

Accretive Solutions **as** promised

Interim Report on the Verification and Validation of the FAMU Corrective Action Plan

Task Force on FAMU Finance and Operational Control Issues



BOARD OF GOVERNORS STATE UNIVERSITY SYSTEM OF FLORIDA

325 West Gaines Street - Suite 1614 - Tallahassee, Florida - 32399-0400
Inspector General (850) 245-9247 - www.flbog.org

March 3, 2008

Interim Report on the Verification and Validation of the FAMU Corrective Action Plan

Table of Contents	Page
COVER LETTER.....	3
SECTION I. EXECUTIVE SUMMARY.....	4
INTRODUCTION.....	4
OBJECTIVE AND SCOPE	5
VERIFICATION and VALIDATION METHODOLOGY	6
HISTORICAL DATA	8
SECTION II. CONCLUSIONS AND RECOMMENDATIONS.....	9
A. Management Recommendations and FAMU Response	9
B. Corrective Action Plan Maturity Definitions/Explanation.....	15
C. CAP Conclusions and Recommendations.....	17
SPECIFIC CORRECTIVE ACTION PLAN CONCLUSIONS	18
D. FAMU Operational Audit Corrective Action Plan	18
E. FAMU Financial Audit Corrective Action Plan.....	21
F. FAMU Federal A-133 Audit Corrective Action Plan.....	23
CONCLUSION	24
APPENDIX 1: OPERATIONAL LEAD SHEETS.....	26
APPENDIX 2: FINANCIAL LEAD SHEETS.....	27
APPENDIX 3: A-133 LEAD SHEETS	28
APPENDIX 4: DETAILED WORK PLAN	29

March 3, 2008

Lynn Pappas, Chair
Task Force on FAMU Finance and Operational Control Issues
325 W. Gaines Street, Suite 1614
Tallahassee, FL 32399

Dear Ms. Pappas:

On behalf of Accretive Solutions, Inc. - Jacksonville, we thank you for the opportunity to present our report on the verification and validation procedures performed on the FAMU Corrective Action Plan. It has been a pleasure to partner with the Board of Governors, Inspector General and the FAMU Task Force to provide an evaluation of the corrective action plan prepared by FAMU in response to findings contained in the recent Auditor General audits and to facilitate improvements to the action plan. We are committed to providing a customized solution that delivers **exceptional results, quality and value.**

This report is intended solely for the information and use of the Task Force on FAMU Finance and Operational Control Issues, Florida Board of Governors, Florida A&M University and the Florida Legislature and is not intended to be and should not be used by anyone other than these specified users.

Accretive Solutions appreciates this opportunity to provide you with our report, conclusions and recommendations. Should you have any questions about this report or our services, please call us at 904-208-5607.

Sincerely,
Thomas King
Practice Director – Enterprise Governance

Cc: Mark B. Rosenberg, Chancellor, Board of Governors
Carolyn Roberts, Chair, Board of Governors
Dr. James Ammons, President, Florida A&M University
Derry Harper, Inspector General and Director of Compliance, Board of Governors

Task Force on FAMU Finance and Operational Control Issues

VALIDATION AND VERIFICATION OF FAMU CORRECTIVE ACTION PLAN

REPORT

Section I. EXECUTIVE SUMMARY

The Florida Agricultural & Mechanical University (FAMU) Corrective Action Plan is a substantial component of the University's control environment. This report summarizes conclusions based on procedures agreed upon by the Task Force and are deemed reasonable to adequately verify and validate FAMU's Corrective Action Plan. FAMU's administration, management and internal audit function are responsible for establishing and maintaining adequate internal controls.

FAMU's Corrective Action Plan is a well-designed tool to assist the University in correcting the findings outlined in the Auditor General's latest operational and financial audit reports. The FAMU senior leadership team and Corrective Action Plan process owners have the authority and qualifications to effectively execute the Corrective Action Plan and their priorities are properly focused to address the major identified areas of risk. The University is well on its way to effective implementation of the entire plan and should be congratulated on the significant control improvements.

INTRODUCTION

The Board of Governor's Task Force on Florida Agricultural & Mechanical University (FAMU) Finance and Operational Control Issues (Task Force) engaged Accretive Solutions to verify and validate (provide an evaluation of) the corrective action plan prepared by FAMU in response to findings contained in recent Auditor General (AG) operational and financial audits and to facilitate implementation of improvements to the FAMU action plan. The purpose of this project was to deliver a report that indicates the progress FAMU has made with regard to each corrective action plan item and includes those areas which the Task Force deems appropriate from an internal controls standpoint.

The formal project planning and risk assessment was conducted during the period between November 19 and December 3, 2007. The detailed work plan was delivered to the Task Force on December 3rd. The procedures to verify and validate the corrective action plan were performed during the period between December 3 and February 27, 2008.

In addition, Accretive has commenced work on the verification and validation of the Enterprise Information Technology (EIT) Corrective Action Plans. The initial planning

has been performed and a project plan developed that includes the scope, timing, and a preliminary work plan to be performed. We are currently working with FAMU EIT to establish a status reporting process to keep all stakeholders informed of the progress of the project. It should be noted that the scope of the review addresses only the PeopleSoft related matters reported by the AG. It does not extend to all aspects of the EIT function or to IT related areas outside of EIT's range of responsibility.

OBJECTIVE AND SCOPE

To meet the objective of reporting on the progress FAMU has made regarding implementing their Corrective Action Plan the following steps were undertaken:

- Perform high level risk assessment
- Prepare detailed work plan
- Execute procedures to verify and validate corrective action plan
- Issue report on FAMU's implementation progress

The risk assessment began by reviewing certain work papers and other file memoranda associated with past services performed by parties assisting in internal control improvements and financial and operational audits of the University. We also reviewed all reports issued by the AG during the last 36 months. In total we estimate 75,000 pages of documents were reviewed. This compilation process was necessary to properly give background to the risk assessment phase of the project and planning effort. Next we interviewed all Task Force Members, the President of FAMU and his senior staff, the VP of Finance and Administration of FAMU and her direct reports, the AG personnel who led the last financial and operational audits, and the Chancellor of the Board of Governors and his senior staff. These interviews were necessary to properly include relevant information associated with determining the risk universe and other items that may impact FAMU's ability to successfully implement the corrective action plan. The interviews and overall risk assessment provided valuable information about challenges that could impact successful implementation of the corrective action plan and provided a sufficient understanding of the corrective action plan and FAMU.

The risk assessment enabled us to successfully develop procedures to verify and validate the FAMU operational corrective action plan. The risk assessment also incorporated the financial and Circular A133 audit reports issued by the Auditor General, including the FAMU management responses and corrective actions. These were incorporated into the Work Plan as additional sections in the same format used by FAMU for the Operational Audit corrective action plan.

A detailed work plan was developed that outlined specific procedures to be performed to verify and validate each line item in FAMU's corrective action plan. The Work Plan is divided into the following sections:

- FAMU Operational Audit (cross referenced to SACS Report) – 35 line items.

- FAMU Financial Audit Reports – 7 line items.
- State of Florida OMB Circular A133 Audit for Compliance and Internal Control over Financial Reporting and Federal Awards –FAMU issues – 17 line items

The specific procedures performed to verify and validate the corrective action plan included inquiries of FAMU personnel, analytical procedures, observation of processes and duties, inspection of documents and records, and re-performance of certain control activities identified in conjunction with FAMU staff overview of current controls, key indicators and business risk.

We were not engaged to and did not conduct an audit or any other attestation service as ordinarily performed by a CPA, the objective of which would be the expression of an opinion. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. Consequently, our role for this engagement is strictly as an advisor to management in an internal audit consulting capacity.

Enterprise Information Technology Corrective Action Plan

The EIT Corrective Action Plan was initially developed by FAMU’s EIT leadership. This Plan was further reviewed by the Information Technology sub-committee of the FAMU Task Force consisting of IT Senior Executives from the Florida State University System. Further refinements were made based on this review and the Corrective Action Plan was finalized. Accretive has obtained and reviewed the final EIT Corrective Action Plan and is in agreement with the EIT Task Force Committee that the plan will address the issues identified by the Auditor General based upon the planned execution and continued monitoring.

Validation and verification of several areas have been started and are progressing well. Several areas, due to the timing of implementing the corrective action plans, are scheduled to begin at a later date. The results of this preliminary effort will not be included in this report. However, upon completion of the effort the results will be included in the final report.

VERIFICATION and VALIDATION METHODOLOGY

Internal control is broadly defined as a system, affected by a university’s board of trustees, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations.
- Reliability of complete, accurate and timely financial reporting.
- Compliance with applicable laws and regulations.
- Safeguarding of assets.

FAMU’s Corrective Action Plan is a substantial component of the University’s control environment. The following procedures were agreed upon by the Task Force and are

deemed reasonable to adequately verify and validate FAMU's Corrective Action Plan. FAMU's administration, management and internal audit function are responsible for establishing and maintaining adequate internal controls.

Ensure FAMU's Corrective Action Plan Correctly Summarized the AG's Findings

In the detailed FAMU Corrective Action Plan (CAP – See Appendix 4) there is a field titled – “*AG Finding # and Description*”. The purpose of the information in this field is to summarize the material finding stated by the Auditor General's (AG) various reports.

Each AG audit report finding was reviewed and cross referenced to the appropriate CAP item. The AG was interviewed to gain a detailed understanding of the nature and context of the material finding and ensure FAMU's CAP included all stated findings. In other words, ensure nothing was inadvertently missed or lost in translation. In all cases, the CAP correctly summarized the AG's findings.

Ensure CAP Line Item Was Correctly Designed To Properly Correct AG Finding

In the detail FAMU Corrective Action Plan there is a field titled – “*Corrective Action Plan*”. The purpose of the information in this field is to detail the steps FAMU is actively undertaking to correct the material finding stated by the (AG) various reports.

Several process objectives and key performance indicators were identified for each CAP line item. Process objectives describe “why” the CAP items are necessary to correct the material finding and key performance indicators are the desired outcomes or indications that would be evident if the CAP were working effectively. See CAP Cover Sheets in the Appendix for examples of process objectives and key performance indicators. An inventory of actual and suggested controls was documented. Next, the material finding was analyzed and all associated risk factors were identified. For example, what could go wrong if the process failed or this material finding was not corrected? The CAP line item was then analyzed to ensure it was properly designed to mitigate the risks, if performed by a competent individual. The CAP line item must be designed to work consistently each period.

Ensure CAP as Designed Is Actually Being Effectively Executed

Tests were conducted to verify that the CAP was actually being executed as intended. The specific procedures performed to verify and validate the corrective action plan included inquiries of FAMU personnel, analytical procedures, observation of processes and duties, inspection of documents and records, and re-performance of certain control activities identified in conjunction with FAMU staff overview of current controls, key indicators and business risk. The specific test procedures, description of the evidence maintained, time period tested, and results of the tests are detailed in the CAP Cover Sheets (see Appendix).

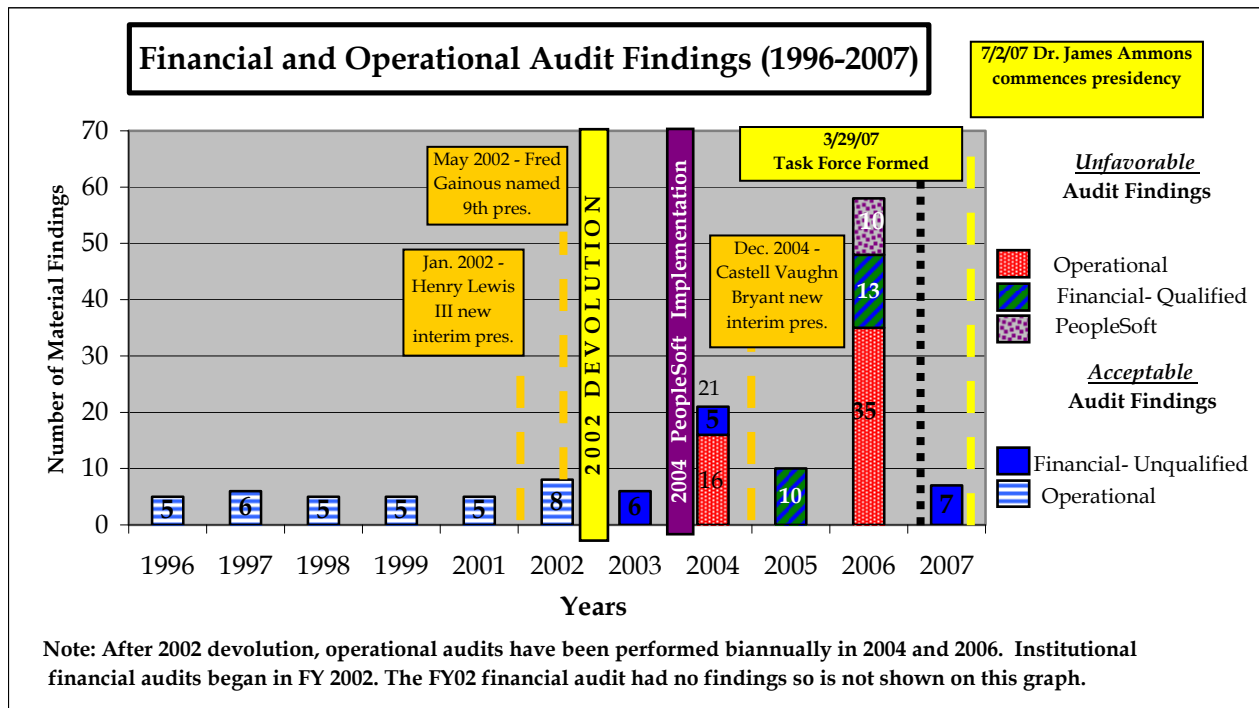
Projections of any evaluation of effectiveness to future periods in connection to the Auditor General findings that could have fraud implications are subject to certain risks. These risks include, but are not limited to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

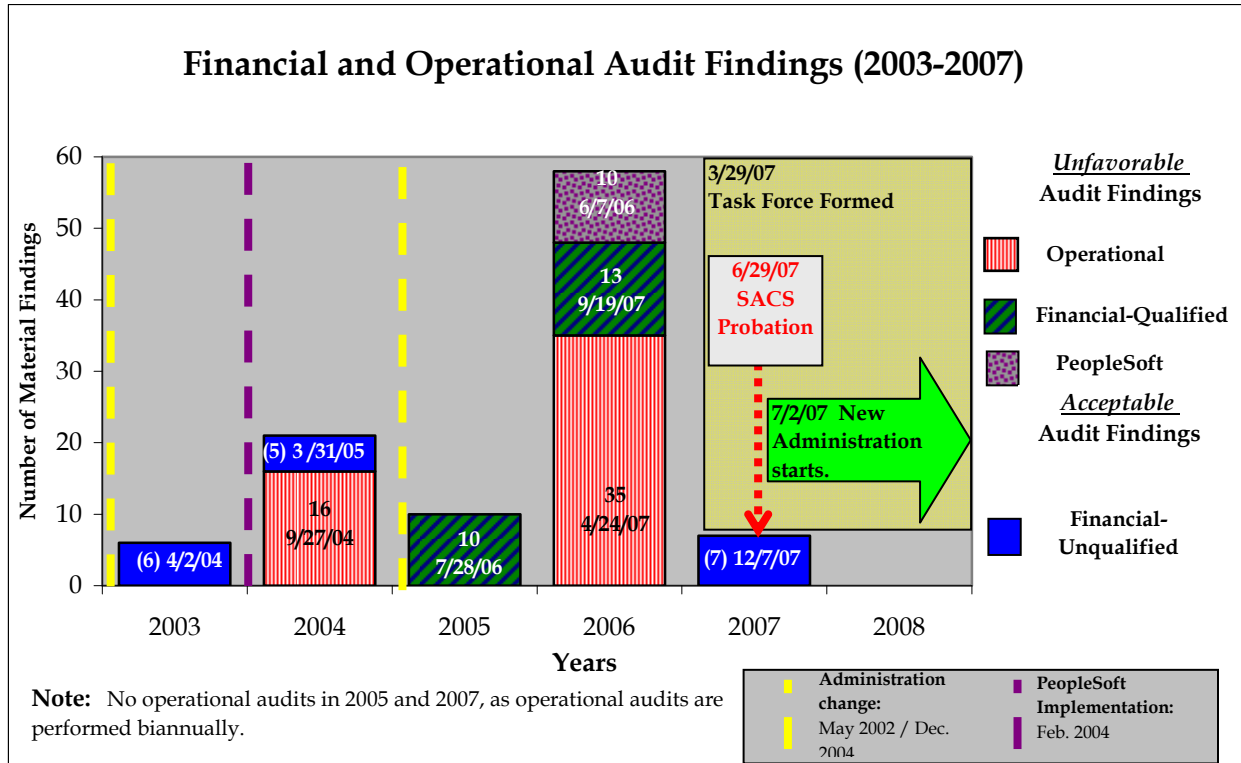
HISTORICAL DATA

Chronological display of facts that led up to the formation of the CAP and FAMU Task Force. Please note these significant data points:

- Five different administrations/leadership teams from 2001 to 2007
- Devolution of Board of Regents
- Major software conversion – PeopleSoft Implementation

Any one of these events would have a significant impact on an internal control system. In combination the impact could be significantly magnified.





Section II. CONCLUSIONS AND RECOMMENDATIONS

A. Management Recommendations and FAMU Response

The following findings and recommendations apply to more than one individual Corrective Action Plan item. These findings affect the internal control environment of multiple processes and upon implementation and continued monitoring the recommendations will substantially improve processes going forward.

Specific findings and recommendations on each line item of FAMU’s Corrective Action Plan are available in sections D-F of this report.

1. Formal Control Framework

The FAMU Corrective Action Plan is a very thorough document and addresses each of the Auditor General’s specific material concerns. The current priority of the University is correctly focused on the activities necessary to correct the AG’s findings; however the next phase of the process should be proactive and preventative in nature.

The University should document its formal internal control framework from an enterprise wide perspective. Each university process (i.e. financial close, cash

receipts, cash disbursements, payroll, etc.) should be evaluated for an effective control environment during the Audit and Compliance annual risk assessment process. Each process should have an individual risk assessment performed and compare the current control status to a future status using a best practice set of controls. University best practices recommend the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework should be used for non IT processes and the Control Objectives for Information and related Technology (COBIT) practices should be used for IT processes. While no methodology can consider all possible issues related to an assessment of a University's internal controls, we believe the COSO and COBIT models provide a useful methodology and framework to assist the University manage its control environment.

FAMU Response: In July 2007, the University developed and continues to implement sound internal controls practices. This is evident through the work of the Accretive Solutions' verification and validation process and the unqualified opinion recently issued by the Auditor General. The University now has a fully staffed Audit and Compliance Division and a strong Board of Trustee that will provide the necessary framework for risk assessment and oversight.

Accretive Solutions' Response to Task Force: Accretive Solutions agrees that significant improvements have been made since July 2007. However, the unqualified opinion at 6/30/2007 included seven material weaknesses. Accretive Solutions verification and validation procedures were only performed on FAMU's corrective action plan, not the complete accounting and finance function and three of the seven Financial CAP items could not be rated during the interim period because of new policies and procedures and a strong EIT component to be tested later. Accounting management is the first line of defense in preventing and detecting errors and strengthening financial integrity. Every current and future accounting process should be evaluated, designed and corrected based on COSO best practices.

2. Policies, Procedures and Knowledge Transfer To Next Layer of Management

Controls that reside at executive levels in the University (for example, CFO and key direct reports) are being executed more effectively, consistently, and are operating at a higher precision level than lower, process level controls. Management at the higher level has appropriate experience and education to effectively execute the controls as intended.

Controls that reside at higher levels in a university are commonly designed to 'detect' errors and misstatements rather than 'prevent' errors and misstatement. Controls that prevent errors and misstatements typically reside early in the business process cycle, for example, at the initiation stage of a transaction. FAMU must ensure an adequate transfer of knowledge at all levels of the organization to ensure institutionalization of the current controls and sustainability for the long term.

- Key finance and accounting procedures must be documented to ensure continuity, consistency, and integrity of records
- Proper training of accounting and finance staff must be ongoing
- Retention of capable personnel is critical
- Back-up key roles (i.e. financial close, payroll, etc.) and succession planning are both needed.

FAMU Response: As stated in the Accretive Solutions report, policies and procedures have been developed. As we upgrade from various degrees of PeopleSoft, we will continue to update the procedures. In July 2007, we developed a comprehensive training schedule to ensure that all personnel receive the necessary training to excel in their respective areas. This includes in-depth cross-training along with certifying levels of expertise among the current employees.

Accretive Solutions' Response to Task Force: The CFO and her direct reports are critical to the continued progress in improving internal controls and fiscal integrity. These individuals have been subjected to intense demands for an extended period. If any of these key employees were lost to attrition, employment contract issues, or other factors, the negative impact on the control environment would be severe. Steps should be taken to evaluate continuity of this experience level.

3. Tracking Regulatory Requirements

The University is currently receiving a higher than normal volume of correspondence from various agencies. These agencies, such as the National Science Foundation, National Collegiate Athletic Association, Southern Association of Colleges and Schools, etc, have normal reoccurring university-related information requests and regulatory reporting requirements. The University has set up processes by which these reporting requirements are tracked and fulfilled. The Office of Institutional Research leads this effort with the assistance of the President, General Counsel and the Audit and Compliance Department who utilize reporting calendars and 'Hit Lists' to ensure compliance. This process is well designed and working effectively but the increased risk associated with the current volume of probationary type reporting requirements warrant additional resources and review to this effort.

FAMU Response: As stated above, this function is organized appropriately and requires no additional changes to the process, even if the volume of work increases.

4. Volume of Identified Errors Could Increase

The Division of Audit and Compliance is currently fully staffed and actively executing the audit monitoring functions. The monitoring function along with the improving accounting internal control structure will likely increase the identification of errors and adjustments. The effectiveness of controls at FAMU designed to detect errors continue to improve. It is normal to expect the volume of accounting adjustments,

errors, indications of fraud, etc. to increase due to the detective nature of a functioning internal control structure.

FAMU Response: As stated above, this function is organized appropriately and requires no additional changes in the process changes, even if the volume increases

5. Management Reporting

The PeopleSoft system utilizes a query report approach to management reporting and analysis activities. Standard reports are typically designed by EIT personnel. Some reports can be run by management while others require a formal information request to the EIT group. Standard reports are not easily modified and run in some departments by all levels of management. Accurate, available, and timely management information is critical to the proper operation of an internal control structure. FAMU should continue the current progress to make this information available to the necessary levels of management by providing PeopleSoft query training and report access.

FAMU Response: The pertinent FAMU staff continues to receive training on the PeopleSoft financial software. As we move to PeopleSoft 9.0, the availability of countless reports will be readily accessible to the end-users.

Accretive Solutions' Response to Task Force: Take advantage of every opportunity to ensure all levels of management have access to accurate and timely information to enable them to properly carry out their duties. For example, Task Force unencumbered funds could be used to assist with reporting writing and PeopleSoft query training.

6. Management Responsibility for Internal Controls

To assist FAMU administration and management with the continued progress of establishing and maintaining an adequate system of internal controls, Accretive Solutions recommends a minimum annual certification by the President, CFO, and VP of Audit to attest to the Board of Trustees that they are committed to carrying out and adhering to the CAP and ensure the continued progression of the internal control structure.

This assessment would entail, at a minimum, the recommendations in the CAP as presented in Accretive Solutions' report to the Task Force for which critical internal controls will be required to be monitored on at least an annual basis, others as frequent as a quarterly basis. Other controls would be identified and evaluated as necessary by the internal audit function under a proper annual risk assessment process.

Here is a proposed certification and possible language for an attestation to the Board of Trustees of FAMU.

I, (name of President, CFO, VP of Compliance and Audit), certify that:

The institution has a sound financial base and demonstrated financial stability to support the mission of the institution and the scope of its programs and services.

The institution has adequate physical resources to support the mission of the institution and the scope of its programs and services.

The institution provides financial profile information on an annual basis and other measures of financial health as requested by SACS. All information is presented accurate and appropriately and represents the total operation of the institution.

The institution audits financial aid programs as required by federal and state regulations.

Regarding controls over financial reporting

1. I have reviewed both our financial statements and the related assessment of internal controls of FAMU (the University) as performed by our internal audit group as of the most recent financial statement period ending;
2. Based on my knowledge, these financial statements and related assessment of internal controls does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the University as of, and for, the periods presented in this report;
4. The University's certifying officer(s) are responsible for establishing and maintaining proper internal controls and procedures and have:
 - (a) Designed or maintained such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted governmental accounting principles; and
 - (b) Disclosed in this report any change in the University's internal control over financial reporting that occurred during the University's most recent financial statement period presented that has materially affected, or is reasonably likely to materially affect, the University's internal control over financial reporting; and
 - (c) Disclosed all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the University's ability to record, process, summarize and report financial information; and
 - (d) Disclosed any fraud, whether or not material, that involves management or other employees who have a significant role in the University's internal control over financial reporting.

FAMU Response: Currently, the University does not feel that this is a necessary step in its current process. However, we will present this recommendation to the FAMU Board of Trustees.

Accretive Solutions' Response to Task Force: Federal Agencies must annually comply with a similar requirement (OMB A-123) as do all public companies (SOX 404(a)). Given the past control issues and the significant progress that has been made recently to correct these issues, a similar certification by the University would only help further

B. Corrective Action Plan Maturity Definitions/Explanation

Verifying and validating the CAP involved separate evaluations of each line item. There are 59 different action plan items that make up the total FAMU CAP. Each line of the CAP was evaluated in detail as noted above in the Methodology section. The level of effort required by the University to implement the CAP varies by each line item. .

Based on our review, the full implementation of some CAP line items is complete, some are close to completion, and others are still in process. An internal control maturity model was used to document the state of each control reviewed.

6 Levels – Maturity Definitions	
Optimizing	Constantly improving processes through effective feedback and automation.
Managed	Processes effectively measured and reported. Many controls are automated. Management catches most issues
Defined	Processes defined and institutionalized – Policies, procedures and standards
Repeatable	Processes dependent on motivated, informed individuals – Defined tasks
Initial	Undefined tasks – Reliant on initiative – mostly reactive in nature
Non – Existent	Lack of any process; high occurrence of deficiencies

The internal controls outlined in the CAP are evaluated from a level of non-existent (0) to optimized (5). The detail descriptions of each maturity level are provided below. It is important to note that an organization’s goal is not always to be at the optimized level. Depending on the complexity of the process or the relative business/accounting risk being affected by the CAP, the most effective level may be “Managed (4)”. For areas with few transactions and a relatively low risk level, “Defined (3)” may be sufficient. FAMU senior management along with the Board of Trustees should ultimately decide on the level of resources to apply in defining, managing, or optimizing a control.

The CAP Coversheets in Appendix 1-3 show the maturity level for each line item and a determination of appropriateness.

In short, the CAP line item is considered to be operating satisfactorily if rated with a 3 (Defined) or better. CAP line items that need improvement are rated below 3 (2-Repeatable, 1-Initial, or 0-Non Existent).

Maturity Level Status of the Internal Control Environment

Non-existent

There is no recognition of the need for internal control. There is no intent to assess the need for internal control. Control is not part of the organization's culture or mission. Incidents are dealt with as they arise. There is a high risk of control deficiencies and incidents.

Initial/ad hoc

There is some recognition of the need for internal control. The approach to risk and control requirements is *ad hoc* and disorganized, without communication or monitoring. Deficiencies may not be identified. Employees are not always aware of their responsibilities.

There is little awareness of the need for assessment of what is needed. When performed, it is only on an *ad hoc* basis, at a high level and in reaction to significant incidents. Assessment addresses only the actual incident.

Repeatable but Intuitive

Controls are in place but are not well documented. Their operation is dependent on knowledge and motivation of individuals. Effectiveness is not adequately evaluated. Control weaknesses exist but are being addressed. Management actions to resolve control issues are prioritized. Employees may not be aware of their responsibilities.

Defined Process

Controls are in place and are adequately documented. Operating effectiveness is evaluated on a periodic basis. However, the evaluation process is not well documented. While management is able to deal predictably with most control issues, some control weaknesses could still persist. Employees are aware of their responsibilities for control.

Managed and Measurable

There is an effective internal control and risk management environment. A formal, documented evaluation of controls occurs frequently. Many controls are automated and regularly reviewed. Management is likely to detect most control issues but not all issues are routinely identified. There is consistent follow-up to address identified control weaknesses. A limited, tactical use of technology is applied to automate controls.

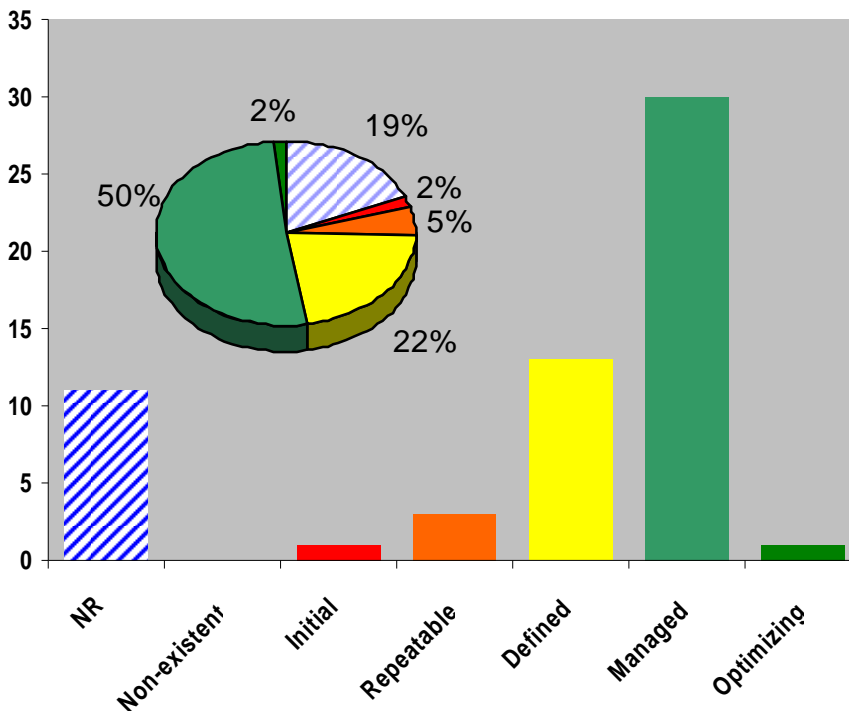
Optimized

An enterprise wide risk and control program provides continuous and effective control and risk issues resolution. Internal control and risk management are integrated with enterprise practices, supported with automated real-time monitoring with full accountability for control monitoring, risk management and compliance enforcement. Control evaluation is continuous, based on self-assessments and gap and root cause analyses. Employees are proactively involved in control improvements.

C. CAP Conclusions and Recommendations

The chart below shows only the rating mix for those items (48 items or 81% of total) that have been rated as of this interim reporting. The bar chart and pie chart below include both rated (48 items) and non-rated (11 items) and show the percent of total Corrective Action Plan items (59 items or 100%).

Report Ratings for Completed Corrective Action Plan Items						
	Satisfactory Operation			Needs Improvement		
	Optimizing	Managed	Defined	Repeatable	Initial	Non-Existent
Operational	0	16	11	2	1	0
Financial	0	3	1	0	0	0
A-133	1	11	1	1	0	0
EIT	-----	----	IN	PROCESS	-----	-----
TOTAL	1	30	13	3	1	0
Percentage	2%	63%	27%	6%	2%	0%
% of Rated	92%			8%		



Maturity Ratings Key

Optimizing: Constantly improving, highly automated

Managed: Measured and reported, secondary review

Defined: Policies, procedures exist/institutionalized

Repeatable: Individual-dependent, policies not institutionalized

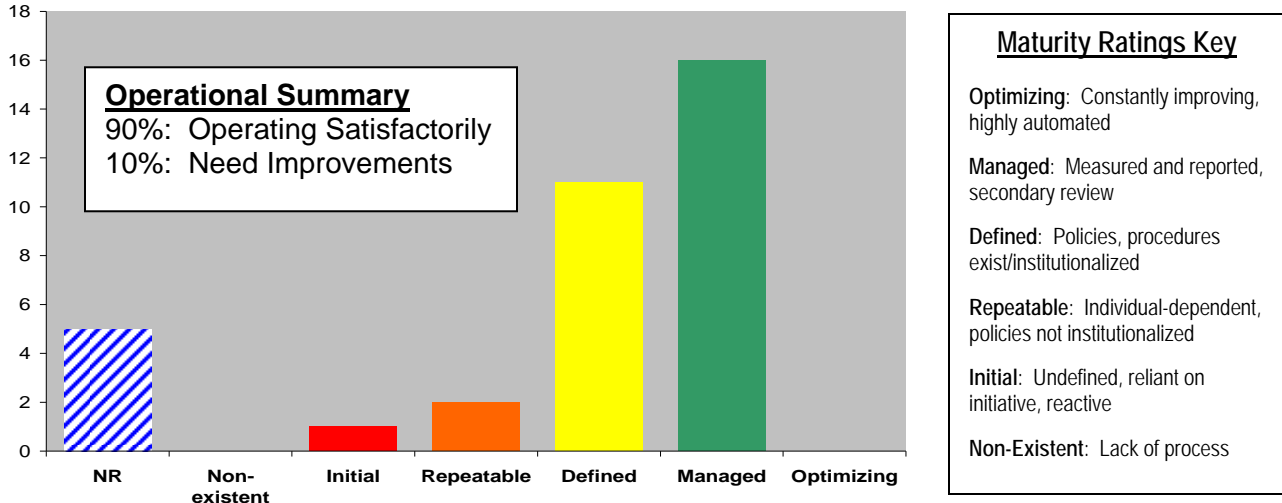
Initial: Undefined, reliant on initiative, reactive

Non-Existent: Lack of process

SPECIFIC CORRECTIVE ACTION PLAN CONCLUSIONS

D. FAMU Operational Audit Corrective Action Plan

Chart of Maturity Rating – Operational Issues Only



Of the line items which have been rated, a vast majority (90%) of the Corrective Action Plan Operational line items are adequately designed and the plans are operating satisfactorily. The Action Plan Operational line items categorized with a maturity ranking of “Defined” or greater are considered satisfactory. Controls are in place and adequately documented. The effectiveness of the Action Plan is being adequately evaluated on a periodic basis and University personnel are aware of their responsibilities for control. FAMU management has established a process by which it is able to deal predictably and consistently with most control issues.

Operational Action Plan line items categorized with a maturity ranking of less than “Defined” demonstrate where additional improvements are necessary (10% of Operational items). Control weaknesses remain and if not adequately addressed could impact financial integrity. FAMU has controls in place and effective policies and procedures are in the process of being institutionalized for each of these areas.

The remaining Operational Action Plan items not yet rated (5 Operational items) represent those items still in progress or items being addressed as part of the EIT validation work.

Operational CAP Line Items that Need Improvement (3) or Not Yet Rated (5)

1. Operational Finding #14: Did not retain documentation for salary payment cancellations – Needs Improvement

A Maturity level of 'Repeatable' reflects the recent implementation of this process and the lack of updated procedures. Efforts to finalize written procedures for the new system should be a priority, and would be necessary for the control structure to be considered 'Defined'.

2. Operational Finding #26: No competition for procuring new contracts – Needs Improvement

A Maturity level of 'Repeatable' is assigned because the policy states that if the contract is not to be competitively bid, the Director of Purchasing is to insert documentation approved by the VP Fiscal Affairs explaining the reason for the lack of competitive bids. Two of the three contracts selected omitted this required document. The policy exists, but is not always followed or enforced.

3. Operational Finding #31: Vehicle usages logs were not maintained – Needs Improvement

Monthly Vehicle Mileage Logs are not being consistently completed, approved and sent to Plant Operations and Maintenance as required by BOT policy 2006-05. In reviewing the Vehicle Logs Inventory Update from May 2007 through December 2007, we found that approximately 44% of approved monthly vehicle mileage logs were not received by Plant Operations and Maintenance. In addition, follow up by the Director of Physical Plant in receiving monthly vehicle mileage logs is not consistently and timely performed. The Director of Physical Plant has drafted a memo to send to the various individuals/departments that are not in compliance, but these memos should have been sent when the mileage logs were not received, as required by policy.

1. Operational Finding #5: Physical inventory missing – Not Rated

Asset Management Procedures 4.3 has been updated to require an annual inventory of University property. Missing property is being identified and reported to campus security. BOT approval to write off missing inventory was supposed to be received at the February 2008 meeting; however, no discussion regarding missing inventory occurred at that meeting. In addition, no missing inventory write-off has occurred in the in the past year, although the FAMU CAP stated that property records will be adjusted regularly to reflect missing items.

2. Operational Finding #22: Controls over communication expenses – Not Rated

This issue is *not rated* because it will require a coordinated, joint effort from both EIT and the Finance business units. EIT has drafted a policy.

3. Operational Finding #23: Monitoring of cell phone usage – Not Rated

This issue is *not rated* because it will require a coordinated, joint effort from both EIT and the Finance business units. EIT has drafted a policy.

4. Operational Finding #28: Controls over research contracts and grants – Not Rated

The University has instituted new policies and procedures for Grants and Contracts, Sponsored Research and Close-outs. As part of the National Science Foundation (NSF) Corrective Plan, the University developed a Comprehensive Grant Manual and a Grant Review document. A Plan of Action was developed with specific completion dates and responsibilities. The Grants and Contracts Department is currently in the process of reviewing 100% of Grant Accounts.

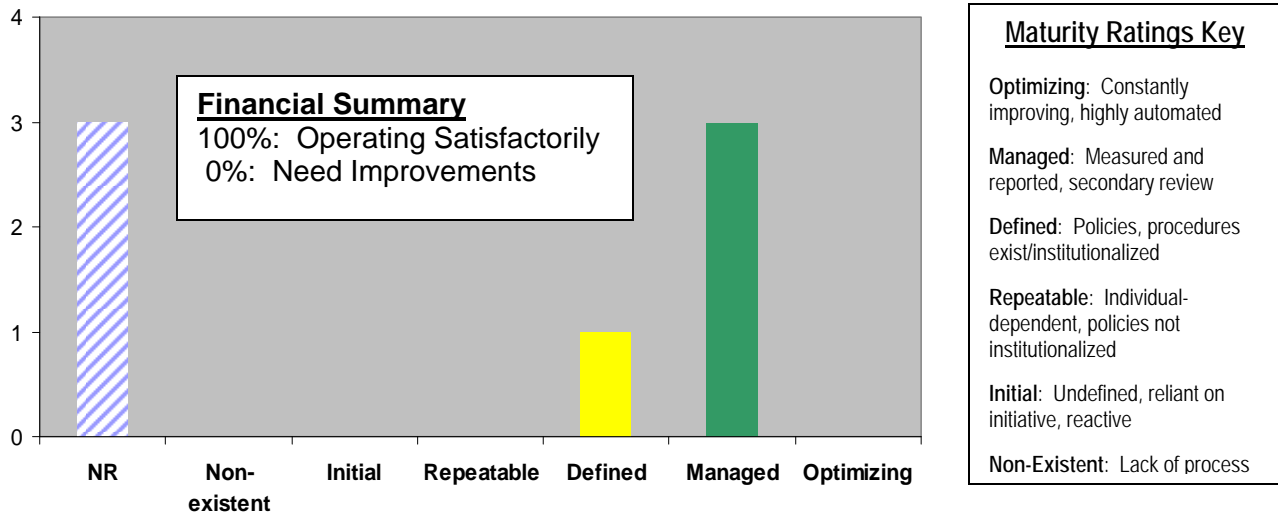
The Policies and Procedures as designed will effectively address the issues in the various Auditor General Report findings; however, as the project to complete the 100% review is in its initial stages, validation procedures will be more effective at a later date when the analysis of all grant accounts has been completed and expired grants have been accounted for.

5. Operational Finding #34: Comprehensive disaster recovery plan – Not Rated

This issue is *not rated* because it will be reviewed as part of the EIT review.

E. FAMU Financial Audit Corrective Action Plan

Chart of Maturity Rating – Financial Issues Only



Of the line items which have been rated, all (100%) of the Corrective Action Plan Financial line items are adequately designed and are operating satisfactorily. The Action Plan Financial line items categorized with a maturity ranking of “Defined” or greater are considered satisfactory. Controls are in place and adequately documented. The effectiveness of the Action Plan is being adequately evaluated on a periodic basis and University personnel are aware of their responsibilities for control. FAMU management has established a process by which it is able to deal predictably and consistently with most control issues.

The remaining Financial Action Plan items not yet rated (3 Financial items) represent those items still in progress or items being addressed as part of the EIT validation work.

Financial CAP Line Items Not Yet Rated (3) Explanation

1. Financial Finding #3: Subsidiary records for A/R and deferred revenues

The University has instituted new policies and procedures for Grants and Contracts, Sponsored Research and Close-outs. As part of the NSF Corrective Plan, the University developed a Comprehensive Grant Manual and a Grant Review document. A Plan of Action was developed with specific completion dates and responsibilities. The Grants and Contracts Department is currently in the process of reviewing 100% of Grant Accounts.

The Policies and Procedures as designed will effectively address the issues in the various Auditor General Report findings; however, as the project to complete the 100% review is in its initial stages, validation procedures will be more effective at a

later date when the analysis of all grant accounts has been completed and expired grants have been accounted for.

2. Financial Finding #5: Capital assets and related depreciation

This issue is *not rated* because EIT is currently working to bring the Asset Management and General Ledger systems up to date so that they can work together as they were designed. EIT and the Controller's office are communicating regularly to make sure that transactions in the test environment are complete and accurate.

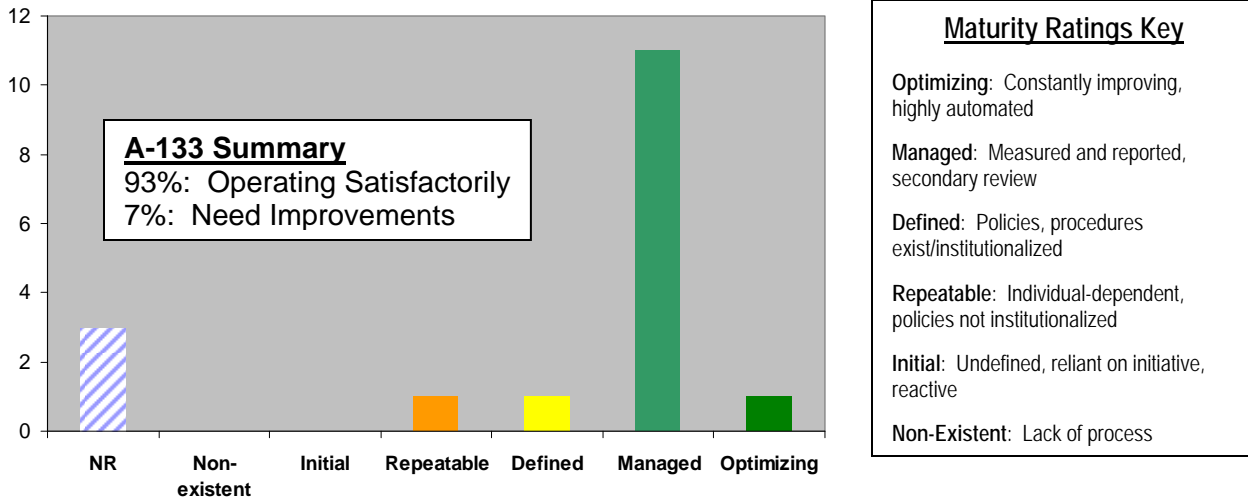
In addition, the Controller's office added an Accountant Coordinator to the staff to reconcile capital outlay per the G/L to the Asset Management module and facilitate improved communications between the Controller's office and the Facilities group where construction in progress is managed. Item will be non-rated until final report pending the final results of EIT validation process.

3. Financial Finding #6: Separation of duties and adequate compensating controls

This issue is *not rated* because the Segregation of Duties within PeopleSoft will be tested along with the EIT security and SOD functions review. The Finance group has taken measures to alleviate the Segregation of Duties issues found during the previous audits. The payroll function has been removed from the HR business unit and added to Finance, and all journal entries are required to be approved by the Controller or Assistant Controller. Item will be non-rated until final report pending the final results of EIT validation process.

F. FAMU Federal A-133 Audit Corrective Action Plan

Chart of Maturity Rating – A-133 Issues Only



Of the line items which have been rated, a vast majority (93%) of the Corrective Action Plan A-133 line items are adequately designed and the plans are operating satisfactorily. The Action Plan A-133 line items categorized with a maturity ranking of “Defined” or greater are considered satisfactory. Controls are in place and adequately documented. The effectiveness of the Action Plan is being adequately evaluated on a periodic basis and University personnel are aware of their responsibilities for control. FAMU management has established a process by which it is able to deal predictably and consistently with most control issues.

A-133 Action Plan line items categorized with a maturity ranking of less than “Defined” demonstrate where additional improvements are necessary (7% of A-133 items). Control weaknesses remain and if not adequately addressed could impact financial integrity. FAMU has controls in place and effective policies and procedures are in the process of being institutionalized for each of these areas.

The remaining A-133 Action Plan items not yet rated (3 A-133 items) represent those items still in progress or items being addressed as part of the EIT validation work.

A-133 CAP Line Items that Need Improvement (1) or Not Yet Rated (3)

1. A-133 Finding 06-017: SEFA – Needs Improvement

The University has developed policies and procedures to enhance the accuracy of grant and contract reporting, as well as procedures to prepare the SEFA report accurately. The process still appears to be dependent on a limited number of individuals.

1. A-133 Finding 06-115: Interest earned on excess Federal funds and timely remittal – Not Rated

See A-133 Finding 06-122

2. A-133 Finding 06-120: Completeness and accuracy of information reported to Federal agencies – Not Rated

See A-133 Finding 06-122

3. A-133 Finding 06-122: Accounting and grant records reflected numerous expired contract and grant accounts which hadn't been closed – Not Rated

The University has instituted new policies and procedures for Grants and Contracts, Sponsored Research and Close-outs. As part of the NSF Corrective Plan, the University developed a Comprehensive Grant Manual and a Grant Review document. A Plan of Action was developed with specific completion dates and responsibilities. The Grants and Contracts Department is currently in the process of reviewing 100% of Grant Accounts.

The Policies and Procedures as designed will effectively address the issues in the various Auditor General Report findings; however, as the project to complete the 100% review is in its initial stages, validation procedures will be more effective at a later date when the analysis of all grant accounts has been completed and expired grants have been accounted for.

CONCLUSION

The vast majority (92%) of the Corrective Action Plan line items that have been subject to our procedures and successfully rated are adequately designed to correct the material findings documented by the Auditor General and the plans are operating satisfactorily. The Action Plan line items categorized with a maturity ranking of "Defined" or greater are considered satisfactory. Controls are in place and adequately

documented. The effectiveness of the Action Plan is being adequately evaluated on a periodic basis and University personnel are aware of their responsibilities for control. FAMU management has established a process by which it is able to deal predictably and consistently with most control issues. FAMU's administration and management are ultimately responsible for establishing and maintaining adequate internal controls.

Action Plan line items categorized with a maturity ranking of less than "Defined" demonstrate where additional improvements are necessary (8% of total). Control weaknesses remain and if not adequately addressed could impact financial integrity. FAMU has controls in place and effective policies and procedures are in the process of being institutionalized for each of these areas.

The remaining Action Plan items not yet rated (11 total line items) represent those items still in progress or items being addressed as part of the EIT validation work.

FAMU's Corrective Action Plan is a well-designed tool to assist the University correct the findings outlined in the Auditor General's latest operational and financial audit reports. The FAMU senior leadership team and Corrective Action Plan process owners have the authority and qualifications to effectively execute the Corrective Action Plan and their priorities are properly focused to address the major identified areas of risk. The University is well on its way to effective implementation of the entire plan and should be congratulated on the significant control improvements.

APPENDIX 1: OPERATIONAL LEAD SHEETS

(On File at Board of Governors)

APPENDIX 2: FINANCIAL LEAD SHEETS

(On File at Board of Governors)

APPENDIX 3: A-133 LEAD SHEETS

(On File at Board of Governors)

APPENDIX 4: DETAILED WORK PLAN

(On File at Board of Governors)