

Florida A&M University

2013-14 Risk assessment and internal audit plan

May 2013

Contents

- 2013-14 Risk assessment & internal audit plan 1
- Risk assessment matrix development process 2
- Risk assessment matrix..... 4
- Risk themes 7
- Proposed internal audit plan 11
- Risk assessment process..... 12
- Interviewee Listing 13

2013-14 Risk assessment & internal audit plan

Executive summary

In developing the 2013-2014 Internal Audit Plan, we performed a university-wide internal audit risk assessment, a process that identified and analyzed risks facing Florida A&M University (FAMU). The risk assessment served as the primary basis for developing the 2013-2014 Internal Audit Plan. The objective of the risk assessment is to align internal audit resources to those processes that pose the highest risk to the University's ability to achieve its objectives. In addition, we considered fraud risk factors in the development of this Internal Audit Plan.

While completing this year's risk assessment, we conducted 15 interviews with certain members of the Executive Staff and members of FAMU's Board of Trustees related to the University's overall risk universe. Each interview was scheduled for approximately one hour, and each interviewee was asked to comment on the risks associated with FAMU's ability to execute its core objectives and risks specifically related to their span of control. Additionally, a survey was distributed to deans and certain academic staff to solicit feedback on risks associated with significant processes, and to assist in ranking the overall risk of major processes in the different risk universe spheres.

Risk assessment matrix development process

The development of the Risk Assessment Matrix is a three step process:

1. Determine the risk universe for FAMU
2. Determine the likelihood of occurrence having a material impact on the University
3. Risk definition – low, medium and high

Risk universe

The risk universe was compiled using a standard risk universe for Universities and adjusting for applicability to FAMU. The adjustments to the risk universe were made from knowledge of the University, prior Internal Audit reports, and from discussions with Executive Staff.

Likelihood of material impact of occurrence

The risk related to each category was scored based on the likelihood of having a material impact on the University. Interviewees and survey recipients completed the risk ranking, where each risk was scored on an impact and likelihood scale. Guidance on risk ranking (listed below) was provided to survey recipients for measuring impact and likelihood on a 1-5 scale.

Likelihood

Score	Rating	Probability
5	Expected	>90%
4	Highly likely	≤ 90%
3	Likely	≤ 60%
2	Not likely	≤ 30%
1	Slight	≤ 10%

Impact

Score	Rating	Strategic		Operations	Compliance	Financial
5	Significant	Loss of confidence in all stakeholder* groups	Potential closing of University	Enterprise wide; inability to continue normal operations across entire University	Management indictments; Large-scale legal action; Regulatory sanctions	Financial impact greater than \$100M
4	High	Loss of confidence by 3 or more stakeholder* groups	2 or more changes in senior leadership; significant changes to University's strategic plan	Significant interruptions to University operations	Management challenges; Large legal liabilities; Regulatory fines	Financial impact of \$70M-\$100M
3	Moderate	Loss of confidence by 2 or more stakeholder* groups	1 or more changes in senior leadership; significant changes to University's operating plans and execution	Moderate interruptions to University operations	Management reviewed; Legal reserve established; Regulatory investigation	Financial impact of \$50-\$70M
2	Low	Loss of confidence limited to 1 stakeholder* group	Refinements or adjustments to University's operating plans and execution	Minor interruptions to University operations	Management unaffected; Minimal liabilities; Regulatory attention	Financial impact between \$100K - \$50M
1	Limited	Limited impact to 1 stakeholder* group	Limited adjustment necessary	Limited interruptions to University operations	Limited liabilities or Regulatory impact	Financial impact of less than \$100K

*Note: example stakeholder groups include students, faculty, Board of Governors, Board of Trustees, donors, alumni, SACS, USDOE, etc.

Upon receipt of the surveys, we multiplied impact and likelihood and used that number to calculate overall risk, which was then grouped into risk categories of low, moderate and high.

Risk definition

-  **Low risk** – FAMU has an *unlikely* probability of risks occurring that would have at least a material impact on the Company's ability to achieve its strategic objectives.
-  **Moderate risk** – FAMU has a *medium* probability of risks occurring that would have at least a material impact on the Company's ability to achieve its strategic objectives.
-  **High risk** – FAMU has an *expected* probability of risks occurring that would have at least a material impact on the Company's ability to achieve its strategic objectives.

Risk assessment matrix

There are many definitions and categories of risk. Entities perceive risk based on the nature of their operations, the organization's culture and other factors unique to them. Risk Management is broadly defined as a process designed to identify potential events that may affect the entity, and to manage risks to provide reasonable assurance regarding achievement of entity objectives.¹

Every entity exists to realize value for its stakeholders. Value is created, preserved or eroded by management decisions in all aspects of an entity's activities, from strategy setting to daily operations. Entities failing to recognize the risks they face, from external or internal sources, and to manage them effectively, can destroy value. An effective starting point for understanding risk is to take a look at all aspects of an entity's activities.

The matrix below classifies and ranks FAMU's risks according to Ernst & Young's risk universe and scoring as discussed above. Additionally, prior year and planned internal audit coverage is noted in the table below. The Auditor General also performed operational audits around many of these areas for the 2012 – 2013 year.

		Overall Ranking (Impact * Likelihood)	Prior/ Planned Internal Audit Coverage		
			2012-13	2013-14	2014-15
Strategic Risks					
Governance					
1.01	Corporate Governance	M		X	
1.02	Leadership Effectiveness	M			
1.03	Control Environment/Internal Controls	M		X	
1.04	Roles, Responsibility & Accountability	M			
1.05	Culture	L			
Planning & Resource Allocation					
2.01	Strategic Planning & Direction	M			
2.02	Annual Budgeting & Forecasting	M			
2.03	IT Enablement & Process Automation	H		X	
2.04	Alliances & Partnerships	M			
Strategic Initiatives					
3.01	Program Planning & Governance	M			
3.02	Program Execution & Monitoring	L			
3.03	Business Acceptance & Change Management	H			
Industry Dynamics					
4.01	Macro-economic Factors	L			
4.02	Regulatory Uncertainty / Government Advocacy	M			
4.03	Educational Standard / Preference Changes	M			
Communications					
5.01	Alumni Relations	M			
5.02	Community/Media Relations	H			X
5.03	Crisis Communication	H			X
5.04	Faculty, Staff & Student Communication	M			

¹ Source: COSO Enterprise Risk Management - Integrated Framework, 2004 COSO

		Overall Ranking (Impact * Likelihood)	Prior/ Planned Internal Audit Coverage		
			2012-13	2013-14	2014-15
Operational Risks					
Academic Operations					
6.01	Curriculum Strategy & Development	L			
6.02	Faculty Recruiting & Retention Strategy	M			
6.03	Student Recruiting & Retention Strategy	H			X
6.04	Tuition - Cost of Education	M	X	X	
6.05	Admission & Enrollment	M	X		
6.06	Financial Aid	H		X	
6.07	Billings (tuition/services)	M			
6.08	Student Support Services	M			
Education Delivery					
7.01	Capacity Planning & Scheduling	L			
7.02	On-line Education & Support	L			
7.03	Licensing & Classroom Technology Support	L			
Contracts & Grants					
8.01	Contract Management	M		X	
8.02	Sponsor Funding	M		X	
8.03	Intellectual Property	L			
8.04	Clinical Trials Research Billing	L			
8.05	Research & Data Integrity	L			
Donor Management					
9.01	Fundraising/Development Infrastructure	M			
9.02	Donor Compliance / Intent	M			
9.03	Gifts & Donation Management	L			
Supply Chain					
10.01	Vendor Management & Supplier Quality	M			X
10.02	Procurement & Supplier Rationalization	H	X		X
People / Human Resources					
11.01	Human Capital Strategy / Planning	H			X
11.02	Faculty & Staff Performance	H			X
11.03	Development & Training	H			X
11.04	Succession Planning	H			X
Information Technology					
12.01	IT Strategy & Planning	H			
12.02	IT Network Infrastructure & Architecture	H		X	
12.03	IT Availability	H		X	
12.04	Information Security	H		X	
Environmental Health & Safety / Hazards					
13.01	Physical Security	H		X	
13.02	Public & Student Safety	H		X	
13.03	Lab Safety	M			
13.04	Business Continuity Planning / Resiliency	M			

		Overall Ranking (Impact * Likelihood)	Prior/ Planned Internal Audit Coverage		
			2012-13	2013-14	2014-15
Physical Assets					
14.01	Real Estate Optimization	L			
14.02	Property, Plant & Equipment Optimization	M			
14.03	Construction Management	M	X		
14.04	Facilities Management	M		X	
Compliance Risks					
Code of Conduct					
15.01	Ethics & Integrity	M			
15.02	Fraud / Asset Misappropriation	M	X		
15.03	Academic Misconduct	M	X	X	
15.04	Conflict of Interest	L			
Legal & Regulatory					
16.01	Anti-corruption	L			
16.02	Research Compliance	M			
16.03	Labor Laws	L			
16.04	Sales Tax Compliance	L			
16.05	Athletic Programs & NCAA	H		X	
16.06	HIPAA (Privacy & Security)	L			
16.07	FERPA	M			
16.08	Maintain 501(c)3 Tax-Exempt Status	L			
Finance Risks					
Accounting & Reporting					
17.01	Financial Accounting, Reporting and Disclosure	M		X	
17.02	Management Reporting & Business Intelligence	H			
Liquidity & Credit					
18.01	Cash Planning & Management	H		X	
18.02	Credit & Collections	H	X		
18.03	Investment Strategy & Management	L			
18.04	Funding & Refinancing	M			
18.05	Debt Structure & Management	L			
18.06	Bond Compliance	L			
18.07	Pension Fund Liability	L			
Risk Management					
19.01	Insurance Coverage & Optimization	L			

Risk themes

Listed below is a summary of risks consistently cited by interviewees and survey recipients during this year's Risk Assessment. These are summarized here to provide the Audit Committee and management with areas represented to Ernst & Young to be "top of mind" for key executives and managers within the organization.

▶ SACS Probation - Accreditation

The University was placed on a 12-month probation at the December 2012 Southern Association of Colleges and Schools (SACS) Annual Meeting. The result of the accreditation probation has several flow-down effects: there is an adverse effect on faculty and student morale; enrollment has decreased, as has outside funding from corporations; concern for students' ability to obtain financial aid has increased (as approximately 90% of the student body is on some sort of financial aid); and, research grants could also be suspended.

Additionally, an area noted by both SACS and during our Risk Assessment interview process was that while the University has policies and procedures in place, oftentimes certain areas or departments are not following these policies.

The University's accreditation status will be reviewed during the 2013 Annual SACS meeting.

Internal audit coverage – SACS follow-up projects; Policies & procedures review

▶ Funding

Diminishing funding from the State combined with the accreditation probation and a continued soft economy is a high risk for the University. Decreased government funding results in increased dependence on tuition and donations in a current state where enrollment is declining.

Continued funding from the State relies on meeting certain metrics, including retention and graduation rates. Additionally, Florida Statute 1009.24 was recently passed, which requires a student to be responsible for 100% of course costs if the student exceeds 10% of the required credit hours to obtain a degree.

Donor relations and donor management also were cited as a risk to the University. Capital campaigns are challenging with the SACS probation and continued media scrutiny surrounding the University. FAMU should continue attracting funds and donations from alumni and other constituents, and process and manage these gifts timely and accurately. Traditionally, 60% of all gifts come from corporations; however, due to the recent media scrutiny, corporations only make up approximately 40% of donations.

Internal audit coverage – Assessment of Compliance with 2012 Florida Statute 1009.24; FAMU Foundation process review

▶ **Student Recruitment and Retention**

A main goal of the University is the ability to recruit the best and the brightest students. Historically, the University has enrolled a higher than normal mix of “profile admit” students (i.e., students who do not meet all requirements for admission to the University). Fifty percent of FAMU students are currently in this “profile admit” category, while most state Universities profile admit mix is around 3%. This high mix of profile admit students has an impact on graduation rates (on average 6 years), which could affect the University in future years, as the state system is moving to performance-based funding. The University has started an initiative to reduce the number of profile admits accepted; however, the University will need to invest money and resources to continue this initiative.

Internal audit coverage – Student Recruitment and Retention process assessment (2014-15)

▶ **Financial Aid**

Risk Assessment interviewees consistently noted the management of financial aid funds (including administering to students and return of funds to the government) as a high risk area for the University. If financial aid is not administered according to federal regulations, penalties and fines could occur. Additionally, if FAMU fails to administer financial aid to students in a timely manner, this could adversely affect student recruitment.

It was also noted that the University’s IT systems are not used to their full functionality, and financial aid processes were noted as being more manual than necessary.

A new Director of Financial Aid has been hired and plans to implement an annual process of benchmarking the University against leading practices.

Internal audit coverage – Financial aid process review

▶ **Athletics & NCAA Compliance**

One high compliance risk noted by Risk Assessment participants was the potential for a major NCAA or Title IX infraction. The University is required to have a certain number of players eligible to field a team. Additionally, there is elevated media scrutiny around college athletics, and an infraction could potentially cause increased reputational risk for FAMU.

Another risk related to the athletic department is lack of funding and the operating deficit. Much of the department’s funding comes from tuition fees. Declining enrollment increases the risk of funding for the Athletic department. However, it was noted during our Risk Assessment interviews that most University athletic departments operate at a deficit.

Internal audit coverage – ACE Academic Support Services review; Follow-up on certain financial and operational Athletic department processes (2012 – 2013)

► Human Resources

During the Risk Assessment, several respondents noted the University continues to face challenges in recruiting and retaining talented personnel. Additionally, several positions at the University are currently held by interim positions, which is not consistent with the long-term vision for the University. Respondents noted University salaries are low compared to other state universities, and rank as one of the lowest in the State of Florida. An additional risk to the University is retaining institutional knowledge. Respondents also mentioned that certain areas lacked either enough resources or lacked qualified resources to effectively carry out University objectives.

Formal succession planning is not consistently performed at FAMU, which could result in loss of institutional knowledge when individuals leave the University.

The University is currently conducting an enterprise-wide review of staffing against position descriptions.

Internal audit coverage – HR skills gap assessment (2014-15)

► Information Technology (IT)

Almost all Risk Assessment participants noted some aspect of IT as a high risk for the University. A theme consistently mentioned was that the University's ERP System (PeopleSoft) is not configured to provide maximum system functionality. One root cause of this issue noted is that the IT Department does not have the appropriate people in place to configure, design, and make timely updates to the system. The under-utilized system was also noted as causing inefficiencies in several departments, as manual processes are required to supplement and/or be used in place of processes that could be automated (including systemic approvals, reconciliations, segregation of duties controls, etc.).

The growing cost of IT security is also a high risk for the University. During the Risk Assessment, individuals noted it is difficult to meet salary demands of rising IT professionals, and also difficult to retain the talent needed to maintain the University systems. Maintaining the resources the University has spent time to train, specifically with particular applications (PeopleSoft), is a challenge that creates further risk. The CIO position has been occupied by an interim employee for the past three years.

The establishment of a disaster recovery plan is important for the University to reduce the likelihood of interrupted operations. The University currently does not have a comprehensive and formalized disaster recovery plan; however, the applications that run on the PeopleSoft system are hosted by a third party, Cedar Creststone, which has a disaster recovery plan and could recover PeopleSoft data. However, the University uses several other IT applications that do not have formal disaster recovery plans and which could cause significant interruptions if not easily recoverable.

Finally, online classes are in the early stages of development at the University. This is a large revenue opportunity for the University, and it will be important to have the system infrastructure to be able to effectively offer courses via this platform. The University has not moved to the cloud; however, a move to the cloud is being considered.

Internal audit coverage – Information Technology General Controls (ITGC) assessment, IT Automated Controls Assessment; Disaster Recovery Assessment

▶ **Physical Security / Public and Student Safety**

Physical security and public/student safety was noted as a high risk at the University. During the Risk Assessment, respondents noted that funding is not adequate to secure the campus and upgrades should be made to more fully secure the campus and its buildings. While a rogue student or person on campus can always pose a risk, the University should consider if current security measures are sufficient and if the University is in compliance with annual reporting requirements of the Clery Act.

Internal audit coverage – Department of Public Safety review

▶ **Media Relations and Crisis Communication**

Due to the recent events, the University has had extensive media coverage over the past few years. Publishing inaccurate information and creating a negative image of the University is a high risk for the University. As previously mentioned, this could also lead to an adverse impact on fundraising and enrollment.

When a crisis occurs related to FAMU, the University could be unfavorably affected if the crisis is not addressed with a swift, formal action plan, including clearly defined roles and responsibilities. Additionally, all stakeholders of the University should be considered in crisis communications – students, faculty, staff, alumni, community, and the media.

Internal audit coverage – Crisis communication plan development advisory project (2014-15)

▶ **Procurement and Accounts Payable**

Risk assessment participants noted that the procurement function (including vendor management and accounts payables) is a risk to FAMU.

Interviewees noted that the procurement process is slow and often takes longer than expected to generate purchase orders. This was noted as especially affecting the area of research and grants, as many grants are on a restricted timeline for using funds. This area in particular has had to create system work-arounds to procure goods/services. System work-arounds create elevated risk for the University in the areas of following policies and procedures, potential for fraud, and other downstream inefficiencies.

Respondents also noted that certain vendors are hesitant to work with FAMU as timely payment is not consistent. Limited ability to work with preferred vendors could affect performance of the University and its ability to meet key objectives.

Internal audit coverage – Accounts Payable review; Contracts and Grants review; Research Compliance assessment; Vendor performance management review (2014-15)

▶ **Cash Management**

Decreasing enrollment, uncertainty around donations and state funding, and flattening of tuition increases have caused an uncertainty in the level of funding the University will receive in coming years. As such, participants noted that planning and forecasting at the University has become a challenge. Having a solid cash forecasting process in place allows the University to more appropriately allocate resources and reduce liquidity issues.

Internal audit coverage – Cash forecasting and budgeting review

Proposed internal audit plan

In determining the internal audit coverage for 2013-2014, we considered factors such as the assessed rating of the risk, whether internal audit projects have been performed previously in the area, and whether the area was expected to undergo changes during 2013-2014.

Financial			
14-01	Accounts Payable review	Accounting & Reporting	250
14-02	Cash forecasting and budgeting review	Liquidity & Credit	350
			600
Compliance			
14-03	Assessment of Compliance with 2012 Florida Statute 1009.24	Legal & Regulatory	250
14-04	ACE Academic Support Services review	Legal & Regulatory	250
			500
Operational			
14-05	Financial aid process review	Academic Operations	400
14-06	Contracts and Grants review	Contracts & Grants	800
14-07	Research Compliance assessment	Contracts & Grants	400
14-08	Information Technology General Controls (ITGC) assessment	Information Technology	300
14-09	IT Automated Controls Assessment	Information Technology	300
14-10	Department of Public Safety review	Environmental Health & Safety / Hazards	300
			2500
Strategic			
14-11	SACS follow-up projects	Governance/Strategic Initiatives	{a}
14-12	Policies & procedures review	Governance	200
			200
Follow-ups, Investigations and Compliance Activity			
	Follow-ups (including SACS follow-up work)		2000
	Investigations		3300
	Compliance Activities & Management Requests		2800
			9100
Internal Audit Administration, Communication, Follow-up			
	Training		320
	Administration		3500
	Leave		720
	Total IA Plan Hours (approximate)		16,500
Alternate Projects			
	FAMU Foundation process review		
	Construction Management procedures review		
	Facilities Management procedures review		
	Disaster Recovery Assessment		
	Payroll Tax Fringe Benefits		
	Unrelated Business Income Tax (UBIT) activities		

{a} hours for SACS follow-up work is included in the overall budget for follow-ups

Risk assessment process

In preparation for the risk assessment interviews, the team researched FAMU and its industry risks by utilizing experiences from FAMU and other university internal audits, and reviewing Ernst & Young's Higher Education Risk Universe. Based on the research performed, the team members discussed the views of risk facing FAMU and reviewed a listing of potential projects performed for other clients.

The team then solicited feedback on the relevant risk points and potential projects during the risk assessment interview process.

The interviews are an integral part of the risk assessment process, as Ernst & Young brings internal audit experience and FAMU management expertise on the risks facing the University. We serve as advisors to FAMU management bringing the perspective gained from other universities, a national network of advisory services professionals, and an internal audit methodology based on COSO's Enterprise Risk Management Framework.

In addition, we distributed an automated risk assessment survey to the next level of FAMU administrators, soliciting their confidential input on risks facing the organization. The result of this process is a comprehensive view of the important risks at FAMU and an audit plan responsive to those risks.

Interviewee Listing

In conducting the University risk assessment, we interviewed fifteen individuals across the organization in key financial, operational, strategic and compliance functions. Each interview was scheduled for one hour.

Interviewees were asked to specifically consider and comment on the following items:

- ▶ The scope of their responsibilities
- ▶ Inherent risk in their functional area
- ▶ Their view of risks related to the processes in their area of responsibility
- ▶ Their view on overall risk to the University
- ▶ Their view of fraud risk for the University

The following members of FAMU's Board of Trustees, Executive Staff, and other members of Administration were interviewed:

Name	Title
Chairman, Dr. Solomon L. Badger	Chairman, Board of Trustees
Trustee Karl E. White	Chairman, Audit Committee
Dr. Larry Robinson	Interim President
Joseph Bakker	Interim CFO & Vice President , Administrative & Financial Services
John Earst	Interim Director, Public Safety
Dr. William Featherstone	Assistant Vice President & Controller of Administrative & Financial Services
Richard Givens	Vice President, Division of Audit & Compliance
Dr. Thomas Haynes	Vice President, University Advancement
Derek Horne	Athletic Director
Dr. William E. Hudson, Jr.	Vice President, Student Affairs
Michael James	Interim Chief Information Officer
Avery D. McKnight, Esq.	Vice President & General Counsel
Dr. Kinfe K. Redda	Interim Vice President, Division of Sponsored Research
Sharon Saunders	Chief Communications Officer
Dr. Rodner White	Interim Provost & Vice President, Academic Affairs

In addition, we distributed the risk assessment survey to the next level of FAMU administration soliciting their confidential input on risks facing the University.

Ernst & Young

Assurance | Tax | Transactions | Advisory

About Ernst & Young

Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 152,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

Ernst & Young refers to the global organization of member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit www.ey.com.

Ernst & Young LLP is a client-serving member firm of Ernst & Young Global Limited operating in the US.

© 2012 Ernst & Young LLP.
All Rights Reserved.