



FLORIDA INTERNATIONAL UNIVERSITY  
BOARD OF TRUSTEES  
FINANCE AND AUDIT COMMITTEE  
MINUTES  
DECEMBER 1, 2016

**1. Call to Order and Chair's Remarks**

The Florida International University Board of Trustees' Finance and Audit Committee meeting was called to order by Committee Chair Gerald C. Grant, Jr. at 8:19 am on Thursday, December 1, 2016, at the Modesto A. Maidique Campus, Graham Center Ballrooms.

The following attendance was recorded:

***Present***

Gerald C. Grant, Jr., *Chair*  
Justo L. Pozo, *Vice Chair*  
Leonard Boord  
Natasha Lowell  
Marc D. Sarnoff  
Kathleen L. Wilson

***Excused***

Cesar L. Alvarez

Trustee Alian Collazo and University President Mark B. Rosenberg were also in attendance.

Committee Chair Grant welcomed all Trustees, faculty, and staff to the meeting.

**2. Approval of Minutes**

Committee Chair Grant asked that the Committee approve the Minutes of the meeting held on September 1, 2016. A motion was made and passed to approve the Minutes of the Finance and Audit Committee Meeting held on Thursday, September 1, 2016.

Senior Vice President of Administration and Chief Financial Officer Kenneth A. Jessell presented a benchmarking analysis of FIU housing rates compared to the State University System institutions in terms of the required meal plan purchase for first year students living on campus, which he noted was in response to Trustee Collazo's request from the Committee's September meeting. Sr. VP and CFO Jessell reported that only three of the 12 SUS institutions do not require a mandatory meal plan purchase: Florida Golf Coast University, University of Central Florida, and University of Florida. He added that SUS institutions with mandatory meal plans in place have varying requirements, such as, required of all students, freshman students residing in residence halls, a student living in certain residence halls. He indicated that FIU's mandatory meal plan applies only to students residing in Panther and Lakeview Halls.

### 3. Action Items

#### **FA1. FIU Direct Support Organizations Financial Audits FY 2015-16**

Sr. VP and CFO Jessell presented the FIU Direct Support Organizations (DSO) FY 2015-16 Financial Audits for Committee review. He reported that James Moore Certified Public Accountants and Consultants performed the financial audits for: the Florida International University Foundation, Inc.; the Florida International University Research Foundation, Inc.; the Florida International University Athletics Finance Corp; and the Florida International University Academic Health Center Health Care Network Faculty Group Practice, Inc. He stated that James Moore Certified Public Accountants and Consultants did not audit the financial statements of the FIU Research iWASH Initiative Limited, a component unit of the Research Foundation that receives funding from USAID (US Agency for International Development), noting that those financial statements were audited by KPMG in Tanzania in accordance with International Standards on Auditing, for the period ending December 31, 2015.

Sr. VP and CFO Jessell indicated that each of the audits has been approved by the Boards of each DSO. He added that Board of Trustees approval is necessary, as the DSO audits will be incorporated into the Financial Statement Audit of the University, which he indicated was currently underway by the State of Florida Auditor General, as Component Units of the University.

Sr. VP and CFO Jessell added that the Florida International University Foundation Inc. audit was prepared in conformity with Financial Accounting Standards Board requirements. He stated that the remaining DSO statements apply Governmental Accounting Standards Board requirements. He further reported that all of the audits received an Unmodified Opinion, adding that results of the respective audits did not identify any deficiencies in internal control over financial reporting that were considered to be material weaknesses. He added that the results of the audits disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. He then referenced the financial summary of each DSO that was included in the agenda materials and asked if there were any questions.

A motion was made and passed that the FIU Board of Trustees Finance and Audit Committee recommend that the Board of Trustees:

#### **FA1-A. FIU Foundation, Inc.**

Accept the Florida International University Foundation, Inc. Financial Audit for the 2015-16 Fiscal Year and authorize the CEO of the Florida International University Foundation, Inc. to take all actions necessary pertaining to this Financial Audit, including filing the report with the Auditor General.

#### **FA1-B. FIU Research Foundation, Inc.**

Accept the Florida International University Research Foundation, Inc. Financial Audit for the 2015-16 Fiscal Year and authorize the Executive Director of the Florida International University Research Foundation, Inc. to take all actions necessary pertaining to this Financial Audit, including filing the report with the Auditor General.

**FA1-C. FIU Athletics Finance Corporation**

Accept the Florida International University Athletics Finance Corporation Financial Audit for the 2015-16 Fiscal Year and authorize the Executive Director of the Florida International University Athletics Finance Corp. to take all actions necessary pertaining to this Financial Audit, including filing the report with the Auditor General.

**FA1-D. Florida International University Academic Health Center Health Care Network Faculty Group Practice, Inc.**

Accept the Florida International University Academic Health Center Health Care Network Faculty Group Practice, Inc. Financial Audit for the 2015-16 Fiscal Year and authorize the Executive Director of the Florida International University Academic Health Center Health Care Network Faculty Group Practice, Inc. to take all actions necessary pertaining to this Financial Audit, including filing the report with the Auditor General.

**FA2. Restructuring of Athletics Finance Corporation Debt**

Sr. VP and CFO Jessell presented the restructuring of the Athletics Finance Corporation Debt for Committee review, noting that this pertains to a request to modify the outstanding Miami-Dade County Industrial Development Authority Revenue Bonds associated with the FIU Football Stadium project. He added that the bonds were issued in 2009 for the purpose of refunding the original Variable Rate Demand Notes issued in 2007 and were purchased and are held by Regions Bank. He stated that under the terms of the Bond Agreement, FIU is required to purchase the bonds on December 16, 2017, which he indicated is the Mandatory Tender Date. He mentioned that Regions Bank has agreed to extend the Mandatory Tender Date to 2026, to reduce the tax exempt interest rate spread on \$21 million of the Bonds, and to replace the tax exempt interest rate of 63.7 percent of the 3-month Libor plus 1.9 percent to a fixed rate on \$9 million of the Bonds. He further noted that the \$21 million portion is under an interest rate swap agreement and has a derivative liability of \$5.35 million.

Sr. VP and CFO Jessell delineated the payment terms, noting that the taxable bonds will be fully prepaid at closing with funds held in the Collateral Account. He added that there is a potential 20 basis point increase in the spread on the \$21 million portion and a potential 20 basis point increase on the \$9 million component in the subject November 21 commitment letter. He reported that the FIU Athletics Finance Corporation Board of Directors approved the restructuring of the Bonds at its October 17, 2016 meeting. He further stated that the Miami-Dade County Industrial Development Authority approved the restructuring on November 16, 2016.

Sr. VP and CFO Jessell noted that in order to secure the interest rate in the November 21 commitment letter, Regions would like to close within the next two days. He added that the University is in the process of seeking Regions' approval to secure the rate with a Lock Agreement, stating that this would provide the University with additional time to prepare for closing.

Trustees engaged in a substantive discussion regarding the terms of the refinancing. In response to Trustee Justo L. Pozo's inquiry, it was noted that potential closing costs could be approximately \$100,000. In response to Trustee Natasha Lowell's inquiry, it was stated that the swap agreement would be in place for the full maturity of the loan. Trustee Leonard Boord referred to the

November 21 commitment letter with Regions that states that the University is to make reasonable best efforts to continue developing a business relationship with the Bank and suggested that in terms of future contractual contexts, the University consider replacing “reasonable best efforts” with “reasonable efforts” as this provides for a more achievable threshold.

A motion was made and passed that the FIU Board of Trustees Finance and Audit Committee recommend the approval of the proposed resolution to the Florida International University Board of Trustees:

WHEREAS, on December 16, 2009, the Miami-Dade Industrial Authority (the “Authority”) issued its Revenue Bonds (FIU Football Stadium Project), Series 2009A, and Revenue Bonds (FIU Football Stadium Project), Series 2009B (collectively, the “Bonds”), pursuant to the terms of a Trust Indenture between the Authority and Regions Bank, as trustee (the “Indenture”), the proceeds of which were loaned to the FIU Athletics Finance Corporation (the “Corporation”), a direct-support organization of Florida International University (the “University”), pursuant to the terms of a Loan Agreement between the Authority and the Corporation for the purpose of refinancing the costs of certain capital improvements to the University football stadium;

WHEREAS, the Bonds were purchased by and are currently held by Regions Bank (the “Bank”);

WHEREAS, the Bank has agreed to certain modifications of the terms of the Series 2009A Bonds, in accordance with the terms outlined in the Bank’s Commitment Letters dated May 12 and November 21, 2016 and attached hereto as Exhibit A; and

WHEREAS, the Corporation has authorized and approved the Commitment Letters, and the consummation of the transactions contemplated therein.

THEREFORE, BE IT RESOLVED, that the University Board of Trustees (the “BOT”) hereby determines that it is in the best interests of the Corporation to accept the Bank’s indicative offer to modify the terms of the Series 2009A Bonds and, in conjunction therewith, cause the Series 2009B Bonds to be repaid in full in accordance with terms of the Term Sheet; and

BE IT FURTHER RESOLVED, that the BOT authorizes the redemption of the Series 2009B Bonds in full, subject to the modification of the terms of the Series 2009A Bonds as described in the Bank’s Commitment Letters; and

BE IT FURTHER RESOLVED, that the BOT hereby delegates to the Chairman of the Corporation and/or the University Treasurer the authority to execute any documents and/or take any such actions as shall be necessary to complete the modification of the Series 2009A Bonds and the redemption of the Series 2009B Bonds on behalf of the Corporation, consistent with the terms of the Bank’s Commitment Letters, including, but not limited to, execution of any amendment to the Loan Agreement, or acknowledgement of changes to the Trust Indenture, and any other agreements, certifications or other documents relating to the modification;

BE IT FURTHER RESOLVED, that the BOT hereby designates Jonathan Evans as the Assistant Secretary of the Corporation for the limited purpose of attesting to the signature of the University Treasurer or any of the foregoing documents; and

BE IT FURTHER RESOLVED, that the BOT directs the University Chief Financial Officer to report to the Finance and Audit Committee on the progress of the modification and redemption transactions at the Committee's next regularly scheduled meeting.

### **FA3 – FA4. Proposed Committee Charters**

University General Counsel Carlos B. Castillo presented the proposed Finance and Facilities Committee Charter and the proposed Audit and Compliance Committee Charter for Committee review. He noted that in July, Mr. Alan Levine, Chair of the Board of Governors Audit and Compliance Committee, issued a guidance letter to the State University System (SUS) institutions describing best practices for the placement of separate audit and compliance committees. He added that Board Chair Claudia Puig appointed Committee Chair Grant to lead a task force of key University administrators in order to review and benchmark best practices and then make a recommendation for the proposed Audit and Compliance Charter and proposed amendments to the Bylaws.

In response to Trustee Kathleen L. Wilson's inquiry, Committee Chair Grant requested to clarify that it be the Chair of the Board of Trustees that would function in the capacity described in section 2.2 of the Finance and Facilities Charter. Trustee Boord commended the inclusion of section 4.37 in the Audit and Compliance Charter, which he indicated provides for Committee self-evaluations. Mr. Castillo noted that the provision was taken largely from the compliance requirements of the New York Stock Exchange, which he added are compliance requirements for large private and publicly traded companies and is a best practice for other entities. Internal Audit Director Allen Vann mentioned that self-evaluations are considered a best practice for audit and compliance committees.

A motion was made and passed that the FIU Board of Trustees Finance and Audit Committee recommend that the Board of Trustees:

#### **FA3. Proposed Finance and Facilities Committee Charter**

Approve the proposed Finance and Facilities Committee Charter

#### **FA4. Proposed Audit and Compliance Committee Charter**

Approve the proposed Audit and Compliance Committee Charter

## **4. Discussion Items**

### **4.1 Office of Internal Audit Status Report**

Internal Audit Director Allen Vann presented the Internal Audit Report, providing updates on the recently completed audits of the bank account reconciliations review, information security controls audit of the Mobile Health Center, and Housing and Residential Life follow-up audit. He reported that the resignation by a University employee, a senior accountant, prompted a review by the Controller's office and the Office of Internal Audit. He added that the review and audit revealed that for a number of years the employee who was responsible for the cash concentration account and preparing bank reconciliations was deceptively giving the appearance that the book to bank balances

were reconciled. He stated that this was not easily detected given the volume of transactions in the bank reconciliation process. He further stated that neither the Controller's review nor the audit disclosed any indication of misappropriation or loss of funds, stating that the employee did not have the necessary skill sets to perform the bank reconciliation and through a pattern of deceit, concealed her shortcomings. He indicated that the Controller adjusted the University's general ledger by \$574,631. He further stated that a charge was taken to the Other Costs and Losses account and the Concentration Cash account was reduced to reflect the unidentified difference(s) and properly reflect the University's actual cash position. He reported that the audit concluded that current reconciliations are being performed properly, are accurate, and that there are improved internal controls and procedures to prevent recurrence.

Trustee Marc D. Sarnoff inquired as to the senior accountant's qualifications and University reporting hierarchy and was concerned that the employee was able to continue in the position with the qualification to timely complete the reconciliations. Sr. VP and CFO Jessell noted that the employee's resignation was a result of new controls that were established within the Controller's office, adding that mandatory rotation of responsibilities and scheduled absences were implemented in order to detect issues. He indicated that the employee failed to bring an issue to her supervisor communicating her inability to perform her job function. He also mentioned that if a University employee is terminated for cause, the employee in question is no longer eligible for reemployment within the University.

Mr. Vann also reported that an audit of the Chaplin School of Hospitality and Tourism Management was completed, noting that improved controls are needed in areas of budget monitoring, overspending avoidance, payroll approval, and distance learning fees expenditures. He provided an update on work in progress.

Trustee Boord inquired as to the University's plan for addressing the issues raised in the audit of the Chaplin School of Hospitality and Tourism Management. President Mark B. Rosenberg noted that the audit can serve as a useful benchmarking tool for other academic and operating units in terms of information, education, and modification. Provost and Executive Vice President Kenneth G. Furton indicated that in response to the audit, the University has implemented a number of actions. He stated that such steps include a monthly variance analysis and a comprehensive review of position descriptions within the School to ensure that personnel meet the appropriate qualifications. Sr. VP and CFO Jessell added that, in terms of the aggregate, the School has positive balances in the auxiliary accounts. Trustee Wilson inquired as to the School's staffing and administrative levels. For the next regularly scheduled Committee meeting, in addition to Trustee Wilson's inquiry, Trustee Boord requested a follow-up in order to review the actions that were taken by the University and the resulting impact on the School's operations. Provost Furton mentioned that the University has engaged with an external consultant to provide a benchmark analysis of the School, which he stated will include a review of the finances and oversight.

In response to Trustee Sarnoff's inquiry, Mr. Vann noted that the original Housing and Residential Life audit in 2010 resulted in increased background check controls for students that will be employed in any of the Housing units. Mr. Vann reported that the current audit revealed that

criminal background checks are being conducted and that the recommendations from the 2010 audit were fully implemented.

#### **4.2 Financial Performance Review, FY2016-17**

Sr. VP and CFO Jessell presented the Financial Performance Review for the first quarter of 2016-17 and provided a summary of University revenues and expenditures. He reported that the University and direct support organizations' operating revenues were above estimates by \$10M (or 3 percent), which can be primarily attributed to: timing of tuition and waiver bookings; higher housing occupancy; and increased sales at the Panther TECH store. He added that these were offset by lower undergraduate enrollment, less Bright Futures awards due to fewer eligible recipients and lower undergraduate enrollment, and lower external contracts revenues. He noted that expenses were below estimates by \$12.8M (or 5 percent), primarily due to lower expenditures, delayed spending, and timing of scholarships and program disbursements across all areas of the DSOs.

#### **4.3 University Compliance Report**

Chief Compliance and Privacy Officer Karyn Boston presented the University Compliance Report, providing implementation updates on the progress towards reaching Program goals. She reported that as a result of the year-long policy review and University employee compliance training, a 60 percent attestation rate has been achieved. She delineated enforcement actions aimed at increasing the attestation rate to at least 90 percent, which she stated is the benchmark and best practice. She provided an overview of the requirements set forth in Florid Board of Governors Regulation 4.003, State University System Compliance and Ethics Programs.

### **5. Reports**

Committee Chair Grant requested that the Athletics Update, Business Services Report, Emergency Management Status Report, Facilities and Construction Update, Foundation Report, Safety and Environmental Compliance Report, and Treasury Report be accepted as written. There were no objections.

### **6. New Business**

#### **6.1 Office of Internal Audit Discussion of Audit Processes**

Committee Chair Grant noted that as is stipulated in the Finance and Audit Committee Charter, the Committee must meet with the Office of Internal Audit without the presence of management. He further noted that as a meeting conducted in the Sunshine, no one present was required to leave during the discussion with the Office of Internal Audit, adding that this was strictly voluntary. Mr. Vann briefed the Committee on matters relating to management's improvements to change control processes for electronic fund transfers to vendors. In accordance with Board of Trustees Chair Claudia Puig's recommendation, Mr. Vann agreed to arrange for an independent outside consultant to evaluate the revised process so as to provide some extra measure of assurance that the University has ameliorated past vulnerabilities. Committee Chair Grant asked to meet with the Chief Audit Executive and Chief Compliance and Privacy Officer shortly after the beginning of the new year to discuss the logistics and Board of Trustees expectations resulting from the bifurcation of the Committee into a separate Finance and Facilities Committee and Audit and Compliance Committee.

## 7. Concluding Remarks and Adjournment

With no other business, Committee Chair Gerald C. Grant, Jr. adjourned the meeting of the Florida International University Board of Trustees Finance and Audit Committee on Thursday, December 1, 2016 at 9:42 am.

<b>Trustee Request</b>	<b>Follow-up</b>	<b>Completion Date</b>
<ul style="list-style-type: none"><li>Trustee Leonard Boord requested a follow-up to the audit of the Chaplin School of Hospitality and Tourism Management in order to review the actions that were taken by the University and the resulting impact on the School's operations.</li></ul>	Provost and Executive Vice President Kenneth G. Furton	Next Regularly Scheduled Committee Meeting

12.12.16 MB