

FLORIDA STATE UNIVERSITY

Operational Audit



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Dr. Eric C. Walker to 4-17-11 (5)

Dr. Eric J. Barron, President

- Notes: (1) Student body president.
(2) Term expired January 6, 2011, and position remained vacant until May 18, 2011.
(3) Term expired January 6, 2011, and position remained vacant until January 20, 2011.
(4) Board Member served beyond the end of term, January 6, 2011.
(5) Faculty senate chair.

The audit team leader was Stellar Lee, CPA, and the audit was supervised by Cheryl B. Pueschel, CPA. For the information technology portion of this audit, the audit team leader was Bill Allbritton, CISA, and the supervisor was Heidi Burns, CPA, CISA. Please address inquiries regarding this report to James R. Stultz, CPA, Audit Manager, by e-mail at jimstultz@aud.state.fl.us or by telephone at (850) 922-2263.

This report and other reports prepared by the Auditor General can be obtained on our Web site at www.myflorida.com/audgen; by telephone at (850) 487-9175; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

FLORIDA STATE UNIVERSITY

SUMMARY

Our operational audit disclosed the following:

CASH COLLECTIONS AND REVENUES

Finding No. 1: The University did not adequately monitor compliance with auxiliary vendor contract provisions related to the collection of commissions.

Finding No. 2: The University expended revenues from tuition differential fees for graduate teaching assistants' salaries, contrary to Section 1009.24, Florida Statutes.

CAPITAL ASSETS

Finding No. 3: The University needed to improve controls over safeguarding of works of art and historical treasures.

PERSONNEL AND PAYROLL

Finding No. 4: The University needed to enhance its monitoring of overtime payments.

EXPENSES AND DISBURSEMENTS

Finding No. 5: Improvements were needed in the University's monitoring of wireless communication device usage.

CONSTRUCTION ADMINISTRATION

Finding No. 6: The University did not review the construction manager's documentation for the labor burden rates to determine whether the rates were reasonable in comparison to industry averages.

INFORMATION TECHNOLOGY

Finding No. 7: The University's information technology security controls related to user authentication needed improvement.

BACKGROUND

The Florida State University (University) is part of the State university system of public universities, which is under the general direction and control of the Florida Board of Governors. The University is directly governed by a Board of Trustees (Trustees) consisting of 13 members. The Governor appoints 6 citizen members and the Board of Governors appoints 5 citizen members. These members are confirmed by the Florida Senate and serve staggered terms of five years. The faculty senate chair and student body president also are members.

The Board of Governors establishes the powers and duties of the Trustees. The Trustees are responsible for setting University policies, which provide governance in accordance with State law and Board of Governors' Regulations. The University President is selected by the Trustees and confirmed by the Board of Governors. The University President serves as the executive officer and the corporate secretary of the Trustees and is responsible for administering the policies prescribed by the Trustees for the University.

The results of our financial audit of the University for the fiscal year ended June 30, 2011, will be presented in a separate report. In addition, the Federal awards administered by the University are included within the scope of our Statewide audit of Federal awards administered by the State of Florida and the results of that audit, for the fiscal year ended June 30, 2011, will be presented in a separate report.

FINDINGS AND RECOMMENDATIONS

Cash Collections and Revenues

Finding No. 1: Auxiliary Operations - Contract Monitoring

The University contracted with private vendors for the operation of its food services, snack and soft drink vending, bookstore, mail services, banking services, and bus services. Written agreements with the vendors contained numerous terms and conditions, which described the responsibilities of the parties related to commissions and rent, insurance, accounting records, and audits. The University received commissions and other required fees for these services totaling \$4.8 million for the 2010-11 fiscal year.

Our review of five auxiliary contracts disclosed that the University had not established adequate procedures for monitoring compliance with the terms and conditions of these agreements, as follows:

- All five auxiliary contracts provided that the University could review the contractors' records. However, University personnel indicated that they had only reviewed monthly or yearly financial reports provided by the contractors and had not examined other contractor records to determine the validity of the commissions paid.
- The soft drink auxiliary vendor's contract provided for a minimum annual guaranteed commission of \$691,000, and provided for a monthly accounting of sales and moneys to the University. After the end of each agreement year the vendor is required to pay as an additional commission, if applicable, the difference between the actual commissions earned and the guaranteed commission. The University received the annual guaranteed commission and sponsorship fees as required by the agreement, however; University personnel did not document that they monitored the sales reports to determine whether the University was entitled to additional commissions. We requested but, were not provided with, the vendor's monthly sales reports for the 2010-11 fiscal year.
- The food service auxiliary vendor's contract required the vendor to pay an annual guaranteed commission based on actual sales from the food services at various locations on campus. The vendor is required to pay the annual guaranteed commission calculated from budgeted sales at the beginning of the agreement year, then at the end of the agreement year any additional commission, if applicable, is to be paid based on actual sales. The University received \$1,599,400, which was the commission calculated by the vendor for the period August 2009 through July 2010, the most recent agreement year. While the commission received by the University appears to be materially correct based on the vendor's calculation, the sales summary used in the calculation did not agree with the vendor's sales summary report and University personnel did not document that they monitored the sales reports to determine whether the University was entitled to additional commissions.

In the absence of periodic verification of contractor records and monthly accounting of sales from the contractors, the University cannot be assured that it has received all commissions to which it is entitled. A similar finding was noted in our report No. 2010-067.

Recommendation: The University should enhance its procedures for monitoring contractors' compliance by reviewing contractor records that support commissions and fees paid and maintaining documentation to evidence the reviews.

Finding No. 2: Tuition Differential Fee

Section 1009.24(16), Florida Statutes, states in part that each university board of trustees may establish a student tuition differential fee for undergraduate courses, which shall be used to promote improvements in the quality of

undergraduate education and provide financial aid to undergraduate students who exhibit financial need. Section 1009.24(16)(a), Florida Statutes, provides that 70 percent of revenues from tuition differential fees must be expended for certain specified purposes other than for student financial aid, which include increasing course offerings, improving graduation rates, increasing the percentage of undergraduate students who are taught by faculty, decreasing student-faculty ratios, providing salary increases for faculty who have a history of excellent teaching in undergraduate courses, improving the efficiency of the delivery of undergraduate education through academic advisement and counseling, and reducing the percentage of students who graduate with excess hours. This Section also provides that the tuition differential fees for undergraduate education may not be used to pay the salaries of graduate teaching assistants. This Section further provides that except as otherwise provided in Section 1009.24(16)(a), Florida Statutes, the remaining 30 percent of the revenues from tuition differential fees, or the equivalent amount of revenue from private sources, must be expended to provide financial aid to undergraduate students who exhibit financial need.

Our review disclosed that a separate fund and account was established to record tuition differential fee transactions. The University recorded \$12.4 million in collections and \$5.6 million in expenses from the tuition differential fees during the 2010-11 fiscal year. The expenses were comprised of \$2.4 million for the specific purposes other than student financial aid and \$3.2 million for student financial aid.

Our test of expenses from the tuition differential fees disclosed that \$33,506 of these fees were spent on salaries for graduate assistants that were teaching undergraduate courses, contrary to Section 1009.24(16)(a), Florida Statutes. One of the specified purposes for expending tuition differential fees is to increase the percentage of undergraduate students who are taught by faculty; however, the payment of salaries for graduate students could be contrary to this purpose as it may result in a decrease in the percentage of undergraduate students taught by faculty. In response to our inquiry, the University restored \$33,506 to the tuition differential fee account.

Recommendation: The University should establish procedures to ensure that tuition differential fees are expended in accordance with Section 1009.24(16), Florida Statutes.

Capital Assets

Finding No. 3: Works of Art and Historical Treasures

The University maintains various museums, collections of works of art, and historical treasures. The University has adopted procedures for the various museums and collections to provide for accountability and safeguarding of these assets; however, we noted improvements were needed over some of these assets. Included in the University’s Strozier Library is a special collection valued at \$47 million, which includes University archives, faculty and alumni papers, manuscripts, rare books, and business records, received mostly from donations. Records of the special collection are maintained by the Library’s separate inventory system.

The University’s policy provides that an annual inventory is required for major accountable property and the annual inventory will be scheduled and coordinated by property accounting services staff that will notify the departments of the scheduled inventory date and conduct inventory training for the departments. After the status of all major accountable property for the inventory site is documented, property accounting services will complete a property inventory reconciliation form and forward it to the department for review and signatures.

Our review of the University’s special collections at the Strozier Library disclosed that a physical inventory and reconciliation to the records had not been performed subsequent to recording the special collection in the 2001-02 fiscal year because procedures had not been implemented to provide for an inventory of the special collections.

University library personnel indicated that their policies and procedures include strictly limiting access to the collection to staff personnel and for separation of duties between staff who have access to the collections and staff responsible for maintaining the inventory records. While these controls may reduce the likelihood of missing items, these procedures do not replace the need for periodic inspection and reconciliation of collection items with the inventory records to ensure accountability for all collection assets. Failure to maintain accurate accountability over these assets increases the risk that loss, theft, or unauthorized use of property, should they occur, may not be timely detected.

Recommendation: The University should establish procedures to perform a periodic physical inventory for Strozier Library’s special collections.

Personnel and Payroll

Finding No. 4: Overtime Payments

University policy OP-C-7-E, provides that certain non-exempt employees shall receive overtime payment when approved in advance by the employee’s supervisor. The University delegates to each department the responsibility for developing procedures for documenting overtime requests and approvals and this documentation is to be maintained by the departments according to University guidelines. The University paid \$1.4 million in overtime compensation to 1,200 employees during the 2010-11 fiscal year.

Our test of 22 overtime payments for 15 employees totaling \$27,821, ranging from \$443 to \$3,338, disclosed that the University’s monitoring of overtime could be enhanced, as follows:

- Although all overtime payments tested evidenced supervisory approval after the overtime work was performed, 14 of the 22 payments, totaling \$22,998, were not preapproved, contrary to University policy.
- In addition, for 5 of the 14 overtime payments, totaling \$7,858, we noted that justification for the overtime was not documented. Justification could enhance controls for approvals of overtime.

When overtime is not effectively monitored and approved, there is an increased risk that errors, waste, or fraud may occur and not be timely detected.

Recommendation: The University should ensure compliance with its procedures to preapprove overtime. In addition, the University should enhance controls to document justification of overtime.

Expenses and Disbursements

Finding No. 5: Wireless Communication Devices

University policy OP-H-7, addresses policies and procedures for the acquisition and use of wireless communication devices (devices). This policy provides that, for cost efficiency, department business managers shall annually review billing options, considering the demonstrated need for and the most economical option for each specific user. To monitor device usage, the University requires each department to perform a review of monthly bills, including supervisory approval of the identification of business and personal related calls, and the collection of reimbursement as applicable.

The University expended \$660,000 for 850 employees’ wireless communication devices during the 2010-11 fiscal year. Our review of nine invoices for eight employee’s devices (eight departments) disclosed that the University’s procedures for monitoring usage of devices needed improvement, as follows:

- For all eight devices, although the employee’s supervisor approved the employee’s use of the wireless device, the departments did not document the specific reason for providing the employee the device or that the most economical billing option had been selected for each user. In addition, University records did not evidence that the departments had performed the annual review required by University policy.
- Evidence of supervisory review and approval of the nine monthly bills tested was not documented.
- For four of the nine monthly bills tested, the supporting documentation did not evidence whether a call was business or personal use related, contrary to University policy.
- For five monthly bills tested, the plan minutes or data and messages allowed were exceeded resulting in monthly overage charges totaling \$2,251.37, ranging from \$201 to \$1,061. One department indicated that the employee needed a data and message plan but it was not included in the original plan resulting in data overcharges totaling \$406 for the month; however the additional plan was added in a subsequent month. Another department indicated that the employee needed an international data plan during the employee’s vacation since the employee’s position required access to the University’s system at all times. The international data usages were not properly estimated resulting in an overage of \$1,061. The three remaining bills did not contain supporting documentation or explanations from the departments as to whether the overages were due to business or personal related use. Subsequently, we were provided documentation that one of the three employees had reimbursed the University for overcharges totaling \$50.05.

Failure to follow University policies related to the documented reviews of the need for wireless communication devices, and the most economical billing options, limits the University’s ability to demonstrate the reasonableness of costs incurred to provide such devices to employees. In addition, without adequate monitoring procedures the risk increases that unauthorized use or excess charges will result in costs to the University that should be reimbursed or could be eliminated.

Recommendation: The University should enhance its monitoring procedures over wireless communication devices to ensure that use is in accordance with University policies and procedures.

Construction Administration

Finding No. 6: Construction Management

Pursuant to Section 1013.45(1), Florida Statutes, a university may contract for the construction or renovation of facilities using various delivery methods, including the use of a construction manager (CM). Under the CM process, contractor profit and overhead are contractually agreed upon, and the contracted firm is responsible for all scheduling and coordination in both the design and construction phases and is generally responsible for the successful, timely, and economical completion of the construction project. CM firms may also be required to offer a guaranteed maximum price (GMP). The GMP under CM contract provisions generally include direct salary costs that also include an indirect salary cost element commonly referred to as the labor burden. Components of the labor burden typically include social security and Medicare taxes; unemployment taxes; medical insurance; workers’ compensation; and may additionally include various company paid benefits such as vacation and sick leave pay, depending on the method chosen to recover those benefits.

During the 2010-11 fiscal year the University had ten major construction and renovation projects with construction budgets totaling \$141 million. Our review of a major renovation project under a CM contract disclosed

improvements could be made in the management of the CM contract. The University entered into a CM contract in June 2008 for the Johnston Building renovation project with a project budget of \$49.2 million. During the 2010-11 fiscal year, University expenses for this project totaled \$19 million.

The United States Department of Labor, Bureau of Labor Statistics (BLS) showed that comparable labor burden rates in the construction industry for the time frame and method of benefits recovery were 31 percent. The CM contract included a GMP of \$35.4 million, which included a labor burden rate of 48.6 percent for the construction phase, or 17.6 percent above the BLS rate. While the University obtained a detailed breakdown from the CM of the components used to compute the labor burden, the University did not request or obtain documentation from the CM to support the component amounts used in calculating the CM's labor burden rate. The components of the CM's labor burden included 4.1 percent for general liability insurance, 2.6 percent for information technology support, and 2.1 percent for safety programs. While these may be valid costs associated with the project, these costs are typically not considered components of the labor burden rate and are typically included in CM overhead and profit. Failure to obtain and review CM documentation supporting the labor burden amounts limits the University's ability to determine whether the rate is fair and equitable and ensure that the rate does not include items also included in the CM overhead and profit. During the 2010-11 fiscal year the University revised the template for CM's to use in computing the labor burden rate to ensure consistency.

Recommendation: The University should ensure that the labor burden rates are reasonable in comparison to industry averages and require the CM to provide documentation to support the amounts used in the computation of the labor burden rate.

Information Technology

Finding No. 7: Security Controls – User Authentication

Security controls are intended to protect the confidentiality, integrity, and availability of data and information technology (IT) resources. Our audit disclosed certain security controls related to user authentication that needed improvement. We are not disclosing specific details of the issues in this report to avoid the possibility of compromising University data and IT resources. However, we have notified appropriate University management of the specific issues. Without adequate security controls related to user authentication, the confidentiality, integrity, and availability of data and IT resources may be compromised, increasing the risk that University data and IT resources may be subject to improper disclosure, modification, or destruction.

Recommendation: The University should improve its security controls related to user authentication to ensure the continued confidentiality, integrity, and availability of University data and IT resources.

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, the University had taken corrective actions for findings included in our report No. 2010-067.

OBJECTIVES, SCOPE, AND METHODOLOGY

The Auditor General conducts operational audits of governmental entities to provide the Legislature, Florida’s citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

We conducted this operational audit from January 2011 to July 2011 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of this operational audit were to: (1) obtain an understanding and make overall judgments as to whether University internal controls promoted and encouraged compliance with applicable laws, rules, regulations, contracts, and grant agreements; the economic and efficient operation of the University; the reliability of records and reports; and the safeguarding of assets; (2) evaluate management’s performance in these areas; and (3) determine whether the University had taken corrective actions for findings included in our report No. 2010-067. Also, pursuant to Section 11.45(7)(h), Florida Statutes, our audit may identify statutory and fiscal changes to be recommended to the Legislature.

The scope of this operational audit is described in Exhibit A. Our audit included examinations of various records and transactions (as well as events and conditions) occurring during the 2010-11 fiscal year.

Our audit methodology included obtaining an understanding of the internal controls by interviewing University personnel and, as appropriate, performing a walk-through of relevant internal controls through observation and examination of supporting documentation and records. Additional audit procedures applied to determine that internal controls were working as designed, and to determine the University’s compliance with the above-noted audit objectives, are described in Exhibit A. Specific information describing the work conducted to address the audit objectives is also included in the individual findings.

AUTHORITY

Pursuant to the provisions of Section 11.45, Florida Statutes, I have directed that this report be prepared to present the results of our operational audit.

David W. Martin, CPA
Auditor General

MANAGEMENT’S RESPONSE

Management’s response is included as Exhibit B.

EXHIBIT A
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Information technology (IT) logical access controls and user authorization.	Reviewed selected application security settings to determine whether authentication controls were configured and enforced in accordance with IT best practices.
IT access privileges and separation of duties.	Reviewed procedures for maintaining and reviewing access to IT resources. Tested selected access privileges to determine appropriateness based on the employees' job functions and responsibilities and adequacy with regard to preventing the performance of incompatible duties.
IT termination of employee access.	Reviewed procedures to prohibit former employees' access to electronic data files. Tested access privileges for former employees to determine whether their access privileges had been timely disabled.
IT policies and procedures.	Reviewed written policies and procedures to determine whether they addressed certain important IT control functions.
IT data loss prevention.	Reviewed written policies, procedures, and programs in effect governing the classification, management, and protection of sensitive and confidential information.
IT security incident response.	Reviewed written policies and procedures, plans, and forms related to security incident response and reporting.
IT risk management and assessment.	Reviewed the University's risk management and assessment processes and security controls intended to protect the confidentiality, integrity, and availability of data and IT resources.
IT environmental and security controls.	Examined environmental and security controls associated with the University's IT resources to determine whether vulnerabilities existed.
IT security program.	Examined documentation supporting the security program related to the University's network system.
IT physical and logical controls.	Examined supporting documentation related to the Data Center's physical controls. Also examined supporting documentation to determine whether authentication (logical) controls were configured and enforced in accordance with IT best practices.
Social security number requirements of Section 119.071(5)(a), Florida Statutes.	Examined supporting documentation to determine whether the University had provided individuals with a written statement of the purpose of collecting their social security numbers.
Reporting of institute and centers information as required by the Board of Governors (BOG).	Examined supporting documentation to determine whether the University had provided accurate and complete information to the BOG for selected institutes and centers.
Identity theft prevention program (Red Flags Rule).	Reviewed University policies and procedures related to its identity theft prevention program for compliance with the Federal Trade Commission's Red Flags Rule.

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Accounts receivable.	Reviewed University procedures related to the recording and collection of accounts receivable at decentralized locations.
Pharmaceutical inventories.	Reviewed pharmacy inventory items to determine whether the pharmacy's inventory records were accurate.
Works of art and historical treasures.	Reviewed controls over works of art and historical treasures to determine whether the University had established adequate safeguards to protect such assets from theft or loss.
Florida residency determination and tuition.	Tested student registrations to determine whether the University documented Florida residency and correctly assessed tuition in compliance with Sections 1009.21, 1009.24, and 1009.286(2), Florida Statutes, and Board of Governors Regulation 7.005.
Tuition differential fees.	Tested payments from tuition differential fees collected to determine whether the University assessed and used tuition differential fees in compliance with Section 1009.24(16)(a), Florida Statutes.
Student fees associated with repeated classes.	Tested students that repeated classes for compliance with Section 1009.285, Florida Statutes.
Student fees associated with distance learning fees and excess hour surcharge.	Determined whether distance learning fees and excess hour surcharges were assessed and collected as provided by Sections 1009.24(17) and 1009.286(2), Florida Statutes.
Continuing education programs.	Reviewed University policies and procedures to ensure that credit continuing education courses did not compete with, or replace, the regular on campus courses taken by degree seeking or special students.
Cash collection procedures at decentralized collection points.	Reviewed collection procedures at selected locations and tested daily cash collections to determine the effectiveness of the University's collection procedures.
Auxiliary operations contract compliance.	Reviewed procedures to determine whether the University monitored compliance with contract provisions and the collection of commissions.
Electronic payments.	Reviewed University policies and procedures related to electronic payments and tested supporting documentation to determine if selected electronic payments were properly authorized and supported.
Overtime payments.	Reviewed University policies, procedures, and supporting documentation evidencing the approval of and necessity for overtime payments.
Purchasing card transactions.	Tested transactions to determine whether purchasing cards were administered in accordance with University policies and procedures. Also, tested former employees to determine whether purchasing cards were timely cancelled upon termination of employment.

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Construction administration.	For selected major construction projects, tested payments and supporting documentation to determine compliance with University policies and procedures and provisions of law and rules. Also, for construction management contracts, determined whether the University monitored the selection process of subcontractors by the construction manager.
Use of bond reserve funds.	Reviewed compliance with bond reserve requirements regarding the use of bond reserve funds.
Wireless communication devices.	Reviewed policies and procedures to determine whether the University limited the use of, and documented the level of service for, wireless communication devices.

EXHIBIT B
MANAGEMENT'S RESPONSE

FLORIDA STATE UNIVERSITY | OFFICE of the PRESIDENT



December 15, 2011

Mr. David W. Martin, CPA
Auditor General
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450

Dear Mr. Martin:

The Florida State University's response to your preliminary and tentative findings and recommendations, for the Operational Audit of The Florida State University for the fiscal year ended June 30, 2011, is attached.

We continue to appreciate your audits, as they assist us in our continuing efforts to improve our operations. If you have any questions about the responses, please contact Ms. Martha D. Little, Chief Audit Officer, at 644-6031 or mdlittle@admin.fsu.edu. Thank you.

Sincerely,

Eric J. Barron
President

Attachment

cc: Ralph Alvarez
Dennis Bailey
Michael Barrett
Anne Blankenship
Robert Bradley
John Carnaghi
Joe Lazor
Garnett Stokes
Paul Strouts
Michael Williams

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

The Florida State University

Finding No. 1: The University did not adequately monitor compliance with auxiliary vendor contract provisions related to the collection of commissions.

Recommendation:

The University should enhance its procedures for monitoring contractors' compliance by reviewing contractor records that support commissions and fees paid and maintaining documentation to evidence the reviews.

Response:

The Office of Business Services (OBS) did not review contracted vendors' books and records:

OBS management did not request to review the contractors' books and records because management felt the reports received on commission amounts were reasonable, detailed and accurate. Further, the contracts only state that OBS may review the contractors' books and records and fall short of requiring OBS management to do so.

OBS did not document that they monitored the monthly sales reports (from the soft drink auxiliary vendor) to determine if the University was entitled to additional compensation:

The common practice has been to review the commissions earned and paid at the end of the year with the vendor and to discuss ideas as to how vending sales could be increased. Also discussed is the methodology for computing the commission and the accuracy of same. OBS is now receiving a monthly commission report, as recommended by the state auditor, that is reviewed and saved in PDF format for future reference.

Monthly sales reports (from the soft drink auxiliary vendor) for the fiscal year 2010-11 were not provided to the state auditor:

The monthly sales and commission reports were not provided to the state auditor because the vendor would not respond to requests for this information from OBS Accounting because the accounting department did not go through the OBS official contact person for this request. This communication issue has been resolved and reports are now being sent to the contact person in OBS who then scans them to a drive for viewing by Accounting. The 2010-2011 monthly statements have never been provided to OBS Accounting.

The (food service auxiliary) vendor's sales summary used to calculate commissions did not agree with the sales summary report:

Because the monthly sales reports are estimates and the annual report includes actual sales, the total of the monthly reports will not equal the annual report amount. OBS is now requesting that the food service auxiliary vendor correct the previous months' reports to reflect actual amounts that should result in agreement with the total in the annual report.

OBS did not document that they monitored the sales reports (from the food service auxiliary vendor):

Documenting of sales reports to determine accuracy of monthly commissions earned is now being done.

Responsible Person: Harvey Buchanan, Office of Business Services

Expected Implementation Date: Corrective actions of monitoring monthly commission reports and monthly sales reports have already begun.

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

The Florida State University

Finding No. 2: The University expended revenues from tuition differential fees for graduate teaching assistants' salaries, contrary to Section 1009.24, Florida Statutes

Recommendation:

The University should establish procedures to ensure that tuition differential fees are expended in accordance with Section 1009.24(16), Florida Statutes.

Response:

The tuition differential fees previously spent on graduate assistants have been restored. A memorandum (attached) was sent to all units who receive tuition differential allocations emphasizing how the funds are to be spent, and spending will be monitored to ensure that it is in accordance with Section 1009.24(16), Florida Statutes.

Responsible Person: Garnett Stokes, Office of the Provost

Expected Implementation Date: Funds incorrectly expended have been restored and a memorandum clarifying spending guidelines has been sent.

EXHIBIT B (CONTINUED)
 MANAGEMENT'S RESPONSE



THE FLORIDA STATE UNIVERSITY
 BUDGET OFFICE

July 20, 2011

MEMORANDUM

TO: Vice President Mary Coburn Dean Frank Patterson
 Dean Joseph Travis Dean Don Gibson
 Dean Caryn Beck-Dudley Interim Dean Dianne Speake
 Dean Larry Dennis Dean Ken Shaw
 Dean Thomas Blomberg Dean David Rasmussen
 Dean Marcy Driscoll Dean Nicholas Mazza
 Interim Dean John Collier Dean Karen Laughlin
 Dean Billie Collier Dean Sallie McRorie

FROM: Michael Lake, Budget Director *M. Lake*

SUBJECT: Tuition Differential Allocations

Florida State University established its undergraduate tuition differential in 2008-09. Spending guidelines for tuition differential funds (including tuition differential carryforward) are not the same as spending guidelines for other E&G funds. For units with tuition differential allocations, the below information should be provided to all appropriate administrative staff members.

Per Florida Statute 1009.24, "the revenues from the tuition differential shall be expended for purposes of undergraduate education. Such expenditures may include, but are not limited to, increasing course offerings, improving graduation rates, increasing the percentage of undergraduate students who are taught by faculty, decreasing student-faculty ratios, providing salary increases for faculty who have a history of excellent teaching in undergraduate courses, improving the efficiency of the delivery of undergraduate education through academic advisement and counseling, and reducing the percentage of students who graduate with excess hours. This expenditure for undergraduate education may not be used to pay the salaries of graduate teaching assistants."

Tuition differential funds are allocated by the Office of the Provost. Questions regarding specific allocations or expenditures (including their compliance with statutory spending constraints) should be directed to the Office of the Provost.

While financial activity related to tuition differential is recorded on unique funds in OMNI (funds 121 and 126), effective 7/1/2011, budgetary practices for tuition differential mimic those of other E&G funds. At the end of a fiscal year, unspent budget rolls forward to carryforward. Under current University practices, departments keep unspent faculty salary (excluding fringes), OPS, expense, and OCO. Unspent staff salary (including fringes) and unspent faculty fringes are swept to the University's Central Reserve. Questions regarding budgetary practices should be directed to the Budget Office.

CC: Ralph Alvarez Katie Martindale
 Anne Blankenship Beverly Miller
 Robert Bradley Michael Williams

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

The Florida State University

Finding No. 3: The University needed to improve controls over safeguarding of works of art and historical treasures.

Recommendation:

The University should establish procedures to perform a periodic physical inventory for Strozier Library's special collections.

Response:

Although a typical inventory is not performed, the Special Collections department has policies and procedures to help ensure security of these resources. In addition to restricted access, a security and alarm system, library staff performs shelf-readings, which is verification of existence of these items. Library management will work with the Controller's Office to confirm that procedures for the Special Collections are in compliance with the university's Property Policy.

Responsible Person: Katie McCormick, Library Special Collections and Archives

Expected Implementation Date: June 30, 2012

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

The Florida State University

Finding No. 4: The University needed to enhance its monitoring of overtime payments.

Recommendation:

The University should ensure compliance with its procedures to preapprove overtime. In addition, the University should enhance controls to document justification of overtime.

Response:

In the audit conducted last spring, concerns were expressed about overtime payments, specifically about employees not receiving PRIOR approval from departments/supervisors BEFORE overtime hours were worked. There was concern that departments were not getting prior approval for overtime occurrences or that the prior approval was not being documented in writing on the timesheet. Time entry and overtime payments for several departments, including Public Safety and Athletics, were reviewed as well as other types of employees including various custodial, maintenance, groundskeeper and facility supervisors, parking, network technicians and customer service jobs. The policy for USPS Exempt Employees reads:

D. USPS Exempt Employees

A USPS exempt employee is one who occupies a position where duties and functions are primarily of an executive, professional or administrative nature. An employee in this category shall receive payment or compensatory leave at the straight-time rate on an hour for hour basis for time worked beyond 40 hours in a workweek when approved in advance by the employee's supervisor.

As the audit report states: "Although all overtime payments tested evidenced supervisory approval after the overtime work was performed, 14...were not preapproved, contrary to University policy." The overtime always had supervisory approval. However, in some instances where overtime occurred, approval was not granted in writing prior to the work being done. In real time, it is not always practical to get approval in advance. Therefore, we recommend rewording of the policy to say "when approved in advance by the employee's supervisor or as soon as practical after the work has been completed before the employee is paid."

Additionally, concerns were expressed about the justification for the overtime and that the timesheet entries should outline the specific justification for the overtime any time it occurred. Time and Labor will work with departments and supervisors to make the justification and documentation process for overtime more clear in order to alleviate this concern and clear this audit finding.

Responsible Person: Joyce Ingram, Office of Human Resources

Expected Implementation Date: April 30, 2012

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

The Florida State University

Finding No. 5: Improvements were needed in the University's monitoring of wireless communication device usage.

Recommendation:

The University should enhance its monitoring procedures over wireless communication devices to ensure that use is in accordance with University policies and procedures.

Response: University Policy OP-H-7 is being revised to address these preliminary and tentative findings. The revised policy will provide for and establish that the respective unit Dean, Director or Department Head (DDDH) or designee will be responsible for determining the need for a university-owned cell phone for official business use by documenting and certifying that:

- a cell phone and/or associated services device is required to perform the duties and responsibilities of a position and is documented in the position description or ePAF.
- the service level and funding source for cell phone and/or associated services is appropriate.

The revised policy will also provide updated university guidelines and compliance certification requirements as follows:

➤ University Guidelines.

For cellular services that include packaged minutes as follows:

- a. If limited personal usage does not cause the packaged minutes to be exceeded, no personal re-imbursment is necessary. It is not allowable for a department to consistently allow personal usage to force the use of a higher cost packaged minutes plan.
- b. If limited personal usage causes the packaged minutes to be exceeded, then personal usage is assessed at the rate of the excess minute rate. This reimbursement will be applied to the amount of personal use to offset excess usage minutes.
- c. Reimbursement to the University for qualifying personal usage is accomplished by the employee submitting a check payable to the Florida State University.

For collection and handling: Departments must collect and handle these payments in accordance with the University OP-D-2-B Cash Management policy at <http://policies.vpfa.fsu.edu/controller/2c-1.html>

➤ Compliance Certification.

Departments are required to maintain monthly documentation certifying reasonable use in accordance with the stated business purpose. Departments are to retain this certification and documentation for external compliance reviews and audits.

Responsible Person: Michael Barrett, Information Technology Services

Expected Implementation Date: February 27, 2012

**EXHIBIT B (CONTINUED)
MANAGEMENT’S RESPONSE**

The Florida State University

Finding No. 6: The University did not review the Construction Manager’s documentation for the labor burden rates to determine whether the rates were reasonable in comparison to industry averages.

Recommendation:

The University should ensure that the labor burden rates are reasonable in comparison to industry averages and require the CM to provide documentation to support the amounts used in the computations of the labor burden rate.

Response:

The audit report compares the labor burden for the Johnston Building renovation project to the US Department of Labor, Bureau of Labor Statistics national average for a labor burden rate. The BLS published rate is 31% and the Johnston rate was 48.6%. A comparison of the burden elements included in the BLS to the like components of the Peter Brown rate yields a 6.6% difference. The difference can be explained by the holiday/vacation time multiplier. The BLS vacation multiplier would provide 5-1/2 days of paid vacation and 3-1/2 days of paid holidays per year, while the Peter Brown rate provides 18 days of paid vacation and 7-1/2 days of paid holidays per year. The BLS rate is an average for all construction workers (including laborers), while the Peter Brown rate is only for the management team, who would get a higher benefit package than a typical laborer.

	BLS Rate (%)	Peter Brown (%)
Paid leave		
Vacation	2.1	7
Holiday	1.3	2.9
Sick	.3	3.4
Personal	.1	0
Supplemental pay	3.1	0
Insurance		
Life & disability	.5	.4
Health	7.1	9.1
Retirement & savings	5.4	.8
Legally req’d benefits		
SS/Medicare	5.7	8.8
Federal/state unemp.	1.2	.7
Workers comp	<u>4.2</u>	<u>4.5</u>
TOTAL	31.0	37.6

In addition to the above listed labor burden items, the Peter Brown rate included general liability, IT support, safety program, training expenses, and inflation. Even if not included in the labor burden calculation, FSU would still pay for these items as a direct project cost. So, while the report implies that an overpayment was made, the reality is that the actual difference would have been negligible. This GMP agreement was negotiated in June 2008, and since that time Facilities Design & Construction has developed a template spread sheet for use by all contractors in reporting their labor costs. As the audit report briefly mentions, this tool has defined each element to be included in the labor burden, and has allowed staff to review and compare these amounts with much greater consistency.

The template described above, which was provided to the auditors, has greatly simplified the review of the labor burden rate, allowing the university to determine that the rates are reasonable. Additionally, the new template procedure requires the construction manager to provide a CPA certified multiplier rate annually for each individual.

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

Responsible Person: Dennis Bailey, Facilities

Expected Implementation Date: The template for CM's to use in computing the labor burden rate was revised during the 2010-11 fiscal year to facilitate review and assessment of the labor burden rates.

The Florida State University

Finding No. 7: The University's security controls related to user authentication needed improvement.

Recommendation:

The University should improve its security controls related to user authentication to ensure the continued confidentiality, integrity, and availability of University data and IT resources.

Response:

Changes are being made as considered necessary to address the finding.

Responsible Person: Michael Barrett, Information Technology Services

Expected Implementation Date: March 1, 2012

