



STATE
UNIVERSITY
SYSTEM
of FLORIDA
Board of Governors

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September 27, 2013

Dean Colson, Chair
Frank T. Brogan, Chancellor
State University System of Florida
Board of Governors
325 West Gaines Street, Suite 1614
Tallahassee, Florida 32399-0400

Dear Chair Colson and Chancellor Brogan:

I am pleased to submit our Annual Report on the activities of the Office of Inspector General and Director of Compliance (OIGC). Section 20.055(7), Florida Statutes, requires the OIGC submit an annual report outlining the work and activities performed to fulfill our mission to promote accountability, integrity and efficiency in the State University System of Florida. This report covers the 12-month period from July 1, 2012, through June 30, 2013.

As you know, my predecessor, Derry Harper, served as Inspector General for this period and therefore the matters highlighted in this report are his accomplishments. This work would not have been possible without the dedication and support of the Board of Governors, the Audit and Compliance Committee and board staff. I am especially grateful for the hard work and dedication of Compliance Analyst, Lori Clark.

I deeply appreciate your support and leadership and look forward to working with you, the Board of Governors, board staff and universities across the State University System of Florida.

Sincerely,

A handwritten signature in blue ink that reads "Joseph K. Maleszewski".

Joseph K. Maleszewski
Inspector General and Director of Compliance

Chair Colson and Chancellor Brogan
September 27, 2013
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JM/lc

Attached: *Office of the Inspector General And
Director of Compliance Annual Report 2012-2013*

Cc: Governor Morteza "Mori" Hosseini, Vice Chair
Governor Alan Levine, Chair, Audit Committee
Governor Edward A. Morton, Vice Chair, Audit Committee
Members of the Board of Governors
Florida Auditor General
Chief Inspector General, Office of the Governor
State University Audit Council

Office of Inspector General
and Director of Compliance

Annual Report
2012-2013



STATE
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Board of Governors



THE STATE UNIVERSITY SYSTEM *of* FLORIDA | Board of Governors

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Introduction

In compliance with Florida's Inspector General Act, Section 20.055, Florida Statutes, the Office of Inspector General and Director of Compliance (OIGC) has prepared this Annual Report for the Fiscal Year 2012-2013. The Annual Report summarizes the activities during the prior fiscal year within the framework approved by the Board of Governors, the Audit and Compliance Committee (audit committee), and the chancellor of the State University System of Florida.

The mission of the OIGC is to promote accountability and integrity in the State University System of Florida.



Authority, Standards, and Functions

Authority

As authorized by the Florida Constitution and Section 20.155(5), Florida Statutes, the board established the OIGC in July 2007 to promote accountability, efficiency, and effectiveness and to detect fraud and abuse within state universities. Subsequently, the board adopted the *Audit and Compliance Committee Charter* and the *Office of the Inspector General and Director of Compliance Charter* (Charters). The *Office of the Inspector General and Director of Compliance Charter* articulates the OIGC's duties and responsibilities consistent with the provisions of Florida's Inspectors General Act [Section 20.055, Florida Statutes]. These responsibilities include promoting accountability, integrity, and efficiency for the board office and throughout the State University System of Florida.

To achieve and maintain independence and objectivity, the inspector general reports directly to the board, through the chair of the audit committee, and administratively to the chancellor. The dual reporting relationship is designed to promote effective communication and coordination of OIGC activities, while ensuring that the inspector general is not impaired in any manner from performing his mandated duties and responsibilities.

In accordance Section 20.155(5), Florida Statutes, the OIGC shall have access to all information and personnel necessary to perform its duties and responsibilities and shall have all of its current powers, duties, and responsibilities authorized in Florida's Inspectors General Act. For example, as it relates to the board office, the inspector general must review and evaluate internal controls to ensure fiscal accountability by conducting operational, financial, and compliance audits or reviews and develop an annual audit plan based upon a systematic risk assessment of board operations. In addition, the inspector general shall initiate and conduct investigations into fraud, waste, mismanagement, misconduct, or abuse and report results of investigative activities, including those complaints filed by a board employee pursuant to the Florida Whistleblower's Act [Sections 112.3187-112.31895, Florida Statutes].

If the board, based upon the recommendation by the audit committee, determines that a state university board of trustees is unwilling or unable to address substantiated allegations made by any person relating to waste, fraud, or financial mismanagement, the inspector general shall conduct, coordinate, or request investigations. [Section 20.155 (5), Florida Statutes]



Standards

The inspector general shall conduct all of its activities in accordance with the *Principles and Standards for Offices of Inspector General* published by the Association of Inspectors General. Audit work will be conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* published by the Institute of Internal Auditors, Inc., or, where appropriate, in accordance with *Government Auditing Standards*, published by the Comptroller General of the United States.

Functions

In accordance with the Charters, the OIGC's three areas of focus are:

1. Audit Activities

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

As it relates to the operation and management of the Board of Governors, the audit committee provides oversight of activities related to internal audit, financial controls, compliance and ethics, as well as assessment of the effectiveness of internal control systems.

As it relates to the State University System, the audit committee receives and reviews university audit reports and identifies trends. It confirms that adverse trends are being addressed by the universities. If it has reasonable cause to believe a university is not providing an appropriate response to significant audit findings, it may initiate an inquiry.

2. Investigative Activities

As provided in its charter, the audit committee can direct the inspector general to conduct an inquiry or investigation if it has reasonable cause to believe a university board of trustees is unwilling or unable to provide for objective investigation of credible allegations of fraud or other substantial financial impropriety. In those instances where the inspector general determines that no further action is warranted, the board has delegated authority to the audit committee chair to make a final determination regarding a complaint.

3. Compliance Activities

In the area of Compliance, relative to the operation and management of the Board of Governors, the OIGC shall prioritize the implementation of a compliance program to focus on areas of higher regulatory risk which could impact health or safety, academic or fiscal integrity. The inspector



general will also provide recommendations, education and training in connection with regulatory compliance gaps identified.

Support for Audit and Compliance Committee

The OIGC provides staffing support for the audit committee, which meets face-to-face or by conference call four times per year or as needed. Activities in support of the audit committee during this reporting period include:

1. Holding one-on-one briefings with Board members prior to board meetings to discuss agenda topics.
2. Preparing meeting materials and making presentations to the audit committee for face-to-face meetings or conference calls.
3. Communicating by phone and email with the audit committee chair for guidance in handling concerns under the audit committee's purview.
4. Assisting audit committee members in staying abreast of applicable regulations and statutes.



Audit Activities

During Fiscal Year 2012-2013, the OIGC engaged in the following internal audit-related activities:

Board Office Ethics Climate Audit

The OIGC initiated an audit of the Ethics Climate in the board office (OIGC Project No. 2012-001). The audit focused on actions taken by the board to design, communicate, monitor, promote and enforce ethical standards and policies applicable to its employees. The report was released August 2, 2012.

This audit evaluated the board office's Code of Ethics; the internal operating policies and procedures in comparison to requirements contained in Chapter 112, Part III, Florida Statutes, and best practices from professional organizations.

An ethical environment survey was sent to 47 board office staff. A 60% response rate was achieved (28 of 47 individuals provided a response). Survey results indicated the board office had established a positive ethical climate. For example, all respondents agreed or strongly agreed that senior management models and promotes ethical behavior.

The audit concluded the board office has a favorable ethical climate that could be enhanced by providing periodic training of employees on the Code of Ethics policy and applicable law. As a result, the ethics officer conducted ethics training for board office staff and made plans to provide ethics training on an annual basis.

The six-month follow-up report was submitted February 11, 2013, to Board of Governors Chair, Dean Colson, and to Chancellor Frank Brogan reporting that corrective actions have been completed. Copies of the Ethics Climate Audit and the associated six-month follow-up are available upon request.

The 2011-2012 Board of Governors Operational Audit

In accordance with the Charters and applicable law, the OIGC acted as liaison with Florida Auditor General staff during its audit of the board operations for the Fiscal Year 2012. The OIGC coordinated communications and responses for the board's operational audit, including tracking approximately 160 requests for information.



The final report, No. 2013-024, was released October 18, 2012, and listed four findings in the areas of board regulations and oversight as well as monitoring.

In the regulations and oversight category, the auditors recommended that board staff review and revise, as appropriate, current regulations to address the areas of Sponsored Research, Anti-hazing, Student Code of Conduct, and Purchasing Practices. Board staff responded that they have engaged with university staff for each of these areas and that they will continue to do so to ensure minimum standards, system-wide, are implemented.

There were three findings in the monitoring category related to SUS Capital Improvement Bonds, 21st Century World Class Scholars Program, and New Florida Initiative Awards. The recommendations for all three were for board staff to strengthen monitoring, review, and analysis of information received from universities.

On April 19, 2013, the OIGC issued the statutorily required six-month follow-up report to the Joint Legislative Auditing Committee. This follow-up report highlighted corrective actions taken through April 2013. The OIGC will follow-up on any outstanding corrective actions before the end of the calendar year.

A copy of the Board of Governors Operational Audit, Report No. 2013-024, is available at the State of Florida Auditor General website (<http://www.myflorida.com/audgen/>). Copies of the associated six-month follow-up are available upon request.

Quality Assessment Review – OIGC Internal Audit Activity

As required by Section 11.45(2)(i), Florida Statutes, and professional standards, the OIGC internal audit activities are subjected to a periodic quality assessment review. This review, conducted by the auditor general's office, is designed to ensure the OIGC's quality assurance program for the internal audit activity (i.e., the charter, organizational environment, and policies and procedures) provide management with reasonable assurance that the internal audit activity operates in conformity with applicable auditing standards. The review also assessed OIGC compliance with specific provisions of Section 20.055, Florida Statutes, governing the internal audit activities.

The Quality Assessment Review report (No. 2013-188) was issued June 27, 2013, and covered the period, July 2011 through August 2012. This report concluded the OIGC's internal audit activity was adequately designed and complied with to provide reasonable assurance of



conformance with applicable professional auditing standards. The report included two findings related to continuing professional development and statutory compliance. The board office and OIGC developed a six-point corrective action plan to address the report findings.

Four of the six corrective actions have been completed and the remaining two are in progress (expected to be completed by calendar year end).

Audit Plan

Section 20.055, Florida Statutes, specifies that the inspector general develop long-term and annual audit plans based on the findings of periodic risk assessments and that the plan contain the individual audits to be conducted during each year and related resources to be devoted to the respective audits. By statute, the plan is submitted to the audit committee and the board for approval, and a copy of the approved plan is submitted to the chancellor and the auditor general.

This fiscal year, the OIGC initiated a risk assessment that included each of the organizational units that comprise the board office and a review of board regulations, the Florida Constitution, applicable statutes, financial records, internal operational manuals, handbooks, organizational charts, and various reports including prior audit reports, and other available data.

The audit committee approved and the Board of Governors ratified the *Long-term and Annual Audit Plan for Fiscal Year 2013-2014* in a conference call of the Audit and Compliance Committee held June 10, 2013. The plan contains two audit projects each year for the next three years. Each audit is expected to require 350 staff hours.

Fiscal Year 2013-2014:

- Tuition Differential/Tuition and Fees Program(s)
- Institutes and Centers

Fiscal Year 2014-2015:

- Establishment of Educational Sites
- University Work Plans Process

Fiscal Year 2015-2016:

- State University System of Florida Board of Governors Foundation
- Residency for Tuition Purposes



Investigative Activities

The following section summarizes the most significant matters the OIGC handled during this reporting period.

Continued Monitoring of Corrective Action Plan by a State University (OIGC Complaint Nos. #2011-023 and -024)

Monitoring of this matter began in July 2011 when two individuals contacted the OIGC with a complaint that the chief audit executive at a state university had knowingly engaged in fraudulent activities, including the submission to the university's board of trustees of report summaries of audits that had not been completed.

Because the subjects of the allegations of misconduct were staff in the chief audit executive's office, which is the office typically responsible for investigating such complaints, it was determined that the matter should be referred to the chair of the university board of trustees with the recommendation that an outside firm be retained to conduct an investigation. The university board of trustees retained the services of an outside law firm that determined the information provided by the complainants met the statutory criteria as a whistle-blower complaint.

This matter as well as Anti-hazing Program Investigation (see below) required additional monitoring by board office staff. Because the findings span various areas, such as audit and compliance, finance, and student affairs, the chancellor initiated a board office-wide project to monitor the university's progress in addressing all identified concerns. Refer to the Compliance Activities section of this report for more detail.

Anti-Hazing Program Investigation (OIGC Complaint No. #2011-038)

In November 2011, a student at a state university died from blunt force trauma sustained as a result of hazing. On November 29, 2011, in response to this tragic event, the board's chair notified the university board of trustees that she had directed the chancellor to initiate an investigation into whether the university had implemented an anti-hazing program in compliance with state law and that reflected the board's zero tolerance for hazing.

The OIGC, with investigative resources provided by other state agencies, began an investigation to examine the following issues:

- Did the university have a rigorous anti-hazing program in place during the five-year period before the tragedy of November 2011 that



would prevent, detect, deter and discipline students engaged in prohibited hazing activities and that included the implementation of effective institutional and internal controls as required by Board of Governors and university regulations and applicable state law?

- Did university staff during the period in question fail to adequately address or investigate complaints of hazing and impose appropriate discipline on students who had allegedly engaged in prohibited activity in violation of application regulations or law?
- Did the university's senior administrative staff fail to respond to allegations of hazing reported to them on or about November 8, 2011, by the former Director of Bands? If so, did their actions demonstrate a reckless indifference or disregard of applicable state law, Board of Governors' or university regulations?

The investigative team reviewed and analyzed all reported cases of hazing during the five-year period before November 2011, conducted interviews of current or former university employees, and reviewed approximately 7,000 pages of documents. The final report of investigation, issued February 12, 2013, concluded that the university failed to implement an anti-hazing program in compliance with Board of Governors regulations, university regulations, or state law. Additionally, it revealed a lack of effective institutional and internal controls designed to prevent, detect, deter, and discipline students involved in hazing. Regarding the last allegation, however, the investigative team determined it was unsubstantiated.

The final report of investigation included a list of recommendations, which was incorporated into the Corrective Action Plan Project. The CAP Project includes findings and recommendations from various audits and investigations conducted by audit or law firms retained by the university to enhance its internal controls in areas of identified weakness.

Complaints, Matters, and Inquiries

During the past year, the OIGC handled a variety of matters submitted by current or prospective students, parents, university faculty and staff, and the general public. All matters were categorized, indexed, and assigned a case number for tracking and follow-up.

In accordance with the OIGC statute [Section 20.155(5), Florida Statutes], the Board of Governors must determine "that a state university board of trustees is unwilling or unable to address substantiated allegations made by any person relating to waste, fraud, or financial mismanagement..." before it conducts, coordinates, or requests an investigation. Therefore, when a complaint is received, the OIGC reviews not only the allegations



but also the steps the complainant has already taken with the university in question to address his or her concerns. Allegations of matters that fall under the university's purview are referred to the university's internal audit office, which also conducts investigations into credible allegations. The OIGC requests that the university follow-up with this office on their actions.

For those complaints where appropriate avenues at the university have been exhausted, the OIGC contacts the complainant for additional information if needed, and then pursues a preliminary inquiry to determine if the university has responded appropriately to the complainant's assertions. When as a result of a preliminary inquiry the inspector general recommends that no further board action is warranted, the audit committee chair is delegated the authority to accept that determination. In all other situations the audit committee shall review the matter at its next meeting.

This reporting period, OIGC staff reviewed a total of 42 matters. Of these, we had eight complaints; two consultations; one information request; two investigations; and 29 matters referred to appropriate university staff for handling.

In addition, board policy requires the inspector general to review and approve all Pre-Employment Background Screenings of board staff. This past year seven new staff submitted to a background screening.

The following chart depicts the above activity:

Category	Open	Referred	Closed	Total
Complaints	1	1	6	8
Consultations	--	--	2	2
Information Requests	--	--	1	1
Investigations	1	--	1	2
Matters	7	6	16	29
TOTAL	9	7	26	42



Compliance Activities

In fulfilling its compliance responsibilities for this reporting period, the OIGC performed the following functions:

System Financial and Operational Audit Report Review

As required by law, the auditor general conducts annual financial audits for each system university, and operational audits are performed every two years. The OIGC receives final auditor general reports of all system audits and forwards them to the board's senior staff. Any findings common across the university reports are tracked and discussed with the appropriate interested parties (such as university or board staff or the State University Audit Council, an informal committee of State University System chief audit executives) for follow-up or to request additional information.

System Internal Audit Reports Review

In March 2009, Board Regulation 1.001, University Board of Trustees Powers and Duties, required that all state universities submit to the OIGC final internal audit reports [Board Regulation 1.001(6)(g)]. In September 2010, the submission procedure was finalized and announced to all universities that internal audit reports would be submitted on a quarterly basis to the OIGC.

The OIGC logs and tracks each quarter the audit reports received and audit topics covered. OIGC staff monitors reports to identify any trends and confirm with a given university that it is addressing any adverse trends.

For this reporting period, the OIGC received internal audit reports from system institutions. University internal audit offices vary in size, as do the universities themselves. Some internal audit offices have as few as two staff members, others have many more. Additionally, university internal audit offices are responsible for not only internal audits, but also investigations, compliance oversight, consultations or advising.

Corrective Action Plan Project 2013

As a result of the investigations by various audit and law firms into the matters described for OIGC Complaint Numbers 2011-023, 2011-024, and 2011-038 (refer to the Investigative Activities section of this report), the chancellor of the State University System initiated a corrective action plan to monitor the university's progress in addressing findings from all audit and investigative reports. Board staff developed a master spreadsheet to



track the university's progress in five areas of concern: Audit and Compliance Issues, Finance, Academics and Accreditation, Facilities and Construction, and Hazing and Student Code of Conduct.

The OIGC's focus is on audit issues, staffed by the university's internal audit office. OIGC staff communicates with the chief audit executive monthly for consultation and status. The inspector general reports monthly status information to the audit committee chair as well as the chancellor. The university in question aims to have all corrective actions in place by mid-2014.



Staff

Derry Harper, Inspector General and Director of Compliance



Mr. Harper joined the Board of Governors' senior staff in July 2007 as the first Inspector General and Director of Compliance. In May 2013, he announced that he would be leaving the board office at the end of this reporting period to return to the practice of law.

As the first Inspector General for the Board of Governors, Mr.

Harper was responsible for building the office without the benefit of legacy staff, tools or systems inherited from the previous Board of Regents IG office. Mr. Harper's first priorities as inspector general for the board office were to build a strong working relationship with university chief audit executives; to develop the charters under which this office and the audit committee operate; and to establish the policies and procedures for handling matters, complaints, preliminary inquiries, and investigations.

Before joining the board, Mr. Harper served as Chief of Internal Audit and Investigation for Citizens Property and Insurance Corporation. Before that, he served as the Chief Inspector General for over four years during the administration of former Florida Governor Jeb Bush. In that role, his responsibilities included oversight and management of the 17 executive agency inspectors general.

Before his return to public service, Mr. Harper spent 12 years in the private sector as corporate counsel for BellSouth Corporation handling a variety of legal matters including litigation and employment cases. He is a former federal and state prosecutor, having served as an Assistant United States Attorney and an Assistant District Attorney General, all in Nashville, Tennessee.

A graduate of Vanderbilt University School of Law, Mr. Harper received his undergraduate degree from Davidson College, where he served on the College Board of Trustees for six years.



Mr. Harper is currently serving as the Assistant City Attorney in Memphis, Tennessee. Although returning to the practice of law is “not like riding a bike,” Mr. Harper is enjoying the challenge of litigation in the 21st Century. We are grateful for his contributions to the establishment of the State University System of Florida Board of Governors Office of the Inspector General.

Lori Clark, Compliance Analyst



Ms. Clark became a member of the OIGC staff in August 2008, after serving two years as an educational policy analyst in the board’s Academic and Student Affairs department. She is a graduate of Florida State University with bachelor’s and master’s degrees in French Language and Literature. Ms. Clark has

over 20 years of experience in postsecondary education, including teaching, student services administration, and program implementation.

In addition to receiving professional development and on-the-job training in the area of compliance, Ms. Clark has begun training in auditing and investigations.

Karla Goodson, Executive Assistant

Ms. Goodson joined the Board of Governors staff in March 2010. Her professional experience includes administrative/research roles in association and legal settings, with particular emphasis on public policy and governmental affairs. Her experience and assistance are valuable components in the operations of the OIGC as well as the other units she assists.



Contact Information and Resources

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Resources

OIGC Web Page

<http://www.flbog.edu/about/cod/igoffice.php> Plan 2012-2025.

Office of the Inspector General and Director of Compliance Charter

<http://www.flbog.edu/about/cod/igoffice.php>

Audit and Compliance Committee Charter

<http://www.flbog.edu/about/cod/igoffice.php>

Association of Colleges and Universities Auditors

<http://www.acua.org/>

Association of Inspectors General

www.inspectorsgeneral.org

Florida Inspectors General

<http://www.floridaoig.com/>

Institute of Internal Auditors

<http://www.theiia.org/>

Board of Governors Regulations

<http://www.flbog.edu/about/regulations/>



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