



FLORIDA POLYTECHNIC  
UNIVERSITY

## Board of Trustees Audit & Compliance Committee Meeting

February 25, 2020

2:45 PM –3:45 PM

*Or upon the conclusion of the Academic & Student Affairs committee meeting*

Florida Polytechnic University – IST 1046  
4700 Research Way, Lakeland FL 33805

Dial 1.415.655.0001 | Access code: 319 481 401#

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Gary Wendt, Chair  
Ryan Perez

Mark Bostick, Vice Chair  
Dr. W. Earl Sasser

Dr. Adrienne Perry  
Dr. Victoria Astley

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### AGENDA

- |   |                   |
|---|-------------------|
| I. Call to Order  | Gary Wendt, Chair |
| II. Roll Call   | Kim Abels         |
| III. Public Comment   | Gary Wendt, Chair |
| IV. <a href="#">Approval of the December 10, 2019 Minutes</a><br>*Action Required*  | Gary Wendt, Chair |
| V. <a href="#">2018-20 Audit and Compliance Committee Work Plan Review</a>  | David Blanton     |
| VI. <a href="#">Audit &amp; Compliance Update</a>   | David Blanton     |
| VII. <a href="#">Foundation Financial Audit (FYE 6/30/19)</a><br>*Action Required*  | David Blanton     |
| VIII. <a href="#">Crowe Internal Management and Accounting Control and Business Process Assessment (November 2019)</a><br>*Action Required* | David Blanton     |
| IX. Closing Remarks and Adjournment   | Gary Wendt, Chair |

Florida Polytechnic University  
Board of Trustees

**Audit and Compliance Committee Meeting**

**DRAFT MEETING MINUTES**

Tuesday December 10, 2019

2:45 PM - 3:45 PM

Florida Polytechnic University, IST 1046  
4700 Research Way, Lakeland, FL 33805

I. Call to Order

Committee Chair Gary Wendt called the meeting to order at 2:33 p.m.

II. Roll Call

Kim Abels called the roll: Committee Chair Gary Wendt, Committee Vice-Chair Mark Bostick, Trustee Earl Sasser, and Trustee Victoria Astley were present (Quorum).

Trustees not present: Trustee Adrienne Perry

Other trustees present: No other trustees were present

Staff present: Mr. David Blanton, Mrs. Kim Abels, Mr. Alex Landback, Ms. Michele Rush, Mr. Rick Maxey, Mr. Ben Beachy, Mr. John Sprenkle, and President Randy Avent were present.

III. Public Comment

There were no requests received for public comment.

IV. Approval of Minutes

**Trustee Victoria Astley made a motion to approve the Audit & Compliance Committee meeting minutes of September 11, 2019. Trustee Mark Bostick seconded the motion; a vote was taken, and the motion passed unanimously.**

V. 2018-2020 Audit & Compliance Committee Work Plan Review

Mr. David Blanton reviewed the Work Plan for 2018-2020. A couple of audits were moved from the December 2019 time frame to February 2020. **Trustee Victoria Astley made a motion to approve the revised work plan as presented. Trustee Earl Sasser seconded the motion; a vote was taken, and the motion passed unanimously.**

## VI. Audit & Compliance Update

Mr. Blanton provided the Committee with an update of audit and compliance activities. The updates included the following:

A. External Audits: Currently, Florida Poly is undergoing an independent assessment of controls "Internal Management and Accounting Control and Business Process Review". (Crowe, LLP) This review is being conducted at each of the 12 universities within the State at the direction of the Board of Governors as a result of the concerns at UCF. A draft report has been released which included 2 low risk observations:

1. IT Governance: Written procedures over IT
2. IT Data Protection: Management of employee removable media

The Auditor General has begun their financial audit of the University for the fiscal year ended June 30, 2019. The report should be released by 3/31/20.

The Foundation financial audit for the fiscal year end 6/30/19 is complete; however, it is subject to Foundation Board approval prior to submission to the University Board.

Currently, University Audit has the following projects in progress: Admissions Audit; Quality Assurance Review (Self-Assessment); UFF Chapter Grievance

B. Foundation Operating and Scholarship Funds: Mr. Blanton reported on the revenues and expenses for these Foundation funds through November of the current fiscal year. Revenues continue to decline; however, the University has also acted to reduce Foundation expenses for this same period.

## VII. Closing Remarks and Adjournment

With no further business to discuss, the meeting adjourned at 3:12 p.m.



**FLORIDA POLYTECHNIC**  
UNIVERSITY

## **Audit & Compliance Update**

**David A. Blanton, CPA, CCEP**

**25 February 2020**

# External Audit Status

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- **Crowe LLP's Management and Accounting Control and Business Process Review**
  - Report released
  - Presented today for approval
- **Foundation Financial Audit (FYE 6/30/19)**
  - Report released
  - Approved by Foundation Board (1/24/20)
  - Presented today for approval

# External Audit Status (cont.)

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- **University Financial Audit (FYE 6/30/19)**
  - Fieldwork completed, in review
  - Report in February/March
- **Bright Futures Audit (2 years ended 6/30/19)**
  - Not started/expectation Spring 2020
- **Operational Audit**
  - Audit period: CY 2019
  - Expected to conclude in summer of 2020

- **House Select Committee on the Integrity of Research Institutions**
  - Request for information from each SUS institution (1/20/20)
  - Concerned about foreign influence on research integrity
  - Monitoring controls (UAC Report: Sponsored Research)

# Foundation Monitoring Concerns/Suggestions

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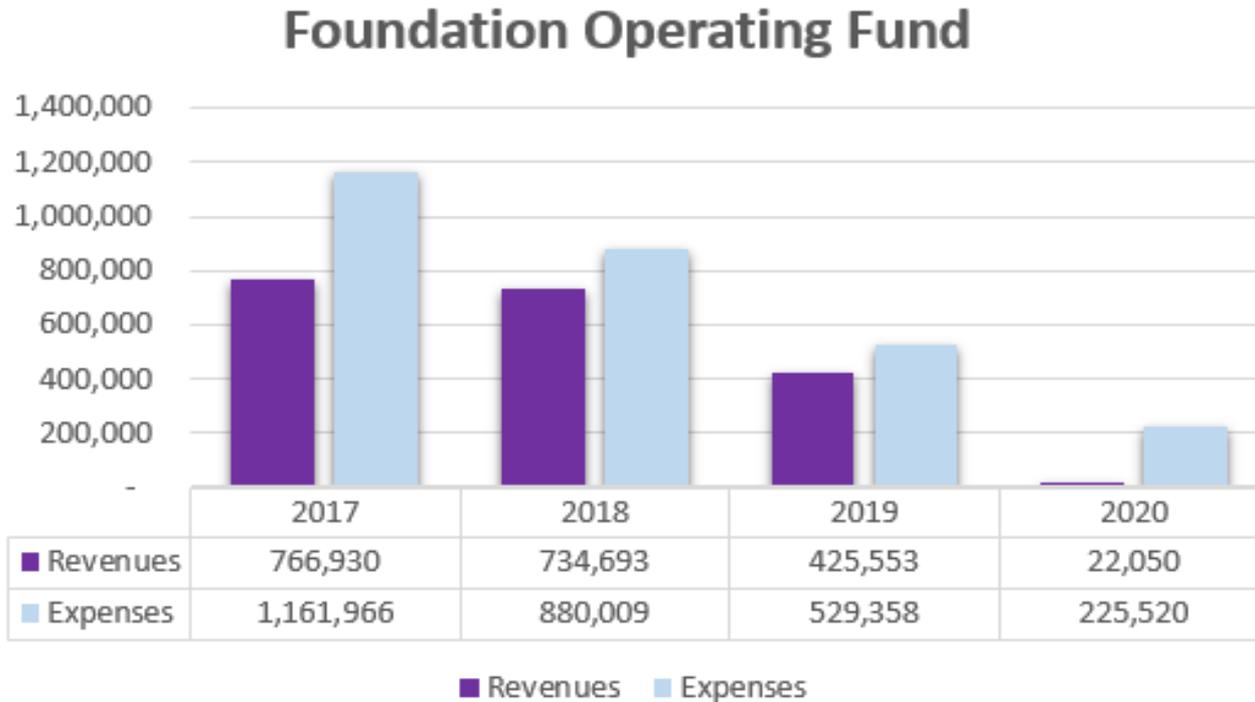
- **Stabilize/set annual scholarship limit**
- **Limit operating expenses**
- **Increase operating/scholarship revenues**
- **Establish an appropriate monitoring system**

# Recent Foundation Actions

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- **Hired a financial officer**
- **Reorganized advancement operations staff**
- **Terminated Convergent contract and redeployed resources**
- **Working with Foundation Board to enhance reporting/monitoring**

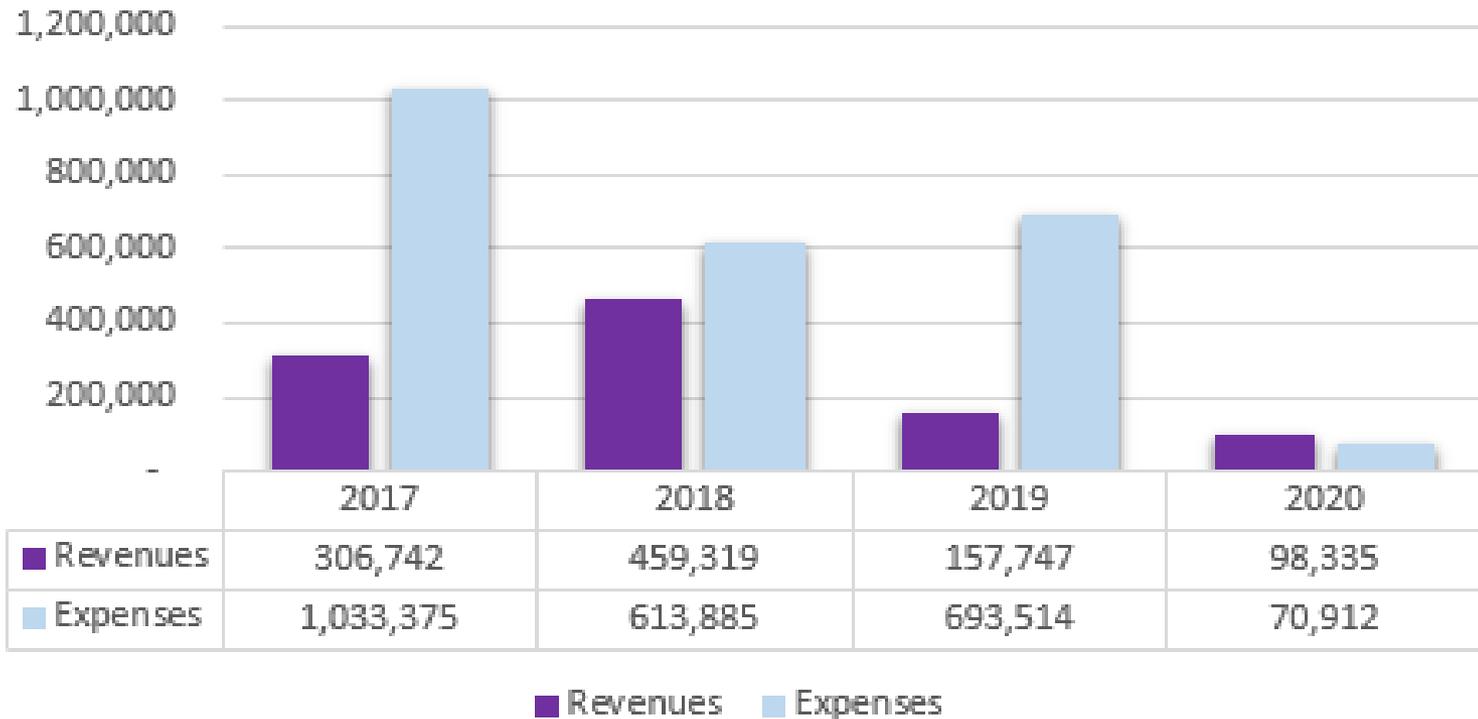
# Foundation Fund Monitoring: Operating Fund



Source: Trial Balance Report as of 1/27/2020

# Foundation Fund Monitoring: Scholarship Fund

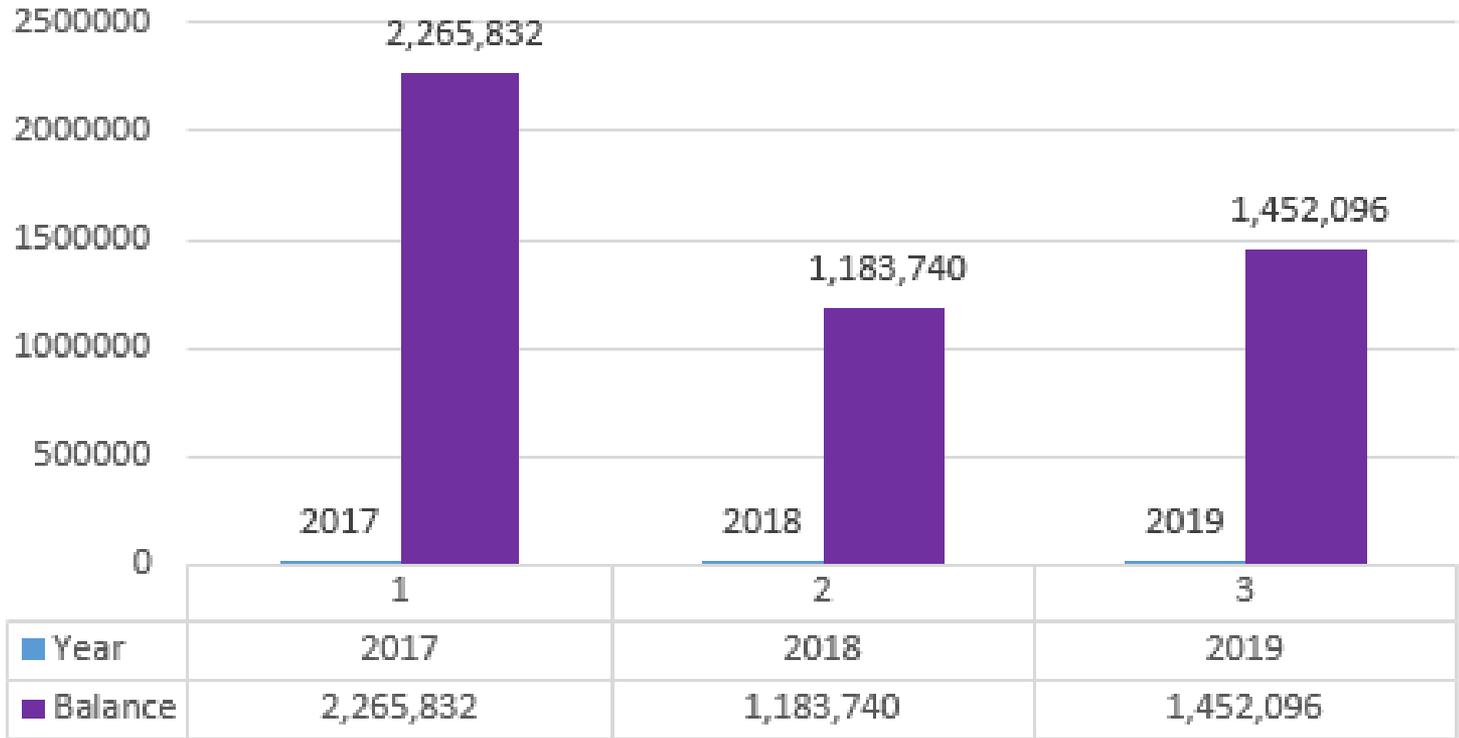
## Foundation Scholarship Fund



Source: Trial Balance Report as of 1/27/2020

# Unrestricted, Undesignated Net Assets – Unrestricted/Current

## Unrestricted Net Assets - Current



# UAC Activities – Audits/Reviews

- **Quality Assurance Review:**
  - Required by Internal Auditing (IIA Standards)
  - Preparation for external review (every 5 years – 2022)
  - Will distribute questionnaire to key stakeholders
- **Scholarships/Enrollment Data Integrity**
  - Scholarships/on Audit plan
  - Expanded scope to data integrity (GPA, SAT/ACT scores)
  - Expanded scope to provide for recommendations over admissions operations
- **Investigations, Grievance Reviews**

# Foundation Financial Audit

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- **Independent Auditors' Report**
  - Unmodified (clean) opinion on financial statements
- **Report on Internal Control over Financial Reporting, Compliance and Other Matters (Government Auditing Standards)**
  - No material weaknesses identified (clean opinion)
  - No Instances of noncompliance or other matters disclosed

# Required Communications

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- **Difficulties in performing audit (none)**
- **Audit adjustments (no significant)**
- **Disagreements with management (none)**
- **Management representations**
- **Consultations with other auditors (none)**
- **Qualitative aspects of accounting practice**

# Foundation Change in Accounting Principle

- **Result of legislation revising State law**
- **Change from FASB to GASB**
  - GASB Statement No. 33 states that providers and recipients of permanently restricted promises to give should not recognize liabilities or receivables in these types of transactions. Therefore, permanently restricted (endowed) promises to give had been recognized in prior years. The Foundation had \$320,202 of permanently restricted promises to give at June 30, 2018.
  - Beginning fund balance of the General Fund and net position of the governmental activities have been restated to eliminate the \$320,202 of permanently restricted promises to give that had been recognized as of June 30, 2018

# Foundation Financial Statement Overview

## Statement of Net Position

	<u>2019</u>	<u>2018</u>	<u>Increase (Decrease)</u>
<b>ASSETS</b>			
Cash	\$ 534,401	\$ 503,197	\$ 31,204
Contributions Receivable, Net of Allowances	294,189	517,434	(223,245)
Other Accounts Receivable	-	9,342	(9,342)
Accrued Interest	8,537	10,596	(2,059)
Investments	6,032,750	5,730,561	302,189
Total Assets	<u>\$ 6,869,877</u>	<u>\$ 6,771,130</u>	<u>\$ 98,747</u>

# Foundation Financial Statement Overview

## Statement Of Net Position - Continued

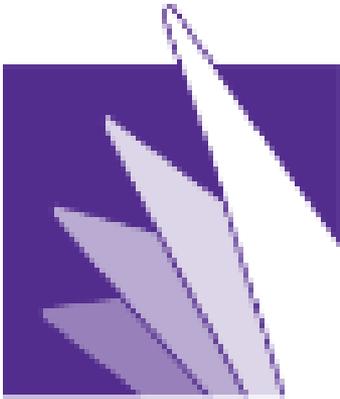
LIABILITIES AND NET POSITION	2019	2018	Increase (Decrease)
<b>Liabilities</b>			
Accounts Payable	\$ 7,149	\$ 5,989	\$ 1,160
Scholarship Pledges	-	5,155,310	(5,155,310)
Accrued Liabilities	3,064	1,767	1,297
Other Liability	2,750,000	2,750,000	-
Other Long-Term Liability	-	206,413	(206,413)
Total Liabilities	<u>2,760,213</u>	<u>8,119,479</u>	<u>(5,359,266)</u>
<b>Net Position</b>			
Restricted:			
Nonexpendable Endowments	1,422,338	882,440	539,898
Expendable	1,235,226	696,268	538,958
Unrestricted	1,452,100	(2,927,057)	4,379,157
Total Net Position	<u>4,109,664</u>	<u>(1,348,349)</u>	<u>5,458,013</u>
Total Liabilities and Net Position	<u>\$ 6,869,877</u>	<u>\$ 6,771,130</u>	<u>\$ 98,747</u>

# Foundation Financial Statement Overview

## Statement of Activities

	2019	2018	Increase (Decrease)
<b>REVENUES</b>			
Contributions, Net of Allowances	\$ 687,128	\$ 1,322,369	\$ (635,241)
Investment Income	328,434	305,765	22,669
Miscellaneous	385	-	385
Special Item - Gain on Forgiveness of Pledge Liability	5,718,582	-	5,718,582
<b>Total Revenues</b>	<b>6,734,529</b>	<b>1,628,134</b>	<b>5,106,395</b>
<b>OPERATING EXPENSES</b>			
Program Services	932,155	1,391,048	(458,893)
Management and General	123,764	543,145	(419,381)
Fundraising	220,597	226,848	(6,251)
<b>Total Operating Expenses</b>	<b>1,276,516</b>	<b>2,161,041</b>	<b>(884,525)</b>
<b>CHANGE IN NET POSITION</b>	<b>5,458,013</b>	<b>(532,907)</b>	<b>5,990,920</b>
Net Position - Beginning of Year	(1,348,349)	(815,442)	(532,907)
<b>NET POSITION - END OF YEAR</b>	<b>\$ 4,109,664</b>	<b>\$ (1,348,349)</b>	<b>\$ 5,458,013</b>

# Foundation Financial Audit FYE 6/30/19



## FLORIDA POLYTECHNIC UNIVERSITY **FOUNDATION**

**ACTION: Recommend approval of the Foundation Financial Audit Report for the 2018-19 fiscal year to the Board**

# Crowe Assessment: Florida Poly Observations

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- **Information Technology: Written Policies and Procedures (Low risk)**
- **Information Technology: Data protection for portable storage devices (Low Risk)**



# Crowe Observations

## FPU Observations Summary

Risk Category	Description	Risk Rating
Information Technology	<b>1. Information Security Governance – Policies and Procedures.</b> FPU has not documented information security policies and procedures for the sections pertaining to: 1) Data Protection, 2) Logging and Monitoring, 3) Risk Management, 4) Change Management Program 5) Patch Management and 5) Mobile Device Management. This increases the risk that tasks will be performed inconsistently.	Low
Information Technology	<b>2. Data Protection – Employee Removable Media.</b> FPU does not have a method to manage the use of removable media. Technical controls have not been implemented to protect the access and provide data protection, such as encryption and device authentication.	Low

# Crowe Assessment: SUS Observations

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- **Ranged from 0 – 7 observations**
- **Average of 3.75 observations**
- **7 institutions had observations classified as moderate risk (1 – 3 moderate observations)**



# Crowe Observations: SUS

Risk Category	Observation	UWF	FSU	UNF	UF	UCF	FAMU	FPU	USF	NCF	FIU	FAU	FGCU
Financial Reporting	Monitoring of Budget-to-Actual Performance									Low			
Financial Reporting	Restricted Funds – Interfund Transfers					Moderate				Moderate			
Procurement	Contract Management - Shared Service Contracts	Moderate											
Procurement	Policies and Procedures - Vendor Setup and Monitoring	Moderate											
Grant Management	Segregation of Duties - Grant Drawdown Process												Moderate
Information Technology	Business Continuity Management - Incident Classification	Moderate											
Information Technology	Configuration Management - Configuration Management Program		Moderate			Moderate					Moderate		
Information Technology	Data Protection - Data Handling and Classification Policy										Low		
Information Technology	Data Protection - Employee Mobile Device Management Policy	Low		Low						Low	Low	Low	
Information Technology	Data Protection – Employee Removable Media	Low	Low			Low	Low	Low				Low	
Information Technology	Data Protection - Sensitive Data-Tracking		Low										
Information Technology	Employee Management – Employee Security Awareness Training	Low			Low	Low	Low					Low	Low
Information Technology	Employee Management - User Termination and Role Change		Low		Low								
Information Technology	Information Security Governance – Clean Desk Policy			Low		Low				Low		Low	
Information Technology	Information Security Governance - Cybersecurity Risk Management Program					Low					Low		
Information Technology	Information Security Governance - Key Risk and Performance Indicators		Moderate									Moderate	
Information Technology	Information Security Governance - Policies and Procedures						Low	Low					
Information Technology	Logging and Monitoring - Logging and Monitoring Policy											Low	
Information Technology	Data Protection - Data Center Moisture Detection									Low			
Information Technology	IT Operations - Asset Tracking											Low	
Information Technology	Monitoring of Third-Party Service Providers		Low										

# Crowe Assessment: SUS Observations/“Themes”

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- **Risk of management override/collusion**
  - Established compliance functions
  - Could benefit from ERM
- **System could benefit from enhanced IT controls**
- **System could benefit from 3<sup>rd</sup> party controls**
- **Universities could benefit from additional guidance and clarification of how to interpret BOG regulations**

# Crowe Assessment: Florida Poly



**ACTION: Recommend approval of the Internal Control and Business Process Assessment Report to the Board of Trustees.**



# **The Florida House of Representatives**

## **Select Committee on the Integrity of Research Institutions**

**Jose R. Oliva**  
**Speaker**

**Chris Sprowls**  
**Chair**

January 20, 2020

SUS Vice Presidents of Research  
Via Email

Dear Vice President,

In August of 2018, the National Institute of Health sent a letter to grantees, notifying them of threats to the integrity of research arising out of foreign influence. The House Select Committee on the Integrity of Research Institutions has been appointed to investigate research activities and international relationships of Florida research institutions, including interactions involving your faculty and other personnel and foreign countries.

Section 11.143(2), Florida Statutes, establishes the authority for committees of the Legislature to inspect and investigate the records of any public agency, including confidential information. Furthermore, Section 11.0431(2)(a), Florida Statutes, provides that records in the possession of the Legislature are exempt from public disclosure if under state law those records are confidential or exempt from public disclosure while in the possession of any public agency.

Pursuant to s. 11.143(2), the committee is requesting each institution in the State University System to provide, by January 31, unredacted copies of the records listed in the page attached hereto. Such copies may be emailed to Mr. Don Rubottom at [Don.Rubottom@myfloridahouse.gov](mailto:Don.Rubottom@myfloridahouse.gov). To coordinate alternate delivery of the records requested, or if you have any other questions, please contact Mr. Rubottom at 850-717-4881.

University Vice President of Research

January 20, 2020

Page 2

I am also requesting you to name a staff member as the primary contact for arrangements regarding the submission of documents and any other investigative activities. You may also want to name a board member as a key contact for interactions involving your Board of Trustees.

I appreciate your prompt response to this request, and I look forward to your full cooperation with the House investigation.

Respectfully,

A handwritten signature in blue ink that reads "Chris Sprowls". The signature is written in a cursive style with a large initial "C".

Chris Sprowls, Chair

CC: Syd Kitson, Chair, Board of Governors  
Members of the Select Committee

### **Records requested of Florida State University System institutions**

1. All correspondence from federal agencies identifying concerns specific to the institution relating to foreign influence on research integrity.
2. All internal compliance reports since August 1, 2018, relating to such foreign influence.
3. All records of whistleblower complaints and related investigations active on or after August 1, 2018, relating to such foreign influence or any other conflicts of interest related to any scientific research.
4. All correspondence, emails or records of other contacts with the F.B.I., NIH, NSF or other federal agencies sponsoring research relating to specific or general risks of such foreign influence.
5. All institution policies regulating disclosures of conflicts of interests, disclosures of financial interests, or conflicts of commitment of research scientists, specifically including policies adopted under BOG Reg. 10.002, Sponsored Research.
6. All disclosures of research scientists relating to contracts with foreign entities.
7. All institution policies governing compliance efforts to enforce disclosure requirements.
8. All University initiatives to identify, disclose or regulate influence of foreign governments, foreign institutions or individuals or organizations with significant ties to foreign entities, specifically including any effort to identify employees or contractors who are participants in the Thousand Talents program of the People's Republic of China or similar PRC recruiting or collaboration programs.
9. Any records related to any required training for executives, faculty, or employees relating to the NIH or other federal or state regulations related to conflict of interest, conflict of commitment, and financial disclosure. Records of participation therein by the individuals investigated.
10. Any records of solicitation by, interest in or participation with a Confucius Institute since January 1, 2015.
11. Standard or typical contract form used for employee or independent contractor involved in research.

12. Standard disclosure forms used for scientific researchers at your institution.
13. Policies governing the review and scrutiny of disclosures of researchers (if not provided above).
14. Organizational chart of your institution.
15. Organizational chart of each department engaged in sponsored research including research funded by the State of Florida.
16. Whistleblower policies.
17. Documents describing internal controls of conflicts of interest, security of information, security of research materials and fraud detection.
18. Documents describing ethical obligations of the institution and researchers with respect to scientific research.

**Florida Polytechnic University  
Audit & Compliance Committee  
Work Plan 2019-2020**

March 13, 2019	May 21-22, 2019	September 11, 2019	December 11, 2019
<ul style="list-style-type: none"> <li>• Audit &amp; Compliance Update</li> <li>• Auditor General Follow-up Review</li> <li>• Auditor General IT Audit</li> <li>• Investigative Report FPU 2019-03</li> </ul>	<ul style="list-style-type: none"> <li>• Audit &amp; Compliance Update</li> <li>• University Compliance &amp; Ethics Program Plan</li> <li>• University Financial Audit – FYE 6/30/18</li> <li>• Foundation Financial Audit – FYE 6/30/18</li> </ul>	<ul style="list-style-type: none"> <li>• Audit &amp; Compliance Update</li> <li>• UAC 2018-19 Annual Report (2020-01)</li> <li>• ADA/ODS Audit (2020-02)</li> <li>• UAC 2019-20 Risk Assessment/Activity Plan (2020-03)</li> </ul>	<ul style="list-style-type: none"> <li>• Audit &amp; Compliance Update</li> </ul>
February 26, 2020	May 19, 2020	September 9, 2020	December 2, 2020
<ul style="list-style-type: none"> <li>• Audit &amp; Compliance Update</li> <li>• Foundation Financial Audit – FYE 6/30/19</li> <li>• Crowe Audit</li> </ul>	<ul style="list-style-type: none"> <li>• Audit &amp; Compliance Update</li> <li>• University Compliance &amp; Ethics Program Plan</li> <li>• University Financial Audit – FYE 6/30/19</li> </ul>	<ul style="list-style-type: none"> <li>• Audit &amp; Compliance Update</li> <li>• UAC 2019-20 Annual Report</li> <li>• UAC 2020-21 Risk Assessment/Activity Plan</li> </ul>	<ul style="list-style-type: none"> <li>• Audit &amp; Compliance Update</li> </ul>

Florida Polytechnic University  
Audit & Compliance Committee  
Board of Trustees  
February 25, 2020

**Subject: Audit & Compliance Update**

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**Proposed Committee Action**

Information only-no action required

**Background Information**

David Blanton, Chief Audit Executive/Chief Compliance Officer (CAE/CCO) will provide the Committee with an update of all University and Foundation audit activity including (1) the status of external audits, (2) University Audit activities and plans, (3) Foundation monitoring report, and (4) University Compliance activities.

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**Supporting Documentation:** Power Point presentation

**Prepared by:** David A. Blanton, CAE/CCO

**Florida Polytechnic University  
Audit & Compliance Committee  
Board of Trustees  
February 25, 2020**

**Subject: Foundation Financial Audit (June 30, 2019 Fiscal Year)**

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**Proposed Committee Action**

Recommend approval of the Foundation's financial audit for the fiscal year ended June 30, 2019 to the Board of Trustees.

**Background Information**

David Blanton, Chief Audit Executive/Chief Compliance Officer (CAE/CCO) will provide the Committee with an overview of the Foundation's financial audit for the fiscal year ended June 30, 2019 that was conducted by independent certified public accountants.

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**Supporting Documentation:** Foundation Audit Report  
Foundation Form 990  
Power point presentation in A&C update

**Prepared by:** David A. Blanton, CAE/CCO

**FLORIDA POLYTECHNIC UNIVERSITY FOUNDATION, INC.**

**(A COMPONENT UNIT OF  
FLORIDA POLYTECHNIC UNIVERSITY)**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTAL REPORT**

**YEAR ENDED JUNE 30, 2019**

**FLORIDA POLYTECHNIC UNIVERSITY FOUNDATION, INC.**  
**(A COMPONENT UNIT OF FLORIDA POLYTECHNIC UNIVERSITY)**  
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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Florida Polytechnic University Foundation, Inc.  
Lakeland, Florida

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and the General Fund of Florida Polytechnic University Foundation, Inc. (Foundation), a component unit of Florida Polytechnic University, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of the Foundation as of June 30, 2019, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of a Matter**

As discussed in Note 8 to the financial statements, there was a change in accounting principle during the year ended June 30, 2019. Accordingly, amounts reported for fund balance and net position have been restated as of the beginning of the fiscal year. Our opinion is not modified with respect to that matter.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2019, on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Lakeland, Florida  
November 13, 2019

**FLORIDA POLYTECHNIC UNIVERSITY FOUNDATION, INC.**  
**(A COMPONENT UNIT OF FLORIDA POLYTECHNIC UNIVERSITY)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2019**

The management's discussion and analysis of Florida Polytechnic University Foundation, Inc.'s (Foundation), a component unit of Florida Polytechnic University, financial performance provides an overview of the Foundation's financial activities for the year ended June 30, 2019. It should be read in conjunction with the accompanying financial statements and notes.

**Financial Highlights**

As of June 30, 2019, the Foundation reported total assets of \$6,869,877, total liabilities of \$2,760,213 and a net position of \$4,109,664. The Foundation is a not-for-profit corporation incorporated in the State of Florida, but reports financial information in accordance with the Governmental Accounting Standards Board (GASB).

**Overview of the Financial Statements**

The basic financial statements consist of three components: 1) government-wide financial statements providing information about the activities of the Foundation as a whole; 2) fund financial statements; and, 3) notes to the financial statements.

*Government-wide Financial Statements* – The government-wide financial statements are designed to provide a broad overview of the Foundation's finances in a manner similar to a private-sector business. The government-wide statements provide information about the Foundation's financial status as a whole. These statements include details of general revenue during the year and a breakdown by category of expenses. The statements include *all* assets and liabilities using the accrual basis of accounting. This means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Foundation's net position and changes in net position. The net position – the difference between assets and liabilities – is an important measure of the Foundation's financial health.

*Fund Financial Statements* – The fund financial statements provide a detailed look at the Foundation's General Fund. The Foundation, like all government entities, uses fund accounting to ensure and reflect compliance (or noncompliance) with finance related legal requirements. The Foundation uses one fund, a governmental General Fund, which focuses on 1) how cash and other financial assets, that can readily be converted to cash, flow in and out; and, 2) the balances left at year-end that are available for spending. Consequently, the General Fund statements provide a detailed short-term view that indicates whether there are more or fewer financial resources that can be spent in the near future to finance the Foundation's programs.

**FINANCIAL HIGHLIGHTS**

As noted above, net position may serve, over time, as a useful indicator of a government's financial position. The following schedules provide a summary of assets, liabilities, and net position and changes in net position of the District:

**FLORIDA POLYTECHNIC UNIVERSITY FOUNDATION, INC.**  
**(A COMPONENT UNIT OF FLORIDA POLYTECHNIC UNIVERSITY)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2019**

**FINANCIAL HIGHLIGHTS (CONTINUED)**

	<u>2019</u>	<u>2018</u>	<u>Increase (Decrease)</u>
<b>ASSETS</b>			
Cash	\$ 534,401	\$ 503,197	\$ 31,204
Contributions Receivable, Net of Allowances	294,189	517,434	(223,245)
Other Accounts Receivable	-	9,342	(9,342)
Accrued Interest	8,537	10,596	(2,059)
Investments	<u>6,032,750</u>	<u>5,730,561</u>	<u>302,189</u>
Total Assets	<u>\$ 6,869,877</u>	<u>\$ 6,771,130</u>	<u>\$ 98,747</u>
<b>LIABILITIES AND NET POSITION</b>			
<b>Liabilities</b>			
Accounts Payable	\$ 7,149	\$ 5,989	\$ 1,160
Scholarship Pledges	-	5,155,310	(5,155,310)
Accrued Liabilities	3,064	1,767	1,297
Other Liability	2,750,000	2,750,000	-
Other Long-Term Liability	-	<u>206,413</u>	<u>(206,413)</u>
Total Liabilities	<u>2,760,213</u>	<u>8,119,479</u>	<u>(5,359,266)</u>
<b>Net Position</b>			
Restricted:			
Nonexpendable Endowments	1,422,338	882,440	539,898
Expendable	1,235,226	696,268	538,958
Unrestricted	<u>1,452,100</u>	<u>(2,927,057)</u>	<u>4,379,157</u>
Total Net Position	<u>4,109,664</u>	<u>(1,348,349)</u>	<u>5,458,013</u>
Total Liabilities and Net Position	<u>\$ 6,869,877</u>	<u>\$ 6,771,130</u>	<u>\$ 98,747</u>

Total assets as of June 30, 2019 was \$6,869,877, an increase of \$98,747 from the prior year. Total assets increased due to a decrease in contributions receivable of \$223,245 and an increase in investments of 302,189. Total liabilities decreased by \$5,359,266. Liabilities decreased primarily due to the Florida Polytechnic University releasing the Foundation from its pledge to them for scholarships in the amount of \$5,718,852, of which \$5,155,310 was accrued as of the previous fiscal year-end. The Foundation's net position as of June 30, 2019 was \$6,869,877, an increase of \$5,458,013 from the prior year.

**FLORIDA POLYTECHNIC UNIVERSITY FOUNDATION, INC.**  
**(A COMPONENT UNIT OF FLORIDA POLYTECHNIC UNIVERSITY)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2019**

**FINANCIAL HIGHLIGHTS (CONTINUED)**

As of June 30, 2019, approximately 65% of the Foundation's net position was restricted, of which approximately 35% is considered nonexpendable for endowments. The remaining 30% restricted is for scholarships, student wellness, and other student activities. The remaining balance of net position, or approximately 35% of the total net position, is unrestricted and may be used to meet the Foundation's unrestricted obligations.

	<u>2019</u>	<u>2018</u>	<u>Increase (Decrease)</u>
<b>REVENUES</b>			
Contributions, Net of Allowances	\$ 687,128	\$ 1,322,369	\$ (635,241)
Investment Income	328,434	305,765	22,669
Miscellaneous	385	-	385
Special Item - Gain on Forgiveness of Pledge Liability	5,718,582	-	5,718,582
Total Revenues	<u>6,734,529</u>	<u>1,628,134</u>	<u>5,106,395</u>
<b>OPERATING EXPENSES</b>			
Program Services	932,155	1,391,048	(458,893)
Management and General	123,764	543,145	(419,381)
Fundraising	220,597	226,848	(6,251)
Total Operating Expenses	<u>1,276,516</u>	<u>2,161,041</u>	<u>(884,525)</u>
<b>CHANGE IN NET POSITION</b>	5,458,013	(532,907)	5,990,920
Net Position - Beginning of Year	<u>(1,348,349)</u>	<u>(815,442)</u>	<u>(532,907)</u>
<b>NET POSITION - END OF YEAR</b>	<u>\$ 4,109,664</u>	<u>\$ (1,348,349)</u>	<u>\$ 5,458,013</u>

Contributions to the Foundation totaled \$687,128, a decrease of \$635,241 from the prior year. Contributions to the Foundation represent unrestricted, scholarship, and endowment support. Program Services totaled \$932,155, decrease of \$458,893 from the prior year, due to a lesser number of scholarships provided. General administrative expenses for the Foundation totaled \$123,764, decrease of \$419,381, due to less support paid to the University for salaries and other personnel costs.

**Economic Factors**

The Foundation is under new leadership effective September, 2019. Over the next few years, the focus for Foundation support will align with the strategic priorities of the University. It is the objective of the Foundation to be a strong advocate for funding resources ensuring the University meets the strategic mission to serve students and industry through excellence in education, discovery and application of engineering and applied sciences.

**FLORIDA POLYTECHNIC UNIVERSITY FOUNDATION, INC.  
(A COMPONENT UNIT OF FLORIDA POLYTECHNIC UNIVERSITY)  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2019**

**Request for Information**

If you have any questions concerning the basic financial statements or other accounting information in this report, please contact the Foundation at:

Florida Polytechnic University Foundation  
Kathleen (Kathy) Bowman, VP Advancement & CEO Florida Polytechnic University Foundation  
P.O. Box 93533  
Lakeland, FL 33804

**FLORIDA POLYTECHNIC UNIVERSITY FOUNDATION, INC.**  
**(A COMPONENT UNIT OF FLORIDA POLYTECHNIC UNIVERSITY)**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2019**

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$	534,401
Contributions Receivable, Net of Allowances		272,719
Accrued Interest		8,537
Investments		771,893
Total Current Assets		1,587,550

Noncurrent Assets:

Investments - Endowment		1,422,338
Investments Restricted for Other Long-Term Purposes		3,838,519
Contributions Receivable, Net of Allowances		21,470
Total Noncurrent Assets		5,282,327

Total Assets		6,869,877
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**LIABILITIES**

Current Liabilities:

Accounts Payable		7,149
Due to Florida Polytechnic University		3,064
Other Liability		2,750,000
Total Current Liabilities		2,760,213

**NET POSITION**

Restricted:

Nonexpendable Endowments		1,422,338
Expendable		1,235,226
Unrestricted		1,452,100
Total Net Position		\$ 4,109,664

See accompanying Notes to Financial Statements.

**FLORIDA POLYTECHNIC UNIVERSITY FOUNDATION, INC.**  
**(A COMPONENT UNIT OF FLORIDA POLYTECHNIC UNIVERSITY)**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2019**

	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Functions/Programs					
Component Unit Activities:					
Program Services	\$ 932,155	\$ -	\$ 327,429	\$ -	\$ (604,726)
Management and General	123,764	-	359,699	-	235,935
Fundraising	220,597	-	-	-	(220,597)
Total Governmental Activities	\$ 1,276,516	\$ -	\$ 687,128	\$ -	(589,388)
General Revenues:					
Investment Income					328,434
Miscellaneous					385
Special Item - Gain on Forgiveness of Pledge Liability					5,718,582
Total General Revenues and Special Item					6,047,401
<b>CHANGE IN NET POSITION</b>					5,458,013
Net Position - Beginning of Year, as Previously Reported					(1,028,147)
Restatement (See Note 8)					(320,202)
Net Position - Beginning of Year, as Restated					(1,348,349)
<b>NET POSITION - END OF YEAR</b>					<b>\$ 4,109,664</b>

See accompanying Notes to Financial Statements.

**FLORIDA POLYTECHNIC UNIVERSITY FOUNDATION, INC.**  
**(A COMPONENT UNIT OF FLORIDA POLYTECHNIC UNIVERSITY)**  
**BALANCE SHEET**  
**YEAR ENDED JUNE 30, 2019**

**ASSETS**

Cash and Cash Equivalents	\$	534,401
Investments		771,893
Contributions Receivable, Net of Allowances		294,189
Accrued Interest		8,537
Restricted Assets:		
Investments - Endowment		1,422,338
Investments - Other Long-Term Purposes		3,838,519
Total Assets	\$	6,869,877

**LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE**

Liabilities:		
Accounts Payable	\$	7,149
Accrued Liabilities		3,064
Other Liability		2,750,000
Total Liabilities		2,760,213
Deferred Inflows of Resources:		
Unavailable Revenue - Contributions		23,376
Fund Balance:		
Nonspendable:		
Endowments		1,422,338
Restricted For:		
Student Wellness		534,405
Scholarships		528,978
Other Programs		152,444
Unassigned		1,448,123
Total Fund Balance		4,086,288
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$	6,869,877

Amounts reported for governmental activities in the statement of net position are different because:

Total Fund Balance - General Fund	\$	4,086,288
Unavailable revenue is recorded in the General Fund to offset receivables that do not meet the criteria for revenue recognition in the current period.		23,376
Net Position of Governmental Activities	\$	4,109,664

See accompanying Notes to Financial Statements.

**FLORIDA POLYTECHNIC UNIVERSITY FOUNDATION, INC.**  
**(A COMPONENT UNIT OF FLORIDA POLYTECHNIC UNIVERSITY)**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**YEAR ENDED JUNE 30, 2019**

**REVENUES**

Contributions, Net of Allowances and Discounts	\$	663,752
Investment Income		328,434
Miscellaneous		385
Total Revenues		992,571

**EXPENDITURES**

Management and General		123,764
Program Services		932,155
Fundraising		220,597
Total Expenditures		1,276,516

**DEFICIENCY OF REVENUES OVER EXPENDITURES** (283,945)

**SPECIAL ITEM**

Gain on Forgiveness of Pledge Liability		5,718,582
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**NET CHANGE IN FUND BALANCE** 5,434,637

Fund Balance - Beginning of Year, as Previously Reported		(1,028,147)
Restatement (See Note 8)		(320,202)
Fund Balance - Beginning of Year, as Restated		(1,348,349)

**FUND BALANCE - END OF YEAR** \$ 4,086,288

Amounts reported for governmental activities in the statement of activities are different because:

Net Change in Fund Balance - General Fund	\$	5,434,637
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Some revenues reported in the statement of activities will not be collected for at least one year after the fiscal year end and, therefore, are not reported as revenue in the General Fund.

Change in Unavailable Revenue - Contributions		23,376
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Change in Net Position of Governmental Activities	\$	5,458,013
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**FLORIDA POLYTECHNIC UNIVERSITY FOUNDATION, INC.**  
**(A COMPONENT UNIT OF FLORIDA POLYTECHNIC UNIVERSITY)**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

Florida Polytechnic University Foundation, Inc. (Foundation) was incorporated on October 30, 2012. Foundation was formed as a direct-support organization in accordance with Section 1004.28, Florida Statutes, and operates exclusively for the benefit of Florida Polytechnic University (University). The Foundation is considered a component unit of the University. The governing body of the Foundation is the Board of Directors (Board). The Board is comprised of not less than three and not more than forty-five elected directors, revised by the Nominations Committee, elected by the Board, and confirmed by the University Board of Trustees. The Foundation's purpose is to receive, hold, invest and administer property and to make expenditures to or for the benefit of the University by encouraging alumni and friends to provide private funds and other resources for the University's benefit, to manage those assets, to provide volunteer leadership in support of the University's objectives and to perform all business matter to accomplish these purposes, and to exercise rights in intellectual property for the benefit of the University.

**Reporting Entity**

According to the Foundations by-laws and Section 1004.28, Florida Statutes, the University Board of Trustees shall approve all appointments to the Foundation Board, resulting in University control of the Board. Therefore, the Foundation's financial statements are prepared in accordance with generally accepted accounting principles applicable to governmental nonprofit organizations as prescribed by the Governmental Accounting Standards Board (GASB).

In evaluating the Foundation as a reporting entity, there were no component units identified for which the Foundation is considered financially accountable.

**Basis of Presentation**

As noted above, The Foundation complies with accounting standards established by the GASB. The Foundation has implemented GASB Statement No. 34 as amended, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*.

**Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all activities of the Foundation. The Foundation reports only governmental activities; it does not have any business-type activities. Governmental activities are supported largely by contributions. Contributions are reported as program revenues, and miscellaneous and investment income are reported as general revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues consist of grants and contributions that are restricted to meeting operational or capital requirements of a particular function. Other items not properly included as program revenues are reported as general revenues.

**FLORIDA POLYTECHNIC UNIVERSITY FOUNDATION, INC.**  
**(A COMPONENT UNIT OF FLORIDA POLYTECHNIC UNIVERSITY)**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Fund Financial Statements**

The financial transactions of the Foundation are reported in one fund in the fund financial statements. The fund is accounted for by a providing separate set of self-balancing accounts that comprises its assets, liabilities, deferred inflows of resources, fund balance, revenues and expenditures. Government resources are allocated to, and accounted for, in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The purposes of the Foundation's fund is as follows:

***Governmental Fund***

- **General Fund** – This fund is used to account for the accumulation and expenditure of resources that are not required to be accounted for in another fund.

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Contributions and similar items are recognized when all eligibility requirements have been met, although some may carry no requirements.

Governmental fund financial statements are reported using the financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities for the current period. For this purpose, the District considers revenues to be available if they are collected within one year of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting.

**Cash and Cash Equivalents**

Cash and cash equivalents consist of cash on hand, cash in demand accounts or time deposits in commercial banks.

**Pledges Receivable**

The Foundation accounts for its pledges in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. Unrestricted and restricted contributions receivable are recorded in the statement of net position. Endowment pledges are not recognized in the statement of net position.

**FLORIDA POLYTECHNIC UNIVERSITY FOUNDATION, INC.**  
**(A COMPONENT UNIT OF FLORIDA POLYTECHNIC UNIVERSITY)**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Investments**

Investments consist primarily of assets invested in marketable equity and debt securities and money market accounts. Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statement of financial position. The realized and unrealized gain or loss on investments is reflected in the statement of activities.

Investments are exposed to various risks such as significant world events, interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonable possible that change in the fair values of investments will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

Money market funds in the brokerage account are FDIC insured up to \$250,000.

**Deferred Inflows of Resources**

In addition to liabilities, the statement of revenue, expenditures, and changes in fund balance reports a separate section for deferred inflows of resources. This separate financial statement element reports unavailable revenues from certain contributions and these amounts are deferred and will be recognized as an inflow of resources in the period in which the amounts become available.

**Revenue Recognition**

Contributions are recognized as increases in net position when received provided all eligibility requirements have been met, with the exception of pledges to the endowment which are recognized when received. Any assets donated to the Foundation are recorded at their estimated acquisition value at the date of donation.

**Net Position**

Classification of net position is defined as follows:

- Restricted – nonexpendable endowment includes funds subject to donor-imposed stipulations that they be maintained permanently by the Foundation to use all or part of the related investment return for general or specific purposes in support of the University.
- Restricted – expendable includes funds whose use by the Foundation is subject to donor-imposed stipulations that can be fulfilled by actions of the Foundation pursuant to those stipulations.
- Unrestricted includes funds that do not meet the definition of restricted or net investment in capital assets.

**FLORIDA POLYTECHNIC UNIVERSITY FOUNDATION, INC.**  
**(A COMPONENT UNIT OF FLORIDA POLYTECHNIC UNIVERSITY)**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Fund Balance and Spending Policy**

In accordance with GASB Statement No. 54 – *Fund Balance Reporting and Governmental Fund Type Definitions*, which was implemented by the board for the year ended September 30, 2011, governments are required to classify fund balance in governmental funds as nonspendable, restricted, committed, assigned, and unassigned.

- Nonspendable – amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.
- Restricted – amounts that can only be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.
- Committed – includes amounts that can be used for specific purposes determined by a formal action of the government’s highest level of decision-making authority.
- Assigned – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the District’s adopted policy, only the board may assign amounts for specific purposes.
- Unassigned – includes amounts that have not been assigned to other funds or restricted, committed or assigned to a specific purpose.

The Foundation has implemented fund balance and spending policies to clearly define the process for tracking the various classifications of fund balance. The policy states when an expenditure is incurred in which restricted, committed, assigned, or unassigned amounts are available to be used, the Foundation will first use restricted amounts, then committed amounts, then assigned amounts, and finally unassigned amounts, unless the Foundation has provided otherwise in its commitment or assignment actions.

**Income Tax Status**

The Foundation is a not-for-profit organization that is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code. Unrelated business income, as defined by Section 509(a)(1) of the Code is subject to federal income tax. The Foundation currently has no unrelated business taxable income. Accordingly, no provision for income taxes has been recorded.

The Foundation adopted the income tax standard for uncertain tax positions on January 1, 2009. As a result of the implementation, the Foundation determined there were no uncertain tax position for which either recognition or disclosure is required in the Financial Statements.

**FLORIDA POLYTECHNIC UNIVERSITY FOUNDATION, INC.**  
**(A COMPONENT UNIT OF FLORIDA POLYTECHNIC UNIVERSITY)**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Fair Value Measurement**

Governmental Accounting Standards Board (GASB) Statement Number 72, *Fair Value Measurements and Application*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

*Level 1* – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

*Level 2* – Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means;
- if the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

*Level 3* – Inputs to the valuation methodology are unobservable and significant to the fair market value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**FLORIDA POLYTECHNIC UNIVERSITY FOUNDATION, INC.**  
**(A COMPONENT UNIT OF FLORIDA POLYTECHNIC UNIVERSITY)**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**NOTE 2 DEPOSITS AND INVESTMENTS**

**Custodial Credit Risk – Deposits**

At June 30, 2019, the carrying amount of the Foundation's cash deposits was \$534,401 and the bank balance was \$552,620. Custodial credit risk is the risk that in the event of a bank failure, the Foundation's deposits may not be returned to it. All deposits and maintained at one institution and are insured with the FDIC up to \$250,000.

**Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Foundation had no policy on interest rate risk. As of June 30, 2019, the Foundation had the following investments in debt securities and related maturities:

	Fair Value	Investment Maturities		
		Less than 1 year	1 - 5 Years	> 5 Years
Corporate Bonds	\$ 473,713	\$ 25,949	\$ 204,113	\$ 243,651
International Bonds	124,653	42,851	81,802	-
U.S. Government Bonds	549,559	108,189	240,270	201,100
Mutual Funds - Bonds	764,291	764,291	-	-
Total	<u>\$ 1,912,216</u>	<u>\$ 941,280</u>	<u>\$ 526,185</u>	<u>\$ 444,751</u>

**Credit Risk**

Credit risk is the risk that an insurer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. State law does not limit investment options of the Foundation. The Foundation had no policy on credit risk. Presented below is the actual rating as of September 30, 2018 for each type of investment.

<u>Investment Type</u>	<u>Rating</u>	<u>Fair Value</u>
Corporate Bonds	A - BBB+	\$ 473,713
International Bonds	AA+ - AAA	124,653
U.S. Government Bonds	AA+	549,559
Mutual Funds - Bonds	NR	764,291
Mutual Funds - Equity	NR	3,911,270
Total		<u>\$ 5,823,486</u>

The Foundation's investment policy allows investment in cash equivalents, fixed income, and equity securities.

**Concentration of Credit Risk**

The Foundation's investment policy states that that allocation range for each asset class will be: cash and cash equivalents 0-5%, fixed income 24-44%, and equity 55-75%. As of June 30, 2019 the Foundation was in compliance with the investment policy.

**FLORIDA POLYTECHNIC UNIVERSITY FOUNDATION, INC.**  
**(A COMPONENT UNIT OF FLORIDA POLYTECHNIC UNIVERSITY)**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**NOTE 3 CONTRIBUTION RECEIVABLES**

Contribution receivables are expected to be received as follows as of June 30, 2019.

	2020		\$	296,936
	2021			12,076
	2022			11,150
	2023			150
				320,312
Total Contribution Receivables				320,312
Less: Allowance for Doubtful Accounts				(26,123)
Contributions Receivable, Net of Allowance				294,189
Less: Long-Term Portion				(21,470)
Short-Term Portion				\$ 272,719

An allowance for uncollectible contributions receivable is recorded based on management's estimate of uncollectible contributions.

**NOTE 4 FAIR VALUE OF FINANCIAL INSTRUMENTS**

The Foundation uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how the Foundation values all other assets and liabilities refer to Note 1 Summary of Significant Accounting Policies.

The following tables present the fair value hierarchy for the balances of the investments of the Foundation measured at fair value on a recurring basis as of June 30, 2019:

	Total	Level One	Level Two	Level Three
Investments Measured at Fair Value:				
Corporate Bonds	\$ 473,713	\$ 473,713	\$ -	\$ -
International Bonds	124,653	124,653	-	-
U.S. Government Bonds	549,559	549,559	-	-
Mutual Funds - Bonds	764,291	764,291	-	-
Mutual Funds - Equity	3,911,270	3,911,270	-	-
Total Investments	5,823,486	\$ 5,823,486	\$ -	\$ -
Investments Measured at Amortized Cost:				
Short-Term Money Market Funds	209,264			
Total Investments	\$ 6,032,750			

**FLORIDA POLYTECHNIC UNIVERSITY FOUNDATION, INC.**  
**(A COMPONENT UNIT OF FLORIDA POLYTECHNIC UNIVERSITY)**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**NOTE 5 OTHER LIABILITY**

The Foundation has \$2,750,000 in other liabilities as of year ended June 30, 2019. During fiscal year 2014, an anonymous donor gave \$5,000,000 to the foundation. According to the stipulations of the second amendment to the donation agreement, \$250,000 was returned to the anonymous donor in fiscal year 2015. \$2,000,000 of the donation was designated for unrestricted purposes. Funds were available in a dollar for dollar match as donations were received from additional donors. During fiscal year June 30, 2014, \$447,200 was matched and recognized as revenue. During fiscal year end June 30, 2015, the remaining \$1,552,800 was matched, collected, and recognized as revenue. The remaining \$2,750,000 cannot be used until the anonymous donor and Foundation enter an agreement as to how the funds will be released. The second amendment of the donation agreement states, if a written agreement is not reached on or before August 1, 2015, the anonymous donor may at any time thereafter, upon its written request remove the remainder of the donation. If this event occurs, the Foundation is required to return the \$2,750,000 to the anonymous donor within 30 days of the anonymous donor's written request. As of the issuance of the June 30, 2019 financial statements, an agreement has not been reached with the anonymous donor, although on-going discussions have/are taking place between the University and the anonymous donor in regards to status of designated benchmarks. To date, the anonymous donor has not requested the funds be returned.

**NOTE 6 ENDOWMENT COMPOSITION**

The Foundation's endowment balance is comprised of funds established for the purposes of scholarships. As of June 30, 2019 the balance was \$1,422,338.

The Foundation authorizes expenditures for the uses and purposes for which endowment funds were established.

The Foundation is allowed to spend a portion of the total return on endowment funds for current year needs. Any remainder of the total return is to be reinvested to keep pace with and exceed inflations. Dividends earned on endowment funds are to be spent on a percentage of the average prior five calendar years' market value when available.

**NOTE 7 RELATED PARTY TRANSACTIONS AND SPECIAL ITEM**

The Foundation contributed \$731,726 to the University for the year ended June 30, 2019. During 2019, the University forgave the scholarship liability due from the foundation in the amount of \$5,718,582. The Foundation has a remaining liability due to the University in the amount of \$3,064.

At June 30, 2019, there was \$233,395 of gross contribution receivables due from Foundation Board of Directors and University Board of Trustees. For the year ended June 30, 2019, contribution revenue from the Foundation Board of Directors and University Board of Trustees totaled \$151,321.

**FLORIDA POLYTECHNIC UNIVERSITY FOUNDATION, INC.**  
**(A COMPONENT UNIT OF FLORIDA POLYTECHNIC UNIVERSITY)**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**NOTE 8    RESTATEMENT – CHANGE IN ACCOUNTING PRINCIPLE**

During the year ended June 30, 2019 the Foundation no longer met the criteria for reporting under Financial Accounting Standards Board and began reporting under GASB. GASB Statement No. 33 states that providers and recipients of permanently restricted promises to give should not recognize liabilities or receivables in these types of transactions. Therefore, permanently restricted (endowed) promises to give had been recognized in prior years. The Foundation had \$320,202 of permanently restricted promises to give at June 30, 2018.

Beginning fund balance of the General Fund and net position of the governmental activities have been restated to eliminate the \$320,202 of permanently restricted promises to give that had been recognized as of June 30, 2018.



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors  
Florida Polytechnic University Foundation, Inc.  
Lakeland, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the General Fund of Florida Polytechnic University Foundation, Inc. (Foundation), a component unit of Florida Polytechnic University, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements, and have issued our report thereon dated November 13, 2019.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Foundation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

### **CliftonLarsonAllen LLP**

Lakeland, Florida  
November 13, 2019

**Florida Polytechnic University  
Audit & Compliance Committee  
Board of Trustees  
February 25, 2020**

**Subject: Crowe Internal Management and Accounting Control and Business Process Assessment  
(November 2019)**

---

**Proposed Committee Action**

Recommend approval of the Crowe Internal Management and Accounting Control and Business Process Assessment (November 2019) to the Board of Trustees.

**Background Information**

The Board of Governors of the Florida State University System (“SUS”) engaged Crowe LLP (“Crowe”) to perform a system-wide “Internal Control and Business Process Assessment”. The objective of this assessment was to evaluate the existing internal controls and review business processes to identify areas of risk for the SUS and to provide recommendations to enhance internal control over the system. Crowe performed these consulting services in accordance with the Standards for Consulting Services established by the American Institute of Certified Public Accountants. These services do not constitute an audit, review, or examination in accordance with standards established by the American Institute of Certified Public Accountants, and therefore, Crowe does not express an opinion on the accuracy or efficacy of the material reviewed during the performance of these services. The scope of the assessment was business process risks among the twelve universities within the SUS.

David Blanton, Chief Audit Executive/Chief Compliance Officer (CAE/CCO) will provide the Committee with an overview of the Crowe Assessment.

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**Supporting Documentation:** Crowe Internal Control and Business Process Assessment Reports (for both Florida Polytechnic University and the SUS)

**Prepared by:** David A. Blanton, CAE/CCO



Smart decisions. Lasting value.™

**Florida Board of Governors State University System  
Florida Polytechnic University  
Internal Management and Accounting Control and Business  
Process Assessment**

**November 2019**

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## I. Executive Summary

The Board of Governors (the “Board” or “BOG”) of the Florida State University System (SUS) engaged Crowe LLP to perform a system-wide “Internal Management and Accounting Control and Business Process Assessment”. The purpose of this assessment was to evaluate the existing internal controls and review business processes to identify any areas of risk for the SUS.

The scope of our assessment was focused on financial and operational risks, and regulatory compliance risks among the twelve universities within the SUS.

We have presented the results of our assessment of Florida Polytechnic University (FPU) in this report. We used our risk rating methodology to evaluate and score sixty-two (62) risks statements grouped into twelve categories. Our conclusions were based on the level of residual risk and any control gaps or weaknesses noted during our assessment. Residual risk refers to the level of risk after considering the internal controls in place and other activities implemented to mitigate that risk. An in-depth discussion of our approach and rating methodology can be found in the *Assessment Overview* section of this report.

### Conclusion

While the scope of our assessment precludes us from issuing an opinion on FPU’s system of internal controls, based on our procedures we noted no risk categories with a high level of residual risk, or significant control gaps or weaknesses in FPU’s control structure.

We concluded that seven of the twelve risk categories we evaluated had a minor residual risk rating, and five categories had a low residual risk rating. We also found opportunities for FPU to strengthen internal controls, identified as “observations” in the table below. We have highlighted these observations as specific opportunities to improve controls or risk mitigation activities. The risk rating for each observation is indicative of the risk to university objectives posed by this gap in internal controls and is separate and distinct from the residual risk ratings in each category. Additional information on these observations, our recommendations to address them, and FPU management’s responses can be found in the *Observations and Recommendations* section of this report.

### FPU Observations Summary

Risk Category	Description	Risk Rating
Information Technology	<b>1. Information Security Governance – Policies and Procedures.</b> FPU has not documented information security policies and procedures for the sections pertaining to: 1) Data Protection, 2) Logging and Monitoring, 3) Risk Management, 4) Change Management Program 5) Patch Management and 5) Mobile Device Management. This increases the risk that tasks will be performed inconsistently.	Low
Information Technology	<b>2. Data Protection – Employee Removable Media.</b> FPU does not have a method to manage the use of removable media. Technical controls have not been implemented to protect the access and provide data protection, such as encryption and device authentication.	Low

## II. Assessment Overview

The Board of Governors (the “Board” or “BOG”) of the Florida State University System (SUS) engaged Crowe LLP to perform a system-wide “Internal Management and Accounting Control and Business Process Assessment”. The purpose of this assessment was to evaluate the existing internal controls and review business processes to identify any areas of risk for the SUS. We performed these consulting services in accordance with the Standards for Consulting Services established by the American Institute of Certified Public Accountants. These services do not constitute an audit, review, or examination in accordance with standards established by the American Institute of Certified Public Accountants, and therefore, Crowe did not express an opinion on the accuracy or efficacy of the material assessed during the performance of these services.

The scope of our assessment was focused primarily on financial and operational risks, and secondarily on regulatory compliance risks. It included the twelve universities within the SUS as follows:

- Florida Agricultural and Mechanical University (FAMU)
- Florida Atlantic University (FAU)
- Florida Gulf Coast University (FGCU)
- Florida International University (FIU)
- **Florida Polytechnic University (FPU)**
- Florida State University (FSU)
- New College of Florida (NCF)
- University of Central Florida (UCF)
- University of Florida (UF)
- University of North Florida (UNF)
- University of South Florida (USF)
- University of West Florida (UWF)

This report represents the results of our assessment of FPU. As part of our assessment, we obtained an understanding of BOG regulations, university policies, procedures, processes and business requirements. In addition, we sent surveys and conducted interviews with various members of FPU management. Based on this information, we developed a risk and control assessment, the results of which are summarized below.

### Inherent Risk Assessment

We developed an inherent risk assessment for each university in the SUS. The inherent risk assessments consisted of a list of risk factors which, based on our research and experience, are relevant, impactful, and likely to occur in a university environment. We rated some inherent risks differently across universities due to environmental or organizational variables (e.g. research-based universities, student enrollment, campus location(s), age of infrastructure, student housing, etc.). At this point in the assessment we did not yet consider the specific risk management and controls that each university had in place to mitigate these risks. It was designed to provide a baseline upon which to measure control effectiveness at the university level.

### Risk Rating Scale

Impact	Score
Low	1
Minor	2
Moderate	3
High	4
Severe	5

Likelihood	Score
Remote	1
Improbable	2
Possible	3
Probable	4
Almost Certain	5

Risk Rating	Score
Low	1
Minor	2
Moderate	3
High	4
Severe	5

We established the threshold for reportable risk levels at a residual risk score of 4 or higher.

We established a risk rating methodology to assign a score to each risk factor in the assessment as illustrated above. Our risk rating methodology considered two criteria, "Impact" and "Likelihood". The "Risk Rating" represents the average of those two scores. The impact criterion addressed the effect on financial, operational, or compliance objectives if the risk factor were to occur. The likelihood criterion addressed the probability that the risk would occur in the current environment. Our scores were based on a five-point rating scale with one (1) representing the lowest, and five (5) representing the highest risk score. We labeled the risk rating in the same manner as the impact criterion for the purpose of simplicity and consistency.

### Control Ratings

We also rated the internal controls in place according to the three criteria below. The percentage assigned to each rating represents the reduction in perceived levels of risk and was used to calculate the residual risk score.

- No Observations Noted (30% reduction to the inherent risk rating),
- Needs Improvement (15% reduction to the inherent risk rating), or
- Inadequate (0%, no reduction to the inherent risk rating)

We based the control ratings on the results of our research, discussions with management, and the supporting documentation they provided to help us analyze FPU's control structure.

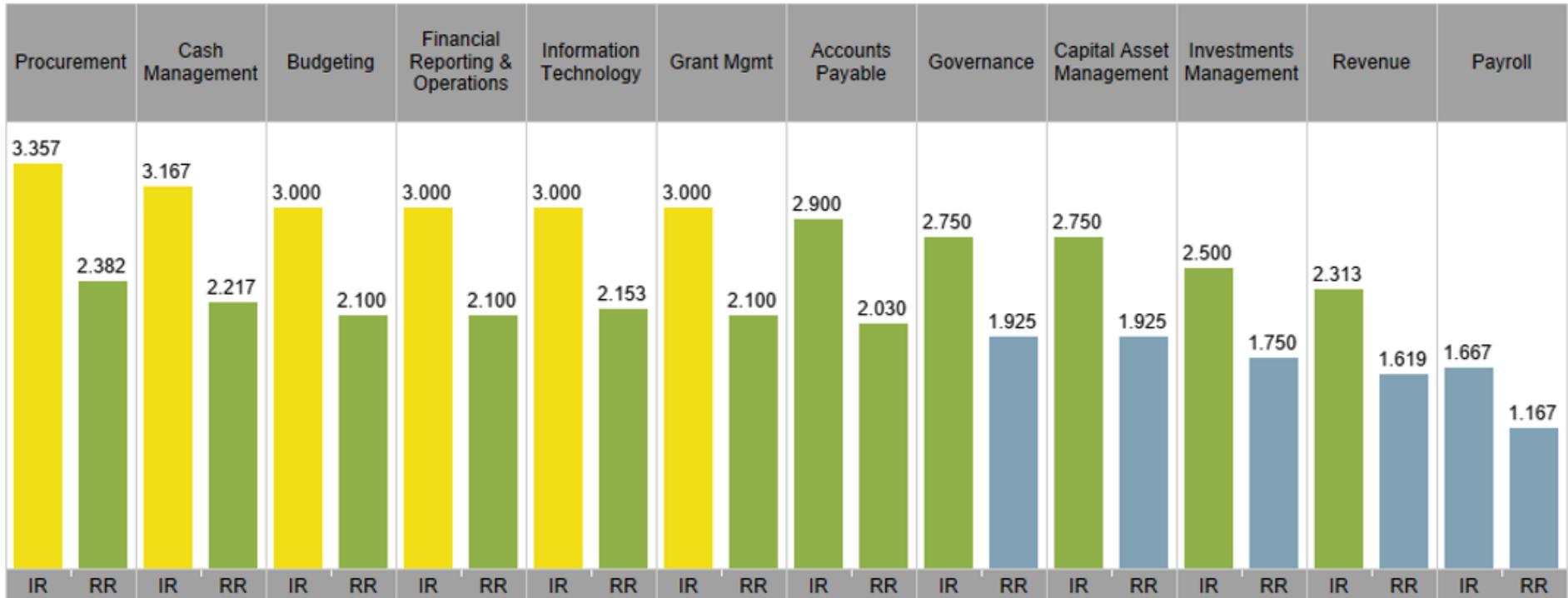
### Residual Risk Assessment

We assigned a control rating to each control to arrive at a residual risk rating in a consistent manner. The residual risk assessment was intended to provide an overview of the university's risk management and system of internal control. We recognized that each control and its related risk had unique components that would not be fully represented by the control or residual risk rating. Therefore, we developed an observation and recommendation for controls rated as "Needs Improvement" or "Inadequate" to provide additional insight into that specific matter.

We used the risk category ratings, as illustrated in **Exhibit 1** below, to summarize the sixty-two (62) risk statements which we evaluated and scored during this assessment. We assessed the risk factors from the perspective of “inherent risk” (i.e. prior to considering implementation of controls) and “residual risk” (i.e. after consideration of controls in place to mitigate the risk). In total we grouped risks into twelve categories and deemed seven categories to have a minor level of residual risk and five categories to have a low level of residual risk. FPU’s three highest categories of residual risk were Procurement, Cash Management, and Information Technology. However, based on our methodology, all risk categories were below our threshold for a reportable observation.

The bar graph illustrates the difference between the average inherent and residual risk scores for each risk category. Please note that if an individual risk factor exceeded the threshold, we would have reported an observation and recommendation for those factors. However, we did not note any individual risk factors that exceeded the threshold, and these key functions/risk categories also have average residual risk scores below our threshold. This is an indicator that our observations identified were not systemic to the functional area.

**Exhibit 1: FPU Inherent vs. Residual Risk by Category**



**Exhibit 2** highlights similar information but uses different visualizations to illustrate how the control rating reduced the level of inherent risk (i.e. resulting in the residual risk score). The inherent risk represents the baseline score in each category prior to considering internal controls. The control mitigation score represents our assessment of the controls in each category. The residual risk score is the net result of the two scores and is used to indicate whether the control structure was adequately designed to mitigate the associated risks to a reasonable level. Again, this exhibit indicates that all risk categories had average residual risks below our threshold for reportable observations.

**Exhibit 2: FPU Inherent vs. Residual Risk with Control Rating**

Risk Factor Category	IR	Control Mitigation Effectiveness	RR
Accounts Payable	2.900	0.300	2.030
Budgeting	3.000	0.300	2.100
Capital Asset Management	2.750	0.300	1.925
Cash Management	3.167	0.300	2.217
Financial Reporting & Operations	3.000	0.300	2.100
Governance	2.750	0.300	1.925
Grant Mgmt	3.000	0.300	2.100
Information Technology	3.000	0.285	2.153
Investments Management	2.500	0.300	1.750
Payroll	1.667	0.300	1.167
Procurement	3.357	0.289	2.382
Revenue	2.313	0.300	1.619

## Conclusion

Based on our procedures, we noted no individual risk factors which arose to the level of a reportable observation (i.e. a residual risk score of 4 or greater). However, our risk and control assessment enabled us to identify areas to improve risk management and control practices. Additional detail on these observations, our recommendations on how FPU could address these observations, and FPU management's responses to our recommendations have been provided in the *Observations and Recommendations* section of this report.

We also noted that the university would likely benefit from an enhanced focus in the Information Technology risk category. While we have addressed specific risks in our observations and recommendations, this is an area in which FPU could benefit from a more holistic approach to risk management. A strong risk management framework is critical to maintain pace with the threats that have emerged alongside technological advances. These threats pose not only financial risks, but may also impact reputation, safety, and strategic initiatives. FPU should consider strengthening their risk management practices through a more formal, systematic approach in order to provide an added level of assurance to its Board of Trustees and to the Board of Governors that the university has taken reasonable measures to manage the risks it faces in the course of pursuing its mission.

### III. Objectives and Scope

The purpose of this assessment was to evaluate the existing internal controls and review business processes to identify any areas of risk for the SUS. We accomplished this by completing a risk and control assessment for each university within the SUS, which enabled us to identify gaps or weaknesses in internal controls and make recommendations to the university and the BOG for improvement. In summary, our objectives were to evaluate the risks, controls, and business processes related to financial accounting and operations at FPU, and to provide observations and recommendations to the FPU Board of Trustees, FPU leadership, and the BOG on improving the risk management, controls, and business processes within the university.

The scope of our assessment included the following activities and processes at FPU:

1. Internal Management and Accounting Controls over:
  - a. Accounting Operations (e.g. Accounts Payable, Accounts Receivable, Payroll)
  - b. Financial Statement Preparation and Issuance
  - c. Grant Management
2. Business Processes and Operations, including:
  - a. Procurement
  - b. Budget Management and Oversight (Capital and Operating)
  - c. Capital Program and Asset Management
  - d. Information Systems Management
  - e. Cyber Security
  - f. Contract Management
3. Compliance matters, including:
  - a. Data Privacy rules and regulations
  - b. Federal and State Grant reporting requirements
  - c. Financial Aid regulations

## IV. Procedures Performed

It should be recognized that internal controls are designed to provide reasonable, but not absolute, assurance that errors and irregularities will not occur, and that procedures are performed in accordance with management's intentions. There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal controls. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes in judgment, carelessness, or other factors. Internal control procedures can be circumvented intentionally by management with respect to the execution and recording of transactions, or with respect to the estimates and judgments required in the processing of data. Controls may become ineffective due to newly identified business or technology exposures. Further, the projection of any evaluation of internal control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, and that the degree of compliance with procedures may deteriorate. A summary of the procedures we completed during our assessment of FPU have been summarized in the table below.

Summary of Procedures
1. We reviewed BOG regulations, university policies, procedures, processes and business requirements.
2. We prepared an inherent risk assessment, which includes risks arising from our assessment of the above, as well as our experience in common risks within higher education, specific to financial and operational issues.
3. We analyzed risk/control questionnaires completed by university management and identified key controls in place to manage the risks identified above.
4. We conducted interviews onsite with university management for insight into risk management and control perspectives and activities.
5. We evaluated FPU's risk management and control structure based on the information gathered above.
6. We have identified gaps in controls and process improvement opportunities. These have been documented in this report as observations and recommendations.
7. We have confirmed with FPU management the factual basis for our observations and recommendations. Management's written responses are included for each recommendation in this report.

## V. Observations and Recommendations

Our procedures yielded two (2) observations which are summarized in the table below. These observations represent areas where we determined that controls were absent or were not adequate to mitigate the associated risk to an acceptable level. In the following section we have provided details and recommendations to address each of these observations. Management's responses to each of our recommendations are also included in this section.

Risk Category	Description	Risk Rating
Information Technology	<b>1. Information Security Governance – Policies and Procedures</b>	Low
Information Technology	<b>2. Data Protection – Employee Removable Media</b>	Low

**Observations and Recommendations**

Observation 1	Process Area	Priority Rating
Information Security Governance – Policies and Procedures	Information Technology	Low

**Condition:** Several policies and procedures have not been documented or need enhancement to reflect the current security configurations and industry standards. The following policies and procedures have not been documented:

- **Data Protection** – The organization does not maintain a documented data protection program which includes requirements for data inventory, data protection, and data sanitization.
- **Logging and Monitoring** – The organization does not maintain a documented logging and auditing requirements that includes the system types to be logged, procedures for log review, alerting thresholds, log retention requirements, and personnel to be alerted.
- **Risk Management** – The organization does not maintain a documented risk management program which includes documented risks, threats, and vulnerabilities.
- **Change Management Program** – The organization does not maintain a change management program with requirements which include documented change control criteria, functional testing, back-out procedures, and reporting.
- **Patch Management** – The organization does not maintain a documented patch management program that defines requirements for patch documentation, approvals, patch installation frequency, testing, exceptions, and emergency and critical patch processes.
- **Mobile Device Management** – The organization does not maintain a documented mobile device management program which includes standards for securing mobile devices and requirements for users to access company data from their mobile devices.

**Criteria:** We relied on the National Institute of Standards and Technology (NIST) SP 800-53 r5 PM-1 as the criteria upon which to evaluate these controls.

**Root Cause:** FPU has not yet prioritized resources to complete the development of the policies and procedures noted in the Condition above.

**Implication:** Lack of policies and procedures may result in potential conflicts when performing tasks due to inconsistent and/or lack of documentation. Policies help constitute what is acceptable behavior and formalized and up-to-date procedures provide guidance and clearly defined steps on how to execute the necessary task in a consistent manner.

**Recommendation:** FPU should develop policies and procedures around the noted program areas. These policies and procedures should, at a minimum, include the purpose, scope, roles and responsibilities, policy standards, violations, approval and ownership, and references (if applicable). Once the policy has been defined with approved security standards, Management should document procedures to verify the enforcement of the documented standards. At a minimum, Management should perform a yearly review, update, and approval of the policies and if applicable, the procedures, to reflect the current industry security standards and practices.

**Management Response:**

Management agrees. As a smaller institution, we mitigate risks by close managerial supervision. Based on Crowe's recommendation and their low-risk assessment, we have prioritized resources to complete the documentation of the policies and procedures noted in the Crowe observation by December 31, 2019. Planned for implementation by January 2020.

Observation 2	Process Area	Priority Rating
Data Protection – Employee Removable Media	Information Technology	Low

**Condition:** FPU does not have a method to manage the use of removable media. Technical controls have not been implemented to protect the access and provide data protection, such as encryption and device authentication.

**Criteria:** We relied on the National Institute of Standards and Technology (NIST) SP 800-53 r5 MP-1, MP-2, MP-5, MP-7 as the criteria upon which to evaluate these controls.

**Root Cause:** FPU has not prioritized resources to address the risk of employees using removable media.

**Implication:** Without restrictions and the protection of data confidentiality on the use of removable storage media through device encryption, there is the risk of unauthorized disclosure of business and customer information through the loss or misuse of the storage media.

**Recommendation:** To ensure the confidentiality and integrity of electronic data stored on a removable media, FPU personnel should only use encrypted devices and their use should be restricted (for both read and write capabilities) to only authorized individuals who have a legitimate business need. Removable media should also be centrally managed, and only company devices should be used. To account for all files that may be considered sensitive, technical controls should be implemented to force removable media encryption and reduce the risk of sensitive files being lost. Removable media encryption solutions are listed below:

USB Encryption Solutions	
DiskCryptor	<a href="https://diskcryptor.net/wiki/Main_Page">https://diskcryptor.net/wiki/Main_Page</a>
Rohos Disk Encryption	<a href="https://www.rohos.com/products/rohos-disk-encryption/">https://www.rohos.com/products/rohos-disk-encryption/</a>
PGP Disk	<a href="http://www.symantec.com/encryption/">http://www.symantec.com/encryption/</a>
Gilisoft USB Stick Encryption	<a href="http://gilisoft.com/product-usb-stick-encryption.htm">http://gilisoft.com/product-usb-stick-encryption.htm</a>
Kakasoft USB Security	<a href="http://www.kakasoft.com/usb-security/">http://www.kakasoft.com/usb-security/</a>
Iron Key (Encrypted USB)	<a href="http://www.ironkey.com/en-US/">http://www.ironkey.com/en-US/</a>

Alternatively, if there is no business need for removable media, it can be restricted using third party tools or through Microsoft Group Policy. The following article provides a walkthrough on how this can be accomplished:

- [https://technet.microsoft.com/en-us/library/Cc772540\(v=WS.10\).aspx](https://technet.microsoft.com/en-us/library/Cc772540(v=WS.10).aspx)

**Management Response:**

Management partially agrees. All University employees receive and sign written guidance on the proper handling of removable media. The University adopted Data Classification and Protection Policy FPU-11.00122P that requires that the “highest level of access and security controls and protection will be applied both in storage and in transit,” and we have trained University employees on that policy. Based on Crowe’s recommendations, the University partially agrees and is exploring removable media management software to determine if the benefit exceeds the cost, considering the low-risk assessment noted by Crowe.

Timeline for implementation has not yet been determined.

## VI. Appendix - List of Interviewees at FPU

The following individuals were interviewed during our onsite visit to FPU the week of July 29, 2019. The name, title, and interview subject are included below.

1. Accounts Payable & Procurement:
  - a. David O'Brien – Director of Procurement
  - b. Treasa McLean – Assistant Director of Procurement
  - c. Laura Marrone – Associate Director of Procurement
  - d. John Irvine – Director of Finance and Accounting, Accounts Payable, & Construction
2. Cash Management:
  - a. Derek Horton – University Controller
  - b. John Irvine – Director of Finance and Accounting, Accounts Payable, & Construction
3. Budget and Financial Reporting:
  - a. Regina Siewart, Budget Officer
  - b. Derek Horton, University Controller
  - c. John Sprenkle, Director of Finance and Accounting for Financial Reporting
4. Capital Asset Management:
  - a. John Irvine – Director of Finance and Accounting, Accounts Payable, & Construction
  - b. David Calhoun, Assistant Vice President of Facilities and Safety Services
5. Grants Management: Nicole Tardiff, Director of Sponsored Programs
6. Internal Audit and Compliance: David Blanton, Chief Compliance Officer and Chief Audit Executive
7. Information Technology: Ben Beachy, Chief Information Officer
8. Student Billing:
  - a. Derek Horton, University Controller
  - b. John Sprenkle, Director of Finance and Accounting for Financial Reporting
  - c. Andrew Strazi, Director of Reporting and Analytics
9. Governance: FPU Board of Trustees Chair, Don Wilson



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Florida Board of Governors State University System  
Summary Report  
Internal Control and Business Process Assessment  
December 2019

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## I. Executive Summary

The Board of Governors (the “Board” or “BOG”) of the Florida State University System (“SUS”) engaged Crowe LLP (“Crowe”) to perform a system-wide “Internal Control and Business Process Assessment”. The objective of this assessment was to evaluate the existing internal controls and review business processes to identify areas of risk for the SUS and to provide recommendations to enhance internal control over the system. We performed these consulting services in accordance with the Standards for Consulting Services established by the American Institute of Certified Public Accountants. These services do not constitute an audit, review, or examination in accordance with standards established by the American Institute of Certified Public Accountants, and therefore, Crowe does not express an opinion on the accuracy or efficacy of the material reviewed during the performance of these services.

The scope of the assessment was business process risks among the twelve universities within the SUS.

We have presented a summary of the overall results of our assessments of the twelve universities within the SUS in this report. We used our risk rating methodology to evaluate and score business process risks grouped into twelve categories. Our conclusions were based on the level of residual risk and any control gaps or weaknesses noted during our assessment. Residual risk refers to the level of risk after considering the internal controls and other activities implemented to mitigate that risk. An in-depth discussion of our approach and rating methodology can be found in the *Assessment Overview* section of this report.

### Conclusion

Based on our procedures performed, we noted no risk categories with a high level of residual risk, or significant control gaps or weaknesses in any of the twelve universities’ control design structures.

We found opportunities to strengthen controls at 11 of the 12 universities (we noted no observations for the University of South Florida (“USF”)). We have highlighted these observations as specific opportunities to improve controls or further mitigate risks. The risk rating for each observation is indicative of the risk to university objectives posed by a specific gap in internal controls. This means that an observation is focused on a specific issue and not on an entire function or entity. Conversely, we also assigned ratings to entire risk categories (e.g. Accounts Payable, Procurement, Information Technology, etc.). These ratings represent the average score of all individual risks within that category. Additional information on these observations, our recommendations, and university management responses can be found in each university report.

We also noted several observations and “themes” which were common throughout the SUS, and we have formed recommendations to address these areas for the BOG’s consideration. The themes that were consistent throughout the SUS are summarized below.

1. Each university carries a risk that management override of controls and/or collusion to bypass controls may adversely impact universities’ compliance with existing rules and regulations as well as operating objectives. In our experience, this risk is difficult to address solely through the implementation of controls. Alternatively, an organization’s culture, values, and its focus on ethics, compliance, and risk management tend to be a more effective and holistic approach to addressing this threat.

We noted that the BOG and each of the universities has implemented clear mission and values statements and has focused on ethics and compliance as a key function of senior management (e.g. the establishment of the Compliance and Ethics Officer position). We also believe that the SUS could benefit from establishing an enterprise risk management framework and program which would be embedded within the BOG and each university in order to strengthen risk management practices and internal controls.

2. The universities could benefit from enhanced information security controls. Information security is becoming increasingly critical function, with new cyber risks and threats emerging that can impact the universities financially, reputationally and strategically.
3. The universities could benefit from strengthening their third-party risk management practices, including vendor setup and contract management roles and responsibilities. Strong monitoring and oversight activities are especially important for vendors who have been granted access to sensitive or personally identifiable information.
4. The universities could benefit from additional guidance and clarification on how to interpret the active BOG regulations. It became apparent in our discussions with various members of university management and trustees, that they sought additional clarity, especially those regulations that pertained to the use of Educational and General (E&G) funds, since the regulations were being interpreted in different ways.

We have provided additional information on these key observations and recommendations for the SUS in the *Conclusion* section of this report. A common thread, or connection among these themes is effective communication and the exchange of information. We believe that with an increased focus on this area, as outlined in this report, the SUS will be able to leverage significant enhancements to its risk management practices and system of internal controls.

## II. Assessment Overview

The objective and scope of this assessment, to evaluate existing controls and business processes to identify areas of risk for the SUS, covered a broad range of university functions and corresponding risk factors. In order to manage the scope more effectively we identified inherent risk factors across these functional areas. Based on our experience and industry knowledge, we identified sixty-five risk statements that represent relevant risks to the business process objectives within our scope. We have listed the twelve functional areas (i.e. risk categories) covered within our risk assessment as follows:

- Accounts Payable
- Budgeting
- Capital Asset Management
- Cash Management
- Financial Reporting
- Governance
- Grant Management
- Information Technology
- Investment Management
- Payroll
- Procurement
- Revenue

As part of our assessment, we obtained an understanding of BOG regulations, university policies, procedures, processes and business requirements. In addition, we sent surveys and conducted interviews with various members of universities management. Based on this information, we developed risk and control assessments for each university. A summary of our ratings for each functional risk area is included in the *Observations and Themes* section of this report.

The risk assessment methodology used during this assessment was designed to maintain consistency and comparability across the twelve, distinct universities within the SUS. Our approach included an assessment of inherent risks, control design effectiveness, and residual risks. An explanation of these components is included in the paragraphs below.

### Inherent Risk Assessment

We developed an inherent risk assessment for each university in the SUS. The inherent risk assessments consisted of a list of risk factors which, based on our research and experience, are relevant, impactful, and likely to occur in a university environment. We rated some inherent risks differently across universities due to environmental or organizational variables (e.g. research-based universities, student enrollment, campus location(s), age of infrastructure, student housing, etc.). At this point in the assessment we did not yet consider the specific risk management and controls that each university had in place to mitigate these risks. It was designed to provide a baseline upon which to measure control effectiveness at the university level.

### Risk Rating Scale

Impact	Score
Low	1
Minor	2
Moderate	3
High	4
Severe	5

Likelihood	Score
Remote	1
Improbable	2
Possible	3
Probable	4
Almost Certain	5

Risk Rating	Score
Low	1
Minor	2
Moderate	3
High	4
Severe	5

We established the threshold for reportable risk levels at a residual risk score of 4 or higher.

We established a risk rating methodology to assign a score to each risk factor in the assessment as illustrated above. Our risk rating methodology considered two criteria, "Impact" and "Likelihood". The "Risk Rating" represents the average of those two scores. The impact criterion addressed the effect on financial, operational, or compliance objectives if the risk factor were to occur. The likelihood criterion addressed the probability that the risk would occur in the current environment. Our scores were based on a five-point rating scale with one (1) representing the lowest, and five (5) representing the highest risk score. We labeled the risk rating in the same manner as the impact criterion for the purpose of simplicity and consistency.

### Control Effectiveness Ratings

We also rated the effectiveness of controls according to the three criteria below. The percentage assigned to each rating represents the reduction in perceived levels of risk and was used to calculate the residual risk score.

- No Observations Noted (30% reduction to the inherent risk rating),
- Needs Improvement (15% reduction to the inherent risk rating), or
- Inadequate (0%, no reduction to the inherent risk rating)

We based the control effectiveness ratings on the results of our research, discussions with management, and the supporting documentation they provided to help us analyze each university's control structure.

### Residual Risk Assessment

We assigned a control effectiveness rating to each control to arrive at a residual risk rating in a consistent manner. The residual risk assessment was intended to provide an overview of the university's risk management and control effectiveness. We recognized that each control and its related risk had unique components that would not be fully represented by the control effectiveness or residual risk rating. Therefore, we developed an observation and recommendation for controls rated as "Needs Improvement" or "Inadequate" in order to provide additional insight into that specific matter.

### III. Procedures Performed

A summary of the procedures we completed during our assessment of each university have been summarized in the table below. Please note that internal controls are designed to provide reasonable, but not absolute, assurance that errors and irregularities will not occur, and that operations are performed in accordance with management's intentions. There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal controls. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes in judgment, carelessness, or other factors. Internal control procedures can be circumvented intentionally by management with respect to the execution and recording of transactions, or with respect to the estimates and judgments required in the processing of data. Controls may become ineffective due to newly identified business or technology exposures. Further, the projection of any evaluation of internal control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, and that the degree of compliance with procedures may deteriorate.

Summary of Procedures
1. We reviewed BOG regulations, university policies, procedures, processes and business requirements.
2. We prepared a risk assessment, which includes risks arising from our review of the documents referenced in procedure number 1, as well as our experience in common risks within higher education, specific to financial and operational issues.
3. We analyzed risk/control questionnaires completed by university management and identified key controls in place to manage the risks identified above.
4. We conducted interviews onsite with university management for insight into risk management and control perspectives and activities.
5. We evaluated each university's risk management and control structure based on the information gathered above.
6. We have identified gaps in controls and process improvement opportunities. These have been documented in our university reports as observations and recommendations.
7. We have confirmed with university management the factual basis for our observations and recommendations. Management's written responses are included for each recommendation in the reports.

## IV. Observations and Themes

Our procedures identified opportunities to strengthen controls at 11 of the 12 universities (i.e. we noted no observations for USF). These opportunities were documented as “observations” and are summarized below. These observations represent areas where we determined that controls were absent or were not adequate to mitigate the associated risk to an acceptable level. While the specific observations and recommendations can be seen in the tables below, we have identified a few themes that were persistent across the universities:

- **Information Security Controls.** We noted that almost all universities would benefit from an enhanced focus in the Information Technology risk category. While we have addressed specific risks in our observations and recommendations, overall the universities in the SUS could benefit from a more standardized approach to information security risk management.
- **Third Party Risk Management Practices.** We noted a common theme throughout our assessment that many universities would likely benefit from an enhanced focus in the areas where third-party risk management and data protection intersect. While we have addressed specific risks in our observations and recommendations, we understand that this is an area in which many universities are expanding or will be planning to expand their operational activities. Since the number of providers and types of services in this area is rapidly expanding, consequently, so are the associated risks. For example, student support centers, call centers, and collection agencies are commonly granted access to student account information. Payroll service providers receive and transmit data electronically, and cloud-based storage services are becoming an increasingly efficient and inexpensive way in which to manage large amounts of data, including personally identifiable and sensitive data.
- **Interfund Transfers.** While this issue was noted in only two universities, there has been increased scrutiny throughout the SUS over the proper use of funds at the university level. Strengthening controls over fund transfers would benefit the SUS by providing an additional level of assurance that the funds are used for their intended purpose. Again, the use of existing technology may enable universities to implement automated workflows to verify that transfers are appropriate and properly approved. System-assigned roles may also be implemented to allow only authorized individuals to make fund transfers. While we noted no specific occurrences of improper use of funds, we have identified this issue as one example of how management override of controls or collusion could adversely impact university operating and compliance objectives and also result in reputational damage.

Our overall recommendation in the *Conclusion* section of this report focuses on enterprise risk management as a way to address the themes noted above, as well as numerous other risks to the SUS. We consider the theme noted below to be a separate issue and our recommendation is focused on a more direct approach to addressing that area of focus.

- **Clarity of the BOG Regulations regarding the Use of E&G Funds.** In speaking with various university Board of Trustees members, as well as with university management, it was stated that this area of the BOG regulations was not completely clear and may be interpreted in various ways. In addition, the SUS may benefit from further clarification and distinction between the role and responsibilities of the BOG and the University Trustees in terms of fiscal governance and oversight duties. We have provided our analysis and recommendations to enhance the clarity of the regulations in the *Conclusion* section of this report.

### Summary of Observations by Risk Category

The themes noted above were driven and supported by our observations. We noted a total of 21 distinct observations which included two (2) observations from the Financial Reporting risk category, two (2) from Procurement, one (1) from Grant Management, and sixteen (16) from Information Technology.

From the perspective of frequency of occurrence, Information Technology had the most observations and the most occurrences noted across the SUS, comprising 16 of the 21 (76%) distinct observations and 39 of the 45 (87%) occurrences noted. However, the majority of these observations (13 of 16, or 81%) were rated as “Low” risk.

From a risk ratings perspective, the observations pertaining to financial controls (e.g. interfund transfers and grant draw-down procedures) and third-party risk management controls (e.g. vendor oversight and shared services arrangements) were rated as “Moderate” risk, which was the highest ranking given during our assessment. The single observation in the Grant Management risk category was deemed to be Low risk. A summary of our observations by risk category is included in the table below.

#### Risk Category: Financial Reporting

Observation	Risk Rating	Number of Occurrences SUS-Wide: (3)
Restricted Funds – Interfund Transfers	Moderate	2
Monitoring of Budget-to-Actual Performance	Low	1

#### Risk Category: Procurement

Observation	Risk Rating	Number of Occurrences SUS-Wide: (2)
Contract Management - Shared Services Agreements	Moderate	1
Policies and Procedures – Vendor Setup and Monitoring	Moderate	1

#### Risk Category: Grant Management

Observation	Risk Rating	Number of Occurrences SUS-Wide: (1)
Segregation of Duties: Grant Drawdown Process	Moderate	1

Risk Category: Information Technology

Observation	Risk Rating	Number of Occurrences SUS-Wide (39)
Configuration Management Program	Moderate	3
Business Continuity Management – Incident Classification	Moderate	1
Information Security Governance Key Risk and Performance Indicators (2) Cybersecurity Risk Management Program (2) Policies and Procedures (2) “Clean Desk” Policy (4)	Low - Moderate	10
Employee Security Awareness Training	Low	6
Data Protection – Employee Removable Media (6) Employee Mobile Device Management Policy (5) Sensitive Data-Tracking (1) Data Handling and Classification (1) Data Center Moisture Detection Systems (1)	Low	14
Logging and Monitoring Policy	Low	1
Monitoring of Third-Party Service Providers	Low	1
User Termination and Role Changes	Low	2
IT Operations – Asset Tracking	Low	1

### Summary of Observations by University

The table below illustrates the 21 observations by university. It is intended to show how the issues were spread across the various universities within the SUS, and further clarify our summary of observations and themes. Specifically, this illustrates the concentration of Information Technology observations at a Low risk rating, and fewer observations in the other risk categories with a higher risk rating of “Moderate”.

Risk Category	Observation	UWF	FSU	UNF	UF	UCF	FAMU	FPU	USF	NCF	FIU	FAU	FGCU
Financial Reporting	Monitoring of Budget-to-Actual Performance									Low			
Financial Reporting	Restricted Funds – Interfund Transfers					Moderate				Moderate			
Procurement	Contract Management - Shared Service Contracts	Moderate											
Procurement	Policies and Procedures - Vendor Setup and Monitoring	Moderate											
Grant Management	Segregation of Duties - Grant Drawdown Process												Moderate
Information Technology	Business Continuity Management - Incident Classification	Moderate											
Information Technology	Configuration Management - Configuration Management Program		Moderate			Moderate					Moderate		
Information Technology	Data Protection - Data Handling and Classification Policy										Low		
Information Technology	Data Protection - Employee Mobile Device Management Policy	Low		Low						Low	Low	Low	
Information Technology	Data Protection – Employee Removable Media	Low	Low			Low	Low	Low				Low	
Information Technology	Data Protection - Sensitive Data-Tracking		Low										
Information Technology	Employee Management – Employee Security Awareness Training	Low			Low	Low	Low					Low	Low
Information Technology	Employee Management - User Termination and Role Change		Low		Low								
Information Technology	Information Security Governance – Clean Desk Policy			Low		Low				Low		Low	
Information Technology	Information Security Governance - Cybersecurity Risk Management Program					Low					Low		
Information Technology	Information Security Governance - Key Risk and Performance Indicators		Moderate									Moderate	
Information Technology	Information Security Governance - Policies and Procedures						Low	Low					
Information Technology	Logging and Monitoring - Logging and Monitoring Policy											Low	
Information Technology	Data Protection - Data Center Moisture Detection									Low			
Information Technology	IT Operations - Asset Tracking											Low	
Information Technology	Monitoring of Third-Party Service Providers		Low										

## V. Conclusion

The themes emphasized in this report and supported by our observations have led us to make two recommendations for the SUS to help strengthen risk management and control practices system-wide. We conclude our report with these recommendations as outlined in the paragraphs below.

### 1. Establish an Enterprise Risk Management Program for the SUS

We recommend that the BOG work collaboratively with university trustees and management to establish an enterprise risk management program for the SUS. This recommendation addresses the following themes:

- Information Security
- Third-Party Risk Management
- Management Override of Controls or Collusion

Based on our experience, we noted that the establishment of an enterprise risk management (“ERM”) program may be an effective approach to addressing the themes noted above. An effective ERM program can be a powerful tool to help the SUS maintain pace with the threats that have emerged and continue to evolve in Higher Education. These threats pose not only financial risks, but may also impact reputation, compliance with regulatory requirements, safety, and strategic initiatives. The paragraphs below provide specific examples of how ERM may help the SUS address the themes noted during our assessment.

#### Information Security

Crowe used a proprietary set of security standards which were based on well-known and utilized frameworks and best practices (e.g. NIST) throughout the public sector, including Higher Education. We found that universities varied on the extent to which they based their information security policies and practices on an established framework or a set of standards. Consequently, we noted a relatively high number of observations indicating gaps in information security control best practices.

The implementation of an ERM framework would enable universities to clearly state their risk appetite and tolerances accompanied by the standards they wish to be measured against. This statement could be evaluated by the BOG or other designated body to determine its reasonableness and alignment with an overall SUS risk appetite for information security.

Once an agreed-upon standard has been established, the relevant controls could be more easily identified and tested periodically to determine if the university is meeting its desired security objectives and maintaining an acceptable level of risk.

#### Third-Party Risk Management

The observations pertaining to third-party risk management were partially focused on the need to document policies and procedures, but more importantly on the absence of clearly defined roles and responsibilities for overseeing vendor setup and maintenance as well as data protection when vendors are granted access to sensitive or personally identifiable information.

From a data protection perspective, this area is related to the information security observations; however, this is not solely an “IT issue”. There are many employees across each university who are involved in some aspect of third-party risk management ranging from the individuals who manage a contract, to those who add or update vendor information, and those who approve access to systems.

An ERM approach may be effective here because there must be a risk response, or action plan, associated with the identified risk. A key component of any action plan is an assigned risk owner and specific roles, responsibilities, and tasks that must be taken to address or “respond” to that risk. In this case, the risk response and action plan would identify the owner(s) of each risk and associated tasks ranging from contract management to procurement to user access management. Again, the existence of the plan would enable a clear line of measurement against which to evaluate the university’s performance in this area.

#### Management Override of Controls or Collusion

While we did not identify any occurrences of management override of controls or employee collusion to bypass controls, this risk always remains relatively high from an inherent perspective due to the potential impact these could cause. This risk is further increased when an entity is facing budgetary constraints. In this case, an ERM framework can be an effective tool to consolidate existing statements, bylaws, regulations, and policies (e.g. mission, values, code of ethics) into an actionable mechanism. Additionally, risk appetite statements for an organization typically reference these components to clarify the entity’s position on what actions it is willing to take, and what actions it is not willing to take in pursuit of its mission and objectives. Specific examples such as inappropriate use of designated funds can be added to a risk appetite statement for clarity.

While there are many established frameworks, such as the model established by the *Committee of Sponsoring Organizations of the Treadway Commission* (COSO), to establish an ERM program, it is considered a best practice to develop a tailored program that fits the organization’s unique culture, structure, and environment. We see an opportunity to develop a sustainable ERM program across the SUS, which could be established from the top-down and embedded into the decision-making practices at the BOG level, the university Board of Trustee levels, and into the management structure. There are many benefits that a sustainable ERM program could provide to the SUS, including:

- Improvement to decision-making and deployment of resources based on an established risk appetite and prioritized risk rankings.
- Integration of risk assessments with strategy, objective setting, and performance.
- Encouragement of open communication about significant risks and reduction of gaps and inconsistencies with the management of process level objectives.
- Enhancement of knowledge management and information sharing.
- Benchmarking and collaboration with other mature universities and similar organizations with an established risk management structure.
- Introduction of a collaborative approach to identifying and addressing the top SUS priorities from a risk-based perspective.
- Creation of a common language for communicating and reporting on risk and risk management activities.

Establishing a sustainable ERM framework and program requires a significant investment of time and resources; however, the benefits fit the issues that we have encountered during the course of our assessment.

## 2. Clarification of BOG Regulations

Throughout the course of our assessment we noted that, given the number and complexity of the active BOG regulations, even university employees who are highly knowledgeable expressed confusion and had come to varying conclusions on how to interpret the appropriate use of E&G funds. We completed an analysis of the active regulations at the time of our review in an attempt to recommend potential solutions to the varying interpretations and confusion.

After a search of the State University System of Florida Board of Governors Active Regulations, we found that E&G spending rules are outlined within BOG 9.007. State University Operating Budgets. Subsections 3(a)1-8 outline eligible uses of and reporting on E&G funds as summarized below.

- E&G operating activities such as, but not limited to general instruction, research, public service, plant operations and maintenance, furniture, fixtures, and equipment, student services, libraries, administrative support, and other enrollment-related and stand-alone operations of the universities.
- Non-recurring expenditures. This is not defined further within the regulation.
- Carryforward expenditures included in the university's E&G Carryforward Spending Plan, some of which include capital outlay project expenditures as defined under BOG 14.0025. Action Required Prior to Fixed Capital Outlay Budget Request.

We have outlined several suggestions on areas where the active regulations may be clarified to guide the interpretation of how these funds may be spent.

- **Provide a Comprehensive List of E&G Operating Activities.** Section 9.007.3(a)1 provides a list of eligible uses of E&G funds; however, it qualifies the list with the phrase, "but not limited to", which implies that there are other eligible uses for E&G funds not stated in the active regulations. Providing a comprehensive list of eligible E&G fund uses may help alleviate confusion or varying interpretations of this regulation.
- **Clearly State E&G Cannot Be Used for Capital Projects.** If the BOG wants to designate E&G funds as ineligible for use on capital projects, the wording could be improved by adding an additional point that very clearly states E&G is not to be used for capital projects and remove all references that may indicate otherwise. For example, BOG 9.007.3(a)4 allows some exceptions to the rule; however, these exceptions may contribute to the universities' varying interpretations.
- **Clearly Define Capital Thresholds for Renovation.** A gray area exists related to the use of E&G funds for plant operations and maintenance. Specifically, at what point does building renovation turn into a capital project? Some sort of threshold would be useful to define this. Following is an example from another university:

"Structural remodeling/renovation and additions are capitalized when they enhance the use of or extend the life of the building beyond its original estimated useful life, and the total cost equals or exceeds \$100,000 or 20% of the building's cost, whichever is less."

- **Clearly Define Plant Operations and Maintenance.**

In addition, more clarity around what is included in plant operations and maintenance would narrow its interpretation. Adding it to the Definitions Section 9.001 would be of benefit. The Integrated Postsecondary Education Data System definition may help in this regard. It is:

"Operation and maintenance of plant (O&M): An expense category that includes expenses for operations established to provide service and maintenance related to campus grounds and facilities used for educational and general purposes. Specific expenses include: janitorial and utility services; repairs and ordinary or normal alterations of buildings, furniture, and equipment; care of grounds; maintenance and operation of buildings and other plant facilities; security; earthquake and disaster preparedness; safety; hazardous waste disposal; property, liability, and all other insurance

relating to property; space and capital leasing; facility planning and management; and central receiving. This expense does include amounts charged to auxiliary enterprises, hospitals, and independent operations. Also includes information technology expenses related to operation and maintenance of plant activities if the institution separately budgets and expenses information technology resources (otherwise these expenses are included in institutional support).”

- **Establish a Discussion Forum**

Establishing an open forum for university management, trustee members, and BOG members to share questions and interpretations on active or proposed regulations may be an effective tool for identifying and prioritization regulatory issues for clarification. It may also help enhance the frequency of communications SUS-wide helping to resolve potential problems before they occur.

This concludes our report. We thank the Board of Governors, the various University Board of Trustee members, and the many members of university management who have given this opportunity and assisted us throughout this engagement.