University of Central Florida

Board of Trustees
University of Central Florida
Audit, Operations Review, Compliance, and Ethics Committee
January 8, 2014
10:00 a.m.
President's Boardroom, Millican Hall, 3rd Floor
Call-in number: 800-442-5794   Code: 463796

AGENDA

I. Opening comments and approval of minutes

Trustee Jim Atchison
Chair; Audit, Operations Review, Compliance, and Ethics Committee

II. Report on search for Chief Audit Executive

Rick Schell
Vice President and Chief of Staff

III. University Audit update

Donna DuBuc
Interim Chief Audit Executive

- Direct Support Organization and Component Unit Audit Results (INFO-1)
- Update on External Audits
- Quality Assurance Report (INFO-2)

IV. University Compliance, Ethics, and Risk update

Rhonda L. Bishop
Chief Compliance and Ethics Officer

- Staffing and program development update
- Athletics Compliance program update

V. Closing comments

Jim Atchison

University of Central Florida

Board of Trustees
Audit, Operations Review, Compliance, and Ethics Committee Meeting
June 21, 2013
Millican Hall, Room 243

MINUTES

CALL TO ORDER
Trustee Jim Atchison, chair of the Audit, Operations Review, Compliance, and Ethics Committee, called the meeting to order at 1:00 p.m. via teleconference. Committee members Alan Florez and Beverly Seay were present via telephone. Board of Trustee member Melissa Westbrook was present.

OLD BUSINESS
Minutes
Atchison called for approval of the December 17, 2012, Audit, Operations Review, Compliance, and Ethics Committee meeting minutes, which were approved as written.

NEW BUSINESS
Chief Audit Executive Search
Vice President and Chief of Staff Rick Schell provided an update of the search that is in progress for the chief audit executive. Opus Search Partners has been retained to conduct the search, the search is going smoothly, and it will close in approximately four weeks. The firm has several qualified candidates. The search committee has met, and Opus is communicating via mail and email regarding the status of the search.

2012-13 Work Plan Update
Amy Voelker, Chief Audit Executive, outlined the risk-based work plan that University Audit conducts every year and provided an update to the 2012-13 work plan. There were 15 internal audits planned for the year; six were completed, two are in progress, one was eliminated due to Student Development and Enrollment Services retaining an external firm to provide a similar review, and six were delayed. The delays were due to staff turnover, increased leave usage, and an increase in college audits, which are very comprehensive.

Voelker recommends that, as the new chief audit executive will need time to adjust and learn the university, it would be beneficial for the current risk-based work plan to remain in place. It

would allow the new chief audit executive to develop his or her own annual risk based work plan for 2014-15.

Florida Statutes Update
Voelker explained the statutes governing the Auditor General, who performs three or four audits at the university each year. Last year the state university system and state colleges were added to an existing statute, resulting in potential communication from the Auditor General directly to the audit committee chair about repeat audit findings. This could affect the university in future years.

University Compliance, Ethics, and Risk Management Program update
Rhonda Bishop, Chief Compliance and Ethics Officer, provided an update on the search for a director of compliance and ethics. The four final candidates are scheduled for on campus interviews July 2nd and 3rd. Bishop invited the committee members to attend the open interview sessions.

Bishop reported the search for a director for compliance and risk management will reopen. The current director's last day is July 23, 2013.

Department of Education Review update
Bishop updated the committee on the off-site review by the U.S. Department of Education, targeting the university's compliance with the Clery Act. Following the Tower 1 incident on March 18, 2013, the U.S. Department of Education made two additional requests for information regarding the university's response.

Bishop outlined continued efforts to enhance Clery compliance, including training for campus security authorities, reviewing of the university's annual security report conducted by D. Stafford and Associates, and hosting a webinar covering new reporting requirements for 2014.

Athletic Compliance Program
As part of the university's corrective actions in response to the NCAA infractions case, The Compliance Group was retained to conduct an annual review of the athletics compliance program. The first of the annual reviews began in October 2012, and the final report will be forwarded to the committee as soon as it is available.

Bishop reported on new NCAA regulations going into effect August 1, 2013, and the efforts of the athletics compliance program to provide training and support to the coaches and athletics staff.

Florida State University System Compliance Consortium
Bishop reported on an effort led by her office to bring together Florida State University System compliance officers and staff to discuss compliance topics, new regulatory requirements, and best practices. The group will meet four times a year, and the first conference call is scheduled for June 27, 2013.

Chair Atchison adjourned the Audit, Operations Review, Compliance, and Ethics Committee meeting at 1:25 p.m.

Respectfully submitted: _____   _8/5/2013_
                                 Amy Voelker   Date
                                 Chief Audit Executive

Respectfully submitted: _____   _8/5/2013_
                                 Rhonda L. Bishop   Date
                                 Chief Compliance and Ethics Officer
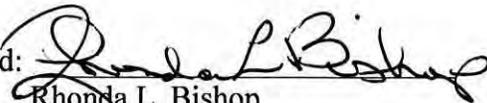
University of Central Florida
Board of Trustees
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Summary of Fiscal Year 2012-13 External Audit Results for Direct Support Organizations and Component Units

Direct Support Organizations and Component Units

	UCF Athletics Association	UCF Convocation Corp.	UCF Finance Corp.	UCF Foundation	UCF Golden Knights Corp.	UCF Research Foundation	College of Medicine Self-Insurance Program	Central Florida Clinical Practice Organization
Audit Opinion	unqualified							
Instances of non-compliance or material weaknesses in internal control?	none							
Management letter comments or financial statement misstatements?	Note 1	none						

Note 1: The following audit findings were noted regarding UCF Athletics Association, Inc:

    a. Material corrected misstatement to recognize revenue of $167,063 related to 2012 football ticket sales that were originally recorded as deferred revenue.

    b. Opportunities for strengthening internal control

        i. No signature or evidence of approval for six out of eight game day ticket sale reconciliations for a single home game.

        ii. Checks outstanding for more than 120 days are automatically voided which may violate unclaimed property laws.

Other notes:

    1) UCF Lockwood Communities was created but had no activity.

    2) WUCF TV's audit report is to be issued by December 31, 2013. This audit is a requirement to receive Corporation of Public Broadcasting funding.

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Summary of Fiscal Year 2012-13 External Audit Results for Direct Support Organizations and Component Units

		UCF Athletics Association	UCF Convocation Corp.	UCF Finance Corp.	UCF Foundation	UCF Golden Knights Corp.	UCF Research Foundation	College of Medicine Self-Insurance Program	Central Florida Clinical Practice Organization
Key Financial Data from Audited Financial Statements (in thousands)									
Assets	2013	$19,777	$215,261	$68,809	$263,770	$61,710	$9,354	$3,424	$1,045
	2012	$23,107	$221,148	$75,928	$244,702	$63,127	$20,277	$2,340	$1,200
Liabilities	2013	$21,706	$227,717	$68,419	$36,979	$56,268	$5,869	$43	$820
	2012	$23,976	$232,828	$75,528	$38,657	$57,758	$4,975	$148	$868
Revenues[1]	2013	$36,849	$30,099	$3,106	$54,505	$10,190	$4,976	$207	$1,414
	2012	$37,144	$32,179	$3,236	$32,126	$10,841	$5,693	$190	$1,707
Expenses[1]	2013	$37,909	$30,875	$3,116	$33,759	$10,118	$16,688	$19	$1,521
	2012	$37,131	$30,703	$3,246	$32,085	$9,996	$5,703	$86	$1,375
Net Position Beginning of Year[2]	2013	$(869)	$(11,679)	$400	$206,045	$5,369	$15,301	$2,192[3]	$332
	2012	$(881)	$(13,155)	$410	$206,003	$4,525	$15,367	$1,088[3]	-
Net Position End of Year[2]	2013	$(1,929)	$(12,456)	$390	$226,791	$5,441	$3,485	$3,380[3]	$224
	2012	$(869)	$(11,679)	$400	$206,045	$5,369	$15,301	$2,192[3]	$332
Change in Net Position Increase (Decrease)[2]	2013	$(1,060)	$(776)	$(10)	$20,746	$72	$(11,816)[4]	$188	$(107)
	2012	$12	$1,476	$(10)	$41	$844	$(66)[4]	$103	$332

[1]Includes operating and non-operating items combined, where applicable.

[2]Includes unrestricted, temporarily restricted and restricted net position, where applicable.

[3]Includes $1 million capital contribution.

[4]Includes change in temporarily restricted net position.

USF

UNIVERSITY OF
SOUTH FLORIDA
S Y S T E M

TO: President John C. Hitt
Vice President John F. (Rick) Schell
Trustee Jim Atchison, Chair of Audit, Operations Review, Compliance and Ethics
Committee

FROM: Debra Gula, CPA, Executive Director *Debra Gula*
University Audit & Compliance

DATE: December 3, 2013

SUBJECT: Quality Assurance Review Report
University Audit at the University of Central Florida

I was engaged to conduct an independent validation of the University of Central Florida Office of University Audit's self- assessment. The primary objective of the validation was to verify the assertions made in the attached self-assessment report concerning adequate fulfillment of the university's basic expectations of University Audit and its conformity to the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*. Other matters that might have been covered in a full independent assessment, such as an in-depth analysis of successful practices, governance, consulting services, and use of advanced technology, were excluded from the scope of this independent validation.

In my role as an independent validator, I am fully independent of the organization and have the necessary knowledge and skills to undertake this engagement. The validation, conducted during October 28-30, 2013, consisted primarily of a review of (1) critical University Audit procedures, work papers, and other key documents and (2) the results of the self-assessment and the basis for conclusions and recommendations derived therein. I also conducted surveys of auditees and the University Audit staff members. In addition, nine interviews were conducted with the university's President, Board of Trustees Audit Committee Chair, Provost, VP/Chief of Staff, VP of Administration and Finance, VP for Research, Controller, Director of Research Compliance, and Chief Compliance Officer.

I concur fully with University Audit's conclusions and recommendations in the self-assessment report attached. Implementation of all the recommendations contained in the self-assessment report will improve the effectiveness and enhance the value of University Audit and ensure its full conformity to the Standards.

I also noted the following positive attributes and opportunities for improvement related to University Audit operations.

Positive Attributes:

❖ **Leadership Support.** The interviews conducted during my on-site visit conveyed a high level of support from the Audit, Operations, Review, Compliance and Ethics Committee and senior management. University Audit is well respected, is involved in many university activities, and management feels comfortable seeking their assistance and advice.

❖ **Advisory Services.** During the course of my on-site visit, management expressed that the internal audit team possessed an extensive breadth of knowledge and was extremely responsive. Additional evidence is also provided by a performance metric in their assessment plan that tracks the number of requests for advice and assistance by the university community.

❖ **Partnership with Compliance Office.** University Audit's partnership with the Compliance, Ethics, and Risk program is working well, and the collaboration is serving to strengthen the overall control environment at UCF. This collaboration is critical as each office has unique responsibilities and perspectives, but they combine to produce even greater influences on the culture related to identifying and mitigating risk.

Opportunities for Improvement – Effectiveness and Efficiency:

❖ **Number of Staff.** University Audit is understaffed compared to state peers and the size of the university. University Audit is responsible for the entire university, including its DSOs and the new College of Medicine and Pegasus Health. Areas for possible expansion of the staff discussed with senior management include health care auditing and information systems auditing.

❖ **Retention of Staff.** University Audit employees are well qualified with relevant levels of experience and professional certifications. However, some salaries are lagging behind when compared to state peers. With concerns for retention, I recommend that UCF consider market-based compensation commensurate with staff experience and accomplishments. This will also increase the likelihood for success in the recruitment of new professional staff, especially in the IT area.

❖ **Coverage of Highest Risks.** With a small staff, the risk assessment process becomes even more critical to the development of the annual work plan for University Audit. It is important to deploy limited resources to the areas of highest risk for maximum impact. The university's new Enterprise Risk Management (ERM) program will be helpful in this regard.

❖ **Leveraging Technology.** An audit management software system can increase the productivity of University Audit by providing an integrated, paperless system for managing the entire internal audit function. These systems often include a risk database, project management tools (scheduling and time keeping), and web-based recommendation and implementation tracking.

I appreciate the courtesy and cooperation I received during the independent validation process. Please do not hesitate to contact me if I may provide any further assistance.

cc: Donna DuBuc, Interim Chief Audit Executive

UNIVERSITY OF CENTRAL FLORIDA'S QUALITY ASSURANCE REVIEW: SELF-ASSESSMENT WITH INDEPENDENT VALIDATION

Introduction

The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* requires that internal audit departments develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity. As part of an effective program, an external assessment should be conducted at least once every five years.

University Audit's most recent external assessment was performed in May 2007 by the Director of Internal Audit at Eastern Kentucky University. University Audit concluded in its self-assessment, and the external reviewer concurred, that it generally conformed with applicable professional auditing standards.

Self-Assessment Process

For the current external assessment, we chose to perform a self-assessment with independent validation. The self-assessment consisted of several significant steps:

- Prior completion of the IIA quality assessment training course by the audit director.
- Review and compilation of key documents (e.g., internal audit charter, audit committee charter, annual audit plan, audit follow-up, sample audit work papers, and reports) to determine compliance with relevant *Standards*.
- Comparison of current University Audit practices to the *Standards* with supporting documentation showing how each standard was met.
- Independent review of the self-assessment by an audit director with experience in a university setting as well as experience in the State of Florida. Independent review included review of documents as well as a site visit and interviews with key university personnel.
- Summary of the results in a final report presented to the university president and the Board of Trustees.
- Incorporation of suggested improvements in the ongoing operations of University Audit.

Self-Assessment Results

University Audit **generally conforms** to the *Standards*, including the IIA Code of Ethics. Each standard is further defined by additional standards; for instance, *Standard 1000* is further defined in *Standards 1110, 1120, and 1130*. University Audit had two instances of partial conformance with the *Standards*, which are addressed under Opportunities for Improvement below.

ATTRIBUTE STANDARDS	Generally Conforms
1000 Purpose, Authority, and Responsibility	
1100 Independence and Objectivity	
1200 Proficiency and Due Professional Care	
1300 Quality Assurance and Improvement Program	
PERFORMANCE STANDARDS	Generally Conforms
2000 Managing the Internal Audit Activity	
2100 Nature of Work	
2200 Engagement Planning	
2300 Performing the Engagement	
2400 Communicating Results	
2500 Monitoring Progress	
2600 Communicating the Acceptance of Risks	
OVERALL EVALUATION	Generally Conforms
IIA Code of Ethics	Generally Conforms

Opportunities for Improvement

Based on the self-assessment, the following opportunities for improvement were identified:

- *Standard 1210* - Proficiency. Although office staff members utilize data analysis techniques, the hiring of an Information Technology Auditor could provide expertise in the use of technology-based audits and more sophisticated data analysis techniques.

- *Standard 2120* - Risk Management. Although the office continues to work with senior management and the Office of Compliance, Ethics and Risk to identify and address risks, a formal university-wide risk assessment could also be performed. Such a process would improve management's ability to identify critical risks, implement effective controls to mitigate risks, and monitor the effectiveness of those controls. It would also improve University Audit's ability to prioritize audits and provide feedback to management on the adequacy of management's controls and monitoring processes.

University Audit Staff

Amy S. Voelker, Chief Audit Executive
Tina Maier, Associate Director
Kathy Mitchell, Associate Director
Vallery B. Morton, Senior Auditor
Vicky A. Sharp, Senior Auditor
Chaynae Price, Senior Auditor
Pat Cooke, Administrative Assistant

UNIVERSITY AUDIT'S CONFORMITY TO THE IIA STANDARDS

	Generally Conforms	Partially Conforms	Does Not Conform
OVERALL EVALUATION	☒	☐	☐
ATTRIBUTE STANDARDS	☒	☐	☐
1000 Purpose, Authority, and Responsibility	☒	☐	☐
1010 Recognition of Definition of Internal Auditing, Code of Ethics, and the Standards in the Internal Audit Charter	☒	☐	☐
1100 Independence and Objectivity	☒	☐	☐
1110 Organizational Independence	☒	☐	☐
1111 Direct Interaction with the Board	☒	☐	☐
1120 Individual Objectivity	☒	☐	☐
1130 Impairment to Independence or Objectivity	☒	☐	☐
1200 Proficiency and Due Professional Care	☒	☐	☐
1210 Proficiency	☐	☒	☐
1220 Due Professional Care	☒	☐	☐
1230 Continuing Professional Development	☒	☐	☐
1300 Quality Assurance and Improvement Program (QAIP)	☒	☐	☐
1310 Requirements of the QAIP	☒	☐	☐
1311 Internal Assessments	☒	☐	☐
1312 External Assessments	☒	☐	☐
1320 Reporting on the QAIP	☒	☐	☐
1321 Use of "Conforms with the International Standards for the Professional Practice of Internal Auditing"	☒	☐	☐

	Generally Conforms	Partially Conforms	Does Not Conform
1322 Disclosure of Nonconformance	☒	☐	☐
PERFORMANCE STANDARDS	☒	☐	☐
2000 Managing the Internal Audit Activity	☒	☐	☐
2010 Planning	☒	☐	☐
2020 Communication and Approval	☒	☐	☐
2030 Resource Management	☒	☐	☐
2040 Policies and Procedures	☒	☐	☐
2050 Coordination	☒	☐	☐
2060 Reporting to Senior Management and the Board	☒	☐	☐
2070 External Service Provider and Organizational Responsibility for Internal Auditing	☒	☐	☐
2100 Nature of Work	☒	☐	☐
2110 Governance	☒	☐	☐
2120 Risk Management	☐	☒	☐
2130 Control	☒	☐	☐
2200 Engagement Planning	☒	☐	☐
2201 Planning Considerations	☒	☐	☐
2210 Engagement Objectives	☒	☐	☐
2220 Engagement Scope	☒	☐	☐
2230 Engagement Resource Allocation	☒	☐	☐
2240 Engagement Work Program	☒	☐	☐
2300 Performing the Engagement	☒	☐	☐
2310 Identifying Information	☒	☐	☐

	Generally Conforms	Partially Conforms	Does Not Conform
2320 Analysis and Evaluation	☒	☐	☐
2330 Documenting Information	☒	☐	☐
2340 Engagement Supervision	☒	☐	☐
2400 Communicating Results	☒	☐	☐
2410 Criteria for Communicating	☒	☐	☐
2420 Quality of Communications	☒	☐	☐
2421 Errors and Omissions	☒	☐	☐
2430 Use of "Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing"	☒	☐	☐
2431 Engagement Disclosure of Nonconformance	☒	☐	☐
2440 Disseminating Results	☒	☐	☐
2450 Overall Opinions	☒	☐	☐
2500 Monitoring Progress	☒	☐	☐
2600 Communicating the Acceptance of Risks	☒	☐	☐
IIA CODE OF ETHICS	☒	☐	☐

CRITERIA

Generally Conforms: The evaluator has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual Standard or element of the Code of Ethics in all material respects. For the sections and major categories, this means that there is general conformity to a majority of the individual Standards or elements of the Code of Ethics, and partial conformity to the others, within the section/category. There may be significant opportunities for improvement, but these should not represent situations where the activity has not implemented the Standards or the Code of Ethics, is not applying them effectively, or is not achieving their stated objectives.

Partially Conforms: The evaluator has concluded that the activity is making good faith efforts to comply with the requirements of the individual Standard or element of the Code of Ethics, section, or major category, but has fallen short of achieving some of their major objectives. These will usually represent some significant opportunities for improvement in effectively applying the Standards or Code of Ethics and/or achieving their objectives. Some of the deficiencies may be beyond the control of the activity and may result in recommendations to senior management or the board of the organization.