay of 1 to 2 months, the time compression does not appear to be as severe as presented by Premier so that the overtime premiums do not appear to be fully justified.

## **Slow Project, Fast Track Project**

Premier indicated that the project was awarded in 2009, fully executed December 5, 2011, with expectations of being fully funded in late February or March, 2012. This resulted in a compressed design process; design elements lingered referencing University wants, needs, or standards; little time to review, process, and course correct; and accelerated deliverables with each cost estimate based on previous design document submission. The time frame and budget of \$34.6 million were both established in the December 5, 2011, contract and agreed to by Premier; accordingly, they do not appear to be relevant to justifying a subsequent increase in cost. Although the University was delayed in securing permanent funding, partial funding was provided through the first three GMP Amendments in order to start construction.

In addition, the fast track resulted in not following the normal sequence of events. A contract for construction could not be executed because there was no available funding. In a normal process, the university would enter into the GMP Amendment establishing the GMP and requiring the contractor to post a performance bond prior to the contractor bidding the subcontract work.

### **Unforeseen Conditions: Poor Soils:**

In correspondence dated April 6, 2012, Premier stated that foundation costs were higher than first estimated due to unsuitable soils encountered during the geotechnical investigations. It was further stated that, assuming that the foundation packages can be constructed in an overlapping parallel track in seventy calendar days, the current working estimate of the final total GMP is \$34,653,886. There was no communication of an increase in construction cost as a result of soil conditions at this time. Consequently, it appears that the additional cost resulting from poor soils was taken into account in the cost estimate submitted to the University in April, 2012.

### **Uncertainty and Funding Delays:**

As described in Premier's explanation, the University entered into three separate GMP Amendments with Premier, resulting in work being performed piece-meal and that work was put on hold because of delays in securing funding. The contention that work was put on hold appears to be inconsistent with the execution of GMP Amendments so that the project did not appear to be significantly affected for the period the project was on hold.

### **Recession Impacts:**

Recession impacts were estimated by Premier to be \$2.5 million. Premier indicated that many bidders reported other opportunities of similar scope and some chose not to bid this "challenging" project. At the same time the economic recession left numerous trade contractors weakened in human resources and limiting the number of bondable bidders. Our review disclosed that the contract provides that, at each phase of the design, the design/builder shall provide a report detailing construction issues and concerns relating to the design and shall provide availability of labor and other factors affecting construction. Since the recession began in 2006-07, it would appear that the effects of the recession should have been determined during the design phase when cost estimates were being done, well before opening of the bids. Additionally, the number of bidders appeared to be reduced from what would be expected. According to personnel of the University's Facilities and Planning Department, the number of bidders is significantly lower than normal for a project of this magnitude for the following reasons: many of the subcontractors that bid were affiliates of Premier Construction and Development, Inc., the construction time was modified, financing for the project was uncertain, the weak economy, and high liquidating damages.

Our review disclosed that oversight of the pre-construction work and the limited scope work was accomplished through regular meetings with Premier and periodic reports from Premier for certain milestones, which included working cost estimates. It is reasonable to expect that the contractor would be aware of increasing labor costs, since the cost estimates should be based on current conditions. Premier did not inform the University that the limited scope work was not sufficient to keep the project on schedule. Not until June, 2012, did Premier communicate in writing that the project could not be completed within the project budget.

Further, the architect on the project who provided the cost estimates was employed by Premier. The University had no independent verification of the cost estimates provided by Premier. Such verification could have provided assurance that the project was on schedule within budget or that there were potential problems.

#### **SUMMARY:**

Based on facts presented, we believe that Premier should have been aware of the potential cost increases before late June, 2012. From January through early June, 2012, Premier represented the working cost estimate as within the project budget and a completion date of July, 2013. In addition, it was the University's intention to avoid significant cost increases resulting from the time compression by starting limited scope work close to the scheduled start date of April 16, 2012. In January, 2012, Premier notified the University, of potential increases of \$500,000 per month from April through June for a total of \$1,500,000, if construction was not started by July 1, 2012. The University understood this was to compensate for delays in securing funding and for not starting construction by the anticipated start date of April 16, 2012.

In addition to the reasons provided by Premier, the price increase could have been caused by a number of factors such as:

- The cost of \$34.6 million was not attainable for the project designed
- Inaccurate cost estimates submitted in the reports from Premier. The agreement required that estimates be supported by a market analysis
- The subcontractor bidding process was flawed resulting in higher costs.

#### **Recommendations:**

For future design build projects, we recommend:

- Financing be secured for construction prior to preparing a solicitation for a project
- The University follow established design build procedures or document reasons for selecting a different process
- The selection criteria should include a requirement that the contractor have experience in building similar types of structures
- The GMP be finalized prior to obtaining final subcontractor bids
- An independent architect be retained to review the cost estimates prepared by the design/builder
- The project manager should have a closer relationship with the contractor on a daily basis

#### **Update on the FDLE Investigation:**

On September 12, 2012, the Florida Department of Law Enforcement (FDLE) provided Florida A&M University (University) with a summary of its investigation into potential fraud and/or misconduct associated with the University. The FDLE investigation focused on several different aspects of the financial operation of FAMU, including activities related to the FAMU Marching Band and the Purchase Card (P-Card) program. FDLE also reviewed past investigations conducted by the Division of Audit and Compliance. A summary of the conclusions from the FDLE investigation is as follows:

#### **Marching Band Financial Review:**

Several individuals who received per diem during travel were not registered students of the University. Trip attendees receiving per diem included elementary, middle, and high school students, and FAMU alumni. Other discrepancies included instances where students received per diem twice for one trip.

*Response:* The University has revised its group travel roster and implemented controls to ensure travelers are approved and receive appropriate per diem.

#### **Purchase Card Review:**

The University was unable to provide documentation or justification for several purchases and travel charges. There were numerous examples of cardholders failing to adhere to University policies and procedures. Instances of overpayment to travelers based on their travel reimbursement requests were noted. In addition, one individual consistently submitted false information on travel vouchers, and has been charged by the Office of the State Attorney with eight counts of falsifying a travel voucher.

*Response:* The University has revised the P-Card reconciliation report and lost receipt form, and held mandatory training for cardholders. The Travel Office and Controller's Office have instituted cross-referencing procedures to provide oversight of travel related charges, and has terminated the employee charged with falsifying travel vouchers.

#### **Division of Audit and Compliance:**

Although a majority of the complaints received by the Division between 2008 and 2011 were reviewed and resolved, several were not investigated. FDLE recommends that the Division review those ten complaints, investigate identifiable violations, and forward potentially criminal information to the appropriate law enforcement authorities.

*Response:* The Division of Audit and Compliance has reviewed the complaints identified and determined the next course of action, with the exception of one complaint that has not yet been forwarded to the Division by the Board of Governors.

#### **Theft of Marching Band Dues:**

The FDLE and FAMU Police Department investigations were unable to identify the individual responsible for the theft of the band funds. The FAMU Police Department indicated the incident was forwarded to the Division of Audit and Compliance, but no administrative review was done.

*Response:* The Division of Audit and Compliance forwards all suspected criminal activity to the FAMU Police Department. Procedures have been revised to ensure follow-up with the FAMU Police Department in order to obtain the outcome of their investigation and determine if any further action is warranted.

#### **Band Staff Compensation:**

The former Band Director was given the authority to negotiate contractual agreements relating to band performances for which he received payments which were deposited into his personal bank account. There were no internal controls or administrative oversight over the personal payments to the Band Director or his staff.

*Response:* The University now requires all contracts with external agencies to be approved by the Office of General Counsel and the University President or designee. All funds related to the band's performances will be deposited into the Marching Band Foundation account.

#### **Implementation of Corrective Actions:**

To provide assurance that corrective actions are implemented to resolve the issues raised related to travel and purchasing card usage, the University has engaged the firm of Ernst & Young to evaluate internal controls over the processes and identify improvements needed to prevent occurrence of the weaknesses noted in the FDLE report. This is to be a forward looking engagement to resolve the issues that have already been identified.

#### **Update on the Ernst & Young Report:**

The University contracted with Ernst & Young to re-perform eight audits/reviews identified in an investigation conducted by Sniffen & Spellman, P.A. Results of Ernst & Young's work for the audits/reviews were received by the University in a draft report dated, July, 2012. The final report was issued by Ernst & Young on October 25, 2012, with no significant changes. The findings were presented at the August, 2012, Board meeting. The University has adopted a corrective action plan to address all findings.

### **Audit Committee Training:**

Ernst & Young has agreed to provide training to the audit committee on its roles and responsibilities. There was not sufficient time to hold the training, but it will be scheduled at the next audit committee meeting. The training is expected to take one to two hours.

Mr. Chairman, this concludes Audit and Compliance Report.

### **Questions and Answers:**

Question #1 – Trustee Langston: We went out with the original request in 2008 and we contracted with Premier in December 5, 2011. We have a Table of Bids that were submitted for the 2008 Proposal. What did we actually contract with Premier for in December, 2011?

Answer #1 – Mr. Richard Givens: In December, 2011, the contract was for the design-build services for the 800 Bed Residence Hall.

Question #2 – Trustee Langston: At what maximum price?

Answer #2 – Mr. Richard Givens: The preconstruction contract was for about \$3 million but the preconstruction contract was part of the total design-build contract, which set the project budget at \$34.6 million. Under terms of the contract, the Contractor was to use its best efforts to design a building that could be built for \$34.6 million. It was not a hard fast price.

Question #3 – Trustee Langston: Did we sign a contract with Premier in 2008?

Answer #3 – VP Richard Givens: The ITN it was issued in 2008. It was for the renovation of Sampson and Young and for the 800 Bed Residence Hall. They were selected in 2009. In the first part of the contract they renovated Sampson and Young Hall.

Question #4 – Trustee Turnbull: Are we implementing the recommendations in the current contract process? Trustee Turnbull also requested that the management response to findings be included with the report.

Answer #4 – VP Richard Givens: The requirement that the Contractor had a similar experience was in the request for Bids. The other VP Givens wasn't sure about.

Question #5 – Trustee Turnbull: Without final bid, is cost based upon the architectural drawings, and the assessment of those costs? How do we come up with a figure without a going to the bid process?

Answer #5 – VP Givens: You actually secure funding before going to Bid. It maybe a little early to secure funding before going to a bid, but at some point, the project cost needs to be determined.

Question #5A – Trustee Turnbull: What is the bonding process for the State of Florida?

Information provided - Chairman White #6: You do have to have worked within the bond process to know what the bond offering is. At some point we need to tighten up with the amount of time within that process, such that there is not significant delay between the awarding of the bid and the finances actually being secured. The specific language as written in that recommendation is properly not accurate and not practical.

Question #7 – Trustee Lawson: Needed to get clarity on the 6.8 million overage. Is the audit saying the overage is based on various things: overtime, recession impact, cost projections?

Answer #7 – VP Givens: Based on the explanation provided by Premier, we don't feel like the project start date was far off from the projected start date. The University was to have it finished by July, 2013. The cost increases were not adequately justified by Premier.

Question #: Trustee Montgomery: Shared he needed to know the parties responsible for this situation. We must become responsible and accountable for our actions.

Trustee Persaud: Agrees with Trustee Montgomery.

The meeting was adjourned.



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## BOG INVESTIGATIVE REPORT

On December 28, 2012, the Board of Governors issued a preliminary report on the University's anti-hazing program. The University submitted its response on January 23, 2012. The BOG report included the following findings and recommendations:

### FINDINGS

#### Institutional Controls

- A. There was no rigorous communications protocol between senior staff and their direct reports.
- B. There was no internal or programmatic review of the interaction between law enforcement and student affairs.
- C. There was a failure to adequately fund or provide personnel at a level capable to carry out the duties.

#### Internal Controls

- A. The 1998 FAMU division of Bands Directive has not been reviewed or updated to enhance or improve Band operations.
- B. Contrary to the Division of Band Directive, there were no written policies and procedures for verifying that individuals were eligible to participate in the Band, including individuals who had been involved in hazing activities.

#### Office of Judicial Affairs

- A. There were no written policies and procedures for the referral of matters from the FAMU Department of Public Safety (FAMU Police Department).
- B. The Judicial Affairs Office did not have a file index system designed to maintain and track records of disciplinary actions precipitated by allegations of hazing.
- C. The periodic review of the Student Code of Conduct was inadequate as evidenced by the failure to maintain records or files of the 2009 assessment of the Code.
- D. There was no training for the Judicial Officer on the handling of his critical duties.

#### Office of Public Safety

- A. There were no written policies or procedures for referral of all cases of potential violations of the Student Code of Conduct received by the FAMU Police Department to the Judicial Affairs Office.
- B. There was a failure to refer a case of alleged hazing to the Judicial Affairs Office in a timely manner sufficient to assess whether a Section 13 (student code) dismissal of the student was appropriate.

### CORRECTIVE ACTIONS

To address the issues with institutional controls, the University adopted an anti-hazing program utilizing the current best practices based on anti-hazing research, including a non-retaliation component and a requirement for timely reporting of suspected hazing incidents. To implement and monitor the program, the University established several new positions responsible for elements of the anti-hazing program..

Major provisions of the anti hazing program and actions taken to implement the program include:

- Established new criteria for intake procedures for all membership organizations

- Established guidelines for advisors of student organizations
- Established an anti-hazing website
- Reorganized the Judicial Affairs Office and adding two new additional staff
- Established an internal anti-hazing research initiative and reached out to student and community groups and other Universities to foster greater understanding of hazing's dangers and consequences
- Reconstituted the external anti-hazing committee with the special assistant to the president as liaison
- Reorganized the music department , including addition of a new music department compliance officer
- Assessed music department scholarship recipients and established higher grade point average standards
- Prior to registration, students must annually re-affirm that they are aware of, and will abide by, the regulations
- Revised the University's anti-hazing regulation effective May 9, 2012
- Revised the music department handbook, effective September 25, 2012 for the Fall 2012 term
- Embraced all 16 "hazing prevention best practices" identified by SUS Council of Student Affairs' matrix of all (then) 11 state universities.
- Exceeds SUS' "hazing best practices" by:
  - Mandating 24-hour reporting requirement;
  - Prohibiting retaliation for reporting, non-participation, etc.;
  - Creating new position of special presidential assistant on anti-hazing;
  - Imposing additional membership intake procedures on student organizations; and
  - Requiring "re-certification" of all student organizations.
- All students are required to execute written anti-hazing agreements, not just members of the marching band.

The new anti-hazing program and related policies and procedures were communicated to students, faculty, and staff through the following:

- A University-wide convocation on hazing was held to provide training on hazing-related issues and the requirement for reporting hazing
- Held an anti-hazing prevention week
- Establishment of an anti-hazing website to provide information
- Incoming students now receive anti-hazing instruction during "freshman studies" course, in addition to freshman orientation
- Hosting of student "town hall" meetings on anti-hazing

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## REPORT ON OPERATIONAL AUDIT

On January 11, 2012, the Auditor General delivered its preliminary and tentative findings for the operational audit for the 2011-12 fiscal year. The report included findings related to the following:

- administrative management and board policies,
- cash management,
- inventory,
- athletic programs,
- student tuition and fees,
- employee compensation,
- expenses and disbursements,
- procurement of goods and services,
- construction administration, and
- information technology.

The University is preparing a response to include a corrective action plan, which is due February 11, 2013.

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**Florida A&M University**  
Audit committee training

February 6, 2013

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Quality In Everything We Do

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# Background

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- ▶ The Audit Committee's role is to provide confidence in governance of an organization, the organization's financial status, system of internal controls, and compliance procedures
- ▶ The Audit Committee's mission should be guided by the principles of accountability and independence
  - ▶ Stakeholders who place reliance on the Audit Committee to execute its mission include donors, grantors, and other financing institutions
  - ▶ The Audit Committee must be independent of both management, the independent (external) auditors and key suppliers/service providers
  - ▶ Reputation, tax-status and long-term viability of the University are other main considerations of stakeholders



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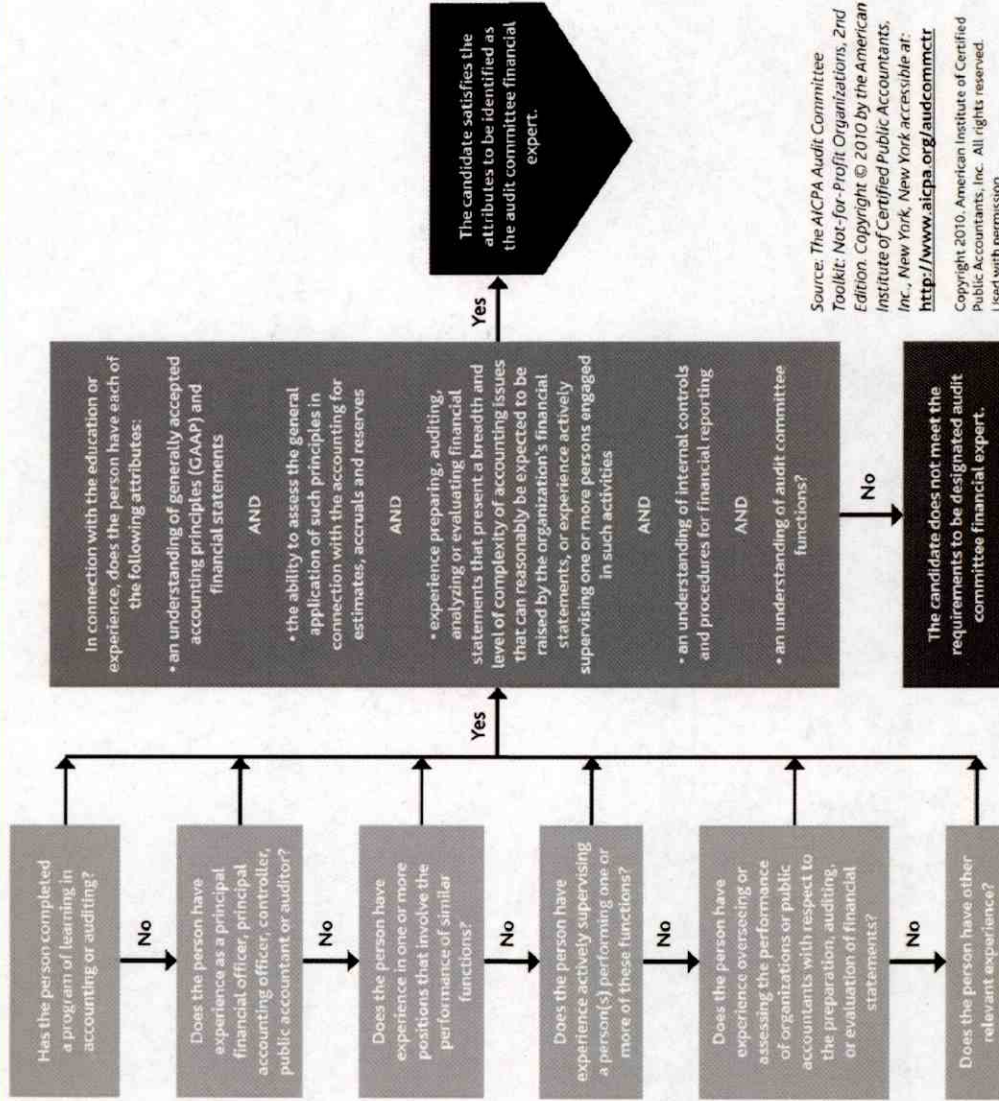
# Committee composition and dynamics

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- ▶ Composition of committee is critical to its effectiveness
  - ▶ Typical size ranges from three to six members
  - ▶ Members should have knowledge of industry, fraud risks, operations, internal controls concepts and strategy of the University
  - ▶ At least one member should be designated as a financial expert (see following page for AICPA decision tree, following, and questionnaire, in Toolkit)
- ▶ Focus on broad business and/or leadership experience and succession planning
- ▶ A range of diverse perspectives and expertise helps strengthen the quality of deliberations
- ▶ Ability to work collectively, to challenge decisions in a credible manner and to avoid “group think”
- ▶ Consider periodically rotating committee members and policies limiting Board service or Committee participation

# Audit Committee financial expert

## AICPA decision tree



Source: The AICPA Audit Committee Toolkit: Not-for-Profit Organizations, 2nd Edition. Copyright © 2010 by the American Institute of Certified Public Accountants, Inc., New York, New York accessible at: <http://www.aicpa.org/audcommctr>  
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# Audit committee – roles & responsibilities

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- ▶ Oversight of financial reporting
- ▶ Oversight of internal controls and risk management
- ▶ Relationship with independent auditor
- ▶ Interaction with management
- ▶ Relationship with ethics & compliance
- ▶ Interaction with internal auditors
- ▶ Interaction with other Board committees
- ▶ Executive sessions
- ▶ Self-assessment and evaluation
- ▶ Orientation and education

# Oversight of financial reporting

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- ▶ The primary responsibility of Audit Committee is to ensure the integrity of financial information
- ▶ As financial statements become more complex, the Audit Committee needs to ensure the financial statements are understandable and transparent
- ▶ Oversee the integrity of the financial statements and the quality and reliability of earnings
- ▶ Understand significant accounting and reporting developments and issues, including regulatory pronouncements and their effect on the financial statements
- ▶ Must understand business operations and associated risks, and how these matters are portrayed in regulatory and other filings
- ▶ Anticipate and understand the effect of pending financial reporting and regulatory developments, particularly the effect on resource needs

## **TOOLKIT:**

- Questions related to review of the financial statements
- Topics for consideration for quarterly discussions
- Matters for consideration related to fraud risks

# Oversight of internal controls and risk management

- ▶ Internal controls form an integral part of an institution's enterprise risk management (the COSO\* framework presents five intertwined areas: control environment, risk assessment, control activities, information and communication and monitoring)
- ▶ Audit Committees are increasingly overseeing controls regarding legal and regulatory compliance, and not just focused on financial reporting controls
- ▶ Ensure the University devotes adequate resources required for the effectiveness of internal control processes
- ▶ Determine that risk management processes are in place, especially those affecting financial reporting and reputational risk
- ▶ Review and (where appropriate) challenge the risk profile
- ▶ Reassess the list of top risk areas and determine who in management and which committee of the Board is responsible for each

\*Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 1992

## TOOLKIT:

- Matters for consideration related to internal control
- Consideration of controls at the entity level

# Relationship with independent auditor

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- ▶ The Audit Committee should be responsible for oversight of the independent auditor, including:
  - ▶ Appointment, compensation and retention (if applicable)
  - ▶ Review of auditor's annual audit plan/scope
  - ▶ Review and discussion of financial statements
  - ▶ Assessment of auditor independence
- ▶ Candid and open communication between the independent auditor and Audit Committee is imperative for a successful relationship
  - ▶ Establish expectations regarding the nature and method of communications, as well as exchange of insights
- ▶ Seek auditor's views on the effectiveness of the University's governance process
- ▶ Provide formal evaluations and regular feedback

## TOOLKIT:

- Audit Committee financial expert questionnaire
- Matters for consideration regarding audit results
- Matters for consideration regarding audit scope
- Matters for consideration related to fraud risks

# Interaction with management

- ▶ Audit Committees rely heavily on management and, therefore, should have an open and effective relationship
- ▶ Audit Committees must find the delicate balance between overseeing management without making management decisions
- ▶ An open and trusting relation with management is of great importance to Audit Committees and should include discussions with management outside of the normal Board schedule
- ▶ Focus on governance structure, tone at the top, culture, internal controls, risk assessment, ethics and hotline monitoring
- ▶ Evaluate whether Audit Committee is receiving adequate information from management on a timely basis
- ▶ Determine the level of detail of information that is appropriate, whether issues are explained clearly and whether discussion with internal and external auditors corroborate the information presented by management

## **TOOLKIT:**

- External environmental factor considerations
- Matters for consideration related to fraud risks

## **Relationship with ethics & compliance**

- ▶ Audit Committees should review both internal and external reports on the University's compliance with certain laws and regulations
  - ▶ Financial reporting and internal policies/procedures designed to ensure compliance are key areas
  - ▶ General Counsel, independent auditor and Internal Audit can all provide periodic reports
  - ▶ Changes in policies affecting financial, internal control structure and compliance should be reviewed
- ▶ Periodically discuss with management the effectiveness of the program, including a periodic review of the Code of Ethics
- ▶ Review and confirm "whistleblower" procedures, including publication of such procedures

### **TOOLKIT:**

- Matters for consideration related to the corporate compliance and ethics program
- Matters for consideration related to fraud risks



# Interaction with internal auditors

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- ▶ The Internal Audit function is a key resource for the Audit Committee
- ▶ The Audit Committee should be responsible for hiring and compensating the IA Director/IA function
- ▶ The most effective Internal Audit functions have a direct line to the Audit Committee with Internal Audit findings reported directly to the Audit Committee
- ▶ The Audit Committee should be involved with the Internal Audit risk assessment process and approving Internal Audit plans
- ▶ Understand whether the Internal Audit department is viewed as objective
- ▶ Establish how the Internal Audit function relates to other risk-related functions (e.g., legal, security, environmental health/safety, compliance, credit risks), considering duplication of efforts or gaps between the functions

## TOOLKIT:

- Matters for consideration regarding the internal audit function
- Matters for consideration related to fraud risks

## Interaction with other Board committees

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- ▶ The Audit Committee works with other Board committees and assists the Board by bringing specialization in the areas of financial reporting, internal controls, risk management and audit activities
- ▶ The interplay between executive compensation policies and risk management has been a particular area of focus by regulators and stakeholders
- ▶ The Compensation Committee should be engaged in management and Audit Committee discussions related to the University's compliance framework and procedures
- ▶ The Audit and Compensation Committees should have some level of coordinated activities (e.g., discussion of any incentive structures and whether they contribute to increased fraud risk)
- ▶ While overseeing the assessment and disclosure of compensation-related risks is mainly the role of the Compensation Committee and the full Board, the Audit Committee can help in assessing how certain financial metrics should be employed in compensation plans

# Executive sessions

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- ▶ Audit Committees are increasingly holding private sessions with internal auditor, external auditor, management and among themselves
- ▶ Audit Committee members may use this time to reflect on issues, evaluate what is working and what opportunities exist for improvement, and identify follow up actions
- ▶ Provide clear objectives and expectations for each meeting
- ▶ Prepare specific topics and questions
- ▶ Understand the response and resolution for each issue raised

**TOOLKIT:**

- Private session with the auditors

# Self-assessment and evaluations

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- ▶ In order to be successful, the Audit Committee must understand its responsibilities, monitor its effectiveness and identify improvement needs and opportunities
- ▶ Regular performance evaluation enables the Audit Committee to ensure it is meeting the expectations of its members, the full Board and regulators
- ▶ Perform a thorough self-assessment:
  - ▶ Consider evaluating performance of individual committee members and the effectiveness of the committee as a whole
- ▶ Communicate with the full Board on activities and recommendations resulting from the assessment

## TOOLKIT:

- Self-assessment tool for Audit Committees

# Orientation and education

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- ▶ New members should have an appropriate understanding of the University, the industry, risk areas, and the University's internal controls and financial reporting systems
- ▶ Members should be provided with sufficient background information
- ▶ Regular training ensures that the Audit Committee members enhance their knowledge and skills
  - ▶ Consider offering continuing education in specialized or regulated industry matters, industry trends, reporting, operations and related topics
  - ▶ Consider customized programs to address topics relevant to the University's needs and incorporate University-specific processes and objectives

**TOOLKIT:**

- Background information for new committee members

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## Key takeaways

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- ▶ Assess and respond to changing business, regulatory and accounting landscape
- ▶ Reassess and refine role in risk oversight
- ▶ Coordinate and collaborate with internal and external stakeholders while making decisions
- ▶ Focus on sound corporate governance principles
- ▶ Consider stakeholders' perspective of requiring greater transparency and accountability
- ▶ Enhance preparedness in dealing with crisis situations

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