

# FLORIDA AGRICULTURAL AND MECHANICAL UNIVERSITY

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## Operational Audit



## BOARD OF TRUSTEES AND PRESIDENT

Members of the Board of Trustees and President who served during the 2011-12 fiscal year are listed below:

Dr. Solomon L. Badger, III, Chair from 8-05-11  
Dr. Spurgeon W. McWilliams, Vice Chair from 2-11-12  
William "Bill" Jennings, Chair to 8-04-11  
Richard A. Dent, III, Vice Chair to 2-10-12 (1)  
Torey L. Alston  
Dr. Maurice Holder to 8-08-11 (2)  
Dr. Charles M. Langston  
Kelvin L. Lawson  
Breyon Love to 4-30-12 (3)  
Rufus N. Montgomery, Jr.  
Dr. Narayan Persaud from 8-09-11 (2)  
Belinda Reed Shannon  
Marjorie R. Turnbull  
Cleve Warren from 6-22-12  
Marissa A. West from 5-01-12 (3)  
Karl E. White

Dr. James H. Ammons, President

Notes: (1) Board member resigned on February 10, 2012,  
and the position remained vacant to June 21, 2012.  
(2) Faculty senate chair.  
(3) Student body president.

The audit was coordinated by Karen L. Revell, CPA. For the information technology portion of this audit, the audit team leader was Earl Butler, CISA, and the supervisor was Heidi G. 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](mailto:jimstultz@aud.state.fl.us) or by telephone at (850) 922-2263.

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**FLORIDA AGRICULTURAL AND MECHANICAL UNIVERSITY**

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**SUMMARY**

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Our operational audit disclosed the following:

ADMINISTRATIVE MANAGEMENT AND BOARD POLICIES

Finding No. 1: The Board needed to enhance its written policies and procedures relating to electronic funds transfers.

Finding No. 2: The University's Division of Audit and Compliance, contrary to its charter and professional standards, did not provide for a required quality assurance review.

Finding No. 3: The University needed to improve its procedures to ensure that timely public notice is made for Board and committee meetings and that written minutes of all meetings subject to the provisions of the Sunshine Law are prepared and made available for public inspection.

Finding No. 4: The University needed to enhance its textbook affordability monitoring procedures to ensure that textbooks are timely posted on its Web site in accordance with Florida law.

Finding No. 5: The University needed to improve its identity theft prevention program to ensure compliance with the Fair and Accurate Credit Transactions Act of 2003.

CASH MANAGEMENT

Finding No. 6: The University did not timely amend its bank agreement for changes in personnel.

INVENTORY

Finding No. 7: Records and control procedures related to pharmaceutical inventory needed improvement.

INTERCOLLEGIATE ATHLETIC PROGRAMS

Finding No. 8: The University's intercollegiate athletic programs have experienced cash deficits for several years. Although University personnel prepared a Five-Year Deficit Reduction Plan to eliminate the operating deficits, the Plan did not adequately address eliminating the cash deficit or improving the financial position of the intercollegiate athletic programs auxiliary enterprise fund.

STUDENT TUITION AND FEES

Finding No. 9: The University needed to enhance its procedures for classifying students as Florida residents for tuition purposes.

Finding No. 10: The University needed to enhance its procedures to ensure that tuition differential fees are used in accordance with Florida law, and to ensure that tuition differential fee information reported to the Board of Governors (BOG) is accurate and adequately supported. Also, our tests disclosed payments totaling \$46,705 to five employees from tuition differential fees for which University records did not evidence that these employees were entitled to these salary payments.

EMPLOYEE COMPENSATION

Finding No. 11: The University's controls related to payroll processing needed improvement.

Finding No. 12: The former President's employment agreement included a severance pay provision that was contrary to Section 215.425, Florida Statutes.

EXPENSES AND DISBURSEMENTS

Finding No. 13: The University needed to enhance controls over employee travel reimbursements.

Finding No. 14: The University needed to improve controls over its purchasing card program.

**PROCUREMENT OF GOODS AND SERVICES**

**Finding No. 15:** The University needed to enhance controls over consultant payments.

**Finding No. 16:** The University needed to enhance procedures over monitoring the award and use of Targeted Student Assistance funds.

**CONSTRUCTION ADMINISTRATION**

**Finding No. 17:** The University needed to establish procedures to ensure funding is approved prior to entering into agreements for design-build services and the design-build firm selection process is adequately documented.

**Finding No. 18:** The University needed to improve its procedures for negotiating and documenting construction-related fees and guaranteed maximum price for construction projects.

**Finding No. 19:** The University's procedures for documenting the monitoring of the subcontractor selection process for construction projects needed improvement.

**Finding No. 20:** The University needed to enhance its procedures for verifying subcontractors' licensure status.

**Finding No. 21:** The University needed to enhance its procedures for monitoring construction payment requests.

**Finding No. 22:** The University needed to implement a policy establishing minimum professional liability insurance requirements for design professionals, and establish monitoring procedures to ensure that construction contractors and architects are properly insured.

**INFORMATION TECHNOLOGY**

**Finding No. 23:** Some inappropriate or unnecessary information technology (IT) access privileges existed, indicating a need for an improved review of access privileges.

**Finding No. 24:** University IT security controls related to user authentication and data loss prevention needed improvement.

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**BACKGROUND**

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The Florida Agricultural and Mechanical 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, 2012, 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, 2012, will be presented in a separate report.

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**FINDINGS AND RECOMMENDATIONS**

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**Administrative Management and Board Policies**

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**Finding No. 1: Electronic Funds Transfers**

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Section 1010.11, Florida Statutes, requires that each university board of trustees adopt written policies prescribing the accounting and control procedures under which funds are allowed to be moved by electronic transaction for any purpose including direct deposit, wire transfer, withdrawal, investment, or payment. This law also requires that electronic transactions comply with the provisions of Chapter 668, Florida Statutes, which discusses the use of electronic signatures in electronic transactions between the universities and other entities.

According to University records, \$19 million of electronic funds transfers were made during the 2011-12 fiscal year. Board policy 2005-04 provides that the President shall be responsible for developing a plan with necessary controls and standards to ensure appropriate accountability of electronic transfers. However, the Board policy does not address the accounting and control procedures related to electronic funds transfers or the use of electronic signatures, contrary to the above-cited laws. While the University had established controls over electronic funds transfers, the lack of specific guidance in the form of written policies and procedures approved by the Board increases the risk that electronic transactions will not be executed in accordance with Board directives and the provisions of Chapter 668, Florida Statutes.

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**Recommendation:** The Board should enhance its policy to address accounting and control procedures related to electronic funds transfers.

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**Finding No. 2: Internal Audit Function**

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An internal audit function can provide assurance that management and internal controls are adequately designed and functioning effectively, and can ensure compliance with Board-approved policies and procedures, as well as with State and Federal laws, regulations, and guidelines. The University's Division of Audit and Compliance (DAC) maintains an institution-wide compliance and audit function. The Board established DAC's Charter, which sets forth its duties and responsibilities. The Charter requires that audit and compliance activities be performed in accordance with *International Standards for the Professional Practice of Internal Auditing (Standards)* published by the Institute of Internal Auditors (IIA), and *Government Auditing Standards (GAS)* issued by the Comptroller General of the United States.

IIA *Standards* require the Chief Audit Executive to establish and maintain a quality assurance and improvement program to provide management with reasonable assurance that the internal audit activity operates in conformity with applicable auditing standards. According to the *Standards*, a quality assurance and improvement program should include ongoing monitoring of the performance of internal audit activity, as well as periodic reviews performed through self-assessment, and an external assessment review, at least once every five years, by a qualified independent reviewer from outside the organization to determine the adequacy of the quality assurance and improvement program. Similarly, *GAS* requires that organizations performing audits in accordance with *GAS* establish and maintain a system of quality control that is designed to provide reasonable assurance of conformity with applicable professional standards, and undergo an external peer review at least once every three years. Our review disclosed that the last external quality assurance review, or peer review, of DAC was for the 2000-01 fiscal year; therefore, as of August 2012, DAC had not undergone the external quality assessment review required by *GAS* and IIA *Standards*.

On August 2, 2011, the Board contracted with a law firm to conduct an investigation of DAC to address complaints alleging systemic misconduct on the part of DAC primarily concerning its internal audit function and related reports. The investigation concluded that DAC did not have a quality assurance and improvement plan in place, and final audit reports had not been prepared for 15 audits previously submitted to the BOT in the form of executive summaries. The investigation also indicated that DAC failed to conduct adequate risk assessments on which to plan its internal audit activities. In response to our inquiry, University personnel stated that to address deficiencies disclosed during the investigation, the University engaged a certified public accountant (CPA) firm to conduct a university-wide risk assessment. Using this risk assessment, DAC developed an audit plan for the 2012-13 fiscal year and is making plans for an external quality assessment review by September 2013. In addition, based on the risk assessment and the results of the law firm's investigation, the University determined that 8 of the 15 internal audits for which formal written reports had not been prepared should be re-performed. On April 12, 2012, the University engaged an independent CPA firm to re-perform the 8 internal audits.

Without an adequate quality assurance review process for its internal audit function, the University cannot have reasonable assurance that the internal audit function operates in conformity with applicable auditing standards or in accordance with the Board's directives.

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**Recommendation:** The Board should continue its efforts to correct deficiencies in its internal audit function noted by the law firm, and ensure that DAC undergoes a timely quality assurance review in accordance with *GAS* and *IIA Standards*.

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**Finding No. 3: Board Minutes**

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Section 286.011, Florida Statutes, is commonly referred to as the Sunshine Law. Pursuant to Section 286.011, Florida Statutes, university boards of trustees meetings at which official acts are to be taken are declared to be public meetings open to the public at all times, and no resolution, rule, or formal action shall be considered binding except as taken or made at such a meeting. Furthermore, reasonable notice of such meetings must be provided, the minutes of such meetings must be promptly recorded, and the records generated must be open to public inspection. The *GOVERNMENT-IN-THE-SUNSHINE MANUAL* (Manual) prepared by the Office of the Attorney General indicates, in Part I, Section G.1, that reasonable notice of the meetings must be given. While the Manual does not specify the type of notice that must be given in all cases, the Attorney General's Office guidelines provide for at least seven days' notice prior to the meeting, except in the case of emergency or special meetings. Emergency meetings should be afforded the most appropriate and effective notice under the circumstances, and special meetings should have at least 24 hours reasonable notice to the public.

As indicated by Attorney General Opinion 75-45, sound recorders may be used to record public meetings so long as written minutes of the meeting are promptly recorded for public inspection. Where officials have violated section 286.011, F.S., the official action is regarded as though it never occurred as noted in *Town of Palm Beach v. Gradison*, 296 So.2d 473, 477 (Fla.1974). The Sunshine Law extends to any gathering, whether formal or casual, of two or more members of the same board or commission to discuss some matter on which a foreseeable action may be taken by the public board or commission as noted in *Hough v. Stembridge*, 278 So. 2d 288 (Fla. 3d DCA 1973). This includes informal discussions, deliberations, and workshops as noted in Attorney General Opinion 2009-56. Board Operating Procedure No. 5.10, states that the President or the President's designee is responsible for recording the minutes of any Board or Committee meeting, including a record of all votes cast, and promptly transmitting a copy of the minutes to each Trustee or Committee Member and to other parties deemed appropriate.

During the 2011-12 fiscal year, the University conducted 23 Board meetings and 6 committee meetings. Our test of the minutes for these 29 meetings disclosed that, as of August 31, 2012, minutes had not been made available for 14 of the 29 meetings (2 special Board meetings, 2 Board retreat meetings, 7 regular Board meetings, and 3 committee meetings). These meetings took place between August 31, 2011, and June 27, 2012. In response to our inquiry, University personnel indicated that the untimely preparation and recording of meeting minutes were due to staffing shortages. Subsequent to our initial inquiry, on September 3, 2012, minutes for 3 of the 7 regular Board meetings were provided, and on September 17, 2012, minutes for the remaining meetings were provided, except for the committee meeting held on August 31, 2011, and the regular Board meeting held on September 19, 2011. When minutes of BOT meetings are not timely prepared and made available, public access to official actions taken at such meetings may be limited.

Our test of the public notices provided for these 29 meetings disclosed that seven days reasonable notice was not given to the public for 2 Board retreat meetings, 11 regular Board meetings, 1 special Board meeting, and 4 committee meetings. Public notice of these meetings ranged from the day of the meeting to six days prior to the meeting. In addition, we noted that public notice was not provided for the special Board meeting related to the informal presidential evaluation meeting. Our review of the purpose and the character of events to be discussed at these meetings would indicate that reasonable notice, as provided in the Manual, could have been made. For example, regular Board meetings are planned a year in advance; however, our tests disclosed that the public notices for the 11 regular meetings were made from the day of the meeting to 5 days prior to the meeting. When reasonable notice is not given to the public, there is an increased risk that the public may not have the opportunity to attend and be informed about University business or present their views.

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**Recommendation:** The University should ensure reasonable public notice of each Board or committee meeting, and ensure that written minutes of all meetings subject to the provisions of the Sunshine Law are prepared and made available to the public in accordance with Florida law.

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**Finding No. 4: Textbook Affordability**

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Section 1004.085(3), Florida Statutes, requires that universities post on their Web sites, as early as is feasible, but not less than 30 days prior to the first day of class for each term, a list of each textbook required for each course offered at the institution during the upcoming term. Additionally, Board of Governors (BOG) Regulation No. 8.003, *Textbook Adoption*, provides that each university board of trustees adopt a regulation that establishes textbook adoption procedures to minimize the costs of textbooks for students and document the intent of the course instructors to use all items ordered, including the extent to which a new edition differs significantly and substantively from earlier versions and the value of changing to a new edition. The posted list must include the International Standard Book Number (ISBN) for each required textbook or other identifying information, which must include, at a minimum, all of the following: the title, all authors listed, publishers, edition number, copyright date, published date, and other relevant information necessary to identify the specific textbook or textbooks required for each course.

The University had established the BOG required textbook adoption regulation and procedures; however, the University did not have monitoring procedures in place to ensure the posting of textbook lists 30 days before the first day of class. The University contracted with a vendor to manage and operate the University bookstore, as well as compile and post lists of adopted textbooks on the University's Web site. According to University personnel, the textbooks were supposed to be published on the University's Web site within 24 hours after the adopted textbooks were recorded in the vendor's system. Our review disclosed that the University adopted 2,965 textbooks for the Fall

2011 term and 2,573 textbooks for the Spring 2012 term, which included the required ISBN or other identifying information. However, information for 772 textbooks for the Fall 2011 term and 1,226 textbooks for the Spring 2012 term was not posted on the University's Web site at least 30 days prior to the first day of class for each term, contrary to State law. For example, information for textbooks was not posted to the Web site until after the first day of class for 215 of the 772 textbooks posted late for the Fall term and for 326 of the 1,226 textbooks posted late for the Spring 2012 term. Timely posting of textbook information is necessary to improve textbook affordability for students.

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**Recommendation:** The University should enhance its monitoring procedures to ensure that textbooks are timely posted on its Web site in accordance with State law.

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### **Finding No. 5: Identity Theft Prevention Program**

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In response to increasingly pervasive risks associated with the custodianship of sensitive information, Section 114 of the Fair and Accurate Credit Transactions Act of 2003 (Act) expanded on the Federal Trade Commission's (FTC) Fair Credit Reporting Act of 1970 to provide clear guidance to businesses and other organizations that process certain personal information that places them at high risk for identity theft. The Act was implemented by the Red Flags Rule (Rule), which went into effect November 1, 2008, and enforcement of the Rule began on January 1, 2011. The Rule requires financial institutions and creditors that hold consumer accounts designed to permit multiple payments or transactions or any other account for which there is a reasonable foreseeable risk of identity theft to develop and implement an identity theft prevention program (Program) for new and existing covered accounts. The Rule requires the Board to approve the initial written Program. The Program should be designed to detect, prevent, and mitigate identity theft through identification of warning signs, or "red flags," in day-to-day operations. Additionally, the Rule requires that the University train staff, as necessary, to effectively implement the Program. The Program must be appropriate for the University's size and complexity and the nature and scope of its operations and must contain reasonable policies and procedures to: (1) identify relevant patterns, practices, and specific forms of activity, the red flags, that signal possible identity theft for the covered accounts; (2) detect red flags; (3) respond appropriately to any red flags detected to prevent and mitigate identity theft; and (4) ensure the Program is updated periodically to reflect changes in risks for identity theft.

As a result of its student lending activities, the University meets the definition of a creditor as defined by the FTC and, as such, must comply with the Rule. The University developed a written identity theft prevention program (University Program) that was effective May 1, 2009. Our review disclosed that the implementation of the University Program needed enhancements, as follows:

- Training required by the Rule had not been provided to employees who had access to accounts or personally identifiable information that may constitute a risk to the University or its students.
- The University contracts with company (third-party service provider) to administer its student loans program. The University Program requires that a contract with its third-party service provider include a contract provision that the third-party service provider report any red flag indicators of potential identity theft noted to the University; however, no such requirement was included in the contract with the third-party service provider.
- The University Program requires that University personnel report red flag indicators of potential identity theft to the University's Program Administrator and, at least annually, a report be submitted to the Program Administrator by University personnel responsible for the development, implementation, and administration of the University Program. This report is required to address the effectiveness of the University Program and

any recommended changes. University records did not evidence that such reports were provided to the Program Administrator during the 2011-12 fiscal year.

In these circumstances, the University or its students could be at an increased risk of identity theft due to the sensitive nature of information that is obtained, held, and processed through the University’s student lending activities. In addition, noncompliance with the Rule could result in monetary penalties from the FTC.

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**Recommendation:** The University should provide training to its employees as required by the Red Flags Rule. In addition, the University should ensure red flag indicators of potential identity theft are reported as required by its identity theft prevention program.

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<b>Cash Management</b>
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**Finding No. 6: Bank Agreement**

Section 1011.42, Florida Statutes, indicates that the establishment of university bank accounts must be approved by each university board of trustees, which shall specifically designate university employees authorized to sign checks to pay legal University obligations.

The Board designated a bank to maintain all University bank accounts. The agreement with this bank provided that employees listed on the bank agreement have the authority to open any type of bank account in the University’s name and sign checks or other financial instruments, or delegate these authorities to other University employees. The agreement also provided that employees listed on the bank agreement will have such authority until the bank is expressly notified in writing that such authority is terminated.

As of the time of our review in July 2012, the University had not amended its bank agreement to remove an employee whose duties changed and, as a result, no longer needed authorization to open new bank accounts or sign checks. According to University personnel records, the employee’s position, previously in treasury operations, ended in June 2008, and the employee transferred to a new position in the Continuing Education Department in August 2008. Subsequent to our inquiry, we were provided a revised bank agreement documenting the removal of this employee from the bank agreement.

Although we did not note any instance of unauthorized bank activities related to this employee, when banking agreements are not timely updated for personnel changes there is an increased risk that unauthorized bank accounts could be established or unauthorized transactions made without timely detection.

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**Recommendation:** The University should enhance its controls over banking agreements to timely update employees authorized to administer bank transactions.

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<b>Inventory</b>
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**Finding No. 7: Pharmaceutical Inventory**

In addition to the pharmacy located on its main campus, the University operated two off-campus pharmacies that served the local community through the Leon County Health Department’s Southside Clinic and through the City of Tallahassee’s Lincoln Neighborhood Service Center. Pharmaceutical inventory reported at June 30, 2012, for these pharmacies totaled \$6,375 and \$18,862, respectively. As similarly noted in our report No. 2011-029, records and control procedures related to off-campus pharmaceutical inventory needed improvement, as follows:

- Although the pharmacies had established formal written procedures over pharmacy operations, there existed an inadequate separation of duties. The Pharmacy Managers for the two off-campus locations had access to the pharmaceutical inventory, ordered and received pharmaceutical inventory, and updated the perpetual inventory records. Absent compensating controls, these incompatible duties (access to assets and records) increase the risk that loss, theft, or unauthorized use, should they occur, may not be detected in a timely manner, if at all.
- We were informed that year-end physical inventory counts were performed at both of these off-campus locations during July 2012 by College of Pharmacy personnel outside of the pharmacy operations; however, the date of the physical counts and the written signatures of the individuals attesting to the existence of the items and the accuracy of the data were not included on the physical inventory records. In addition, documentation was not maintained evidencing that comparisons of the results of the physical inventories to the perpetual inventory records were made, at the time of physical counts, and any differences investigated and resolved. Effective controls over pharmaceutical inventories require regular independent comparisons of quantities on hand to the perpetual inventory records, and differences promptly investigated and resolved.
- Our test counts of 38 pharmaceutical items, on August 10, and 14, 2012, disclosed that for 12 of the pharmaceutical items the actual amount-on-hand did not agree with the amount recorded in the perpetual inventory records at both off-campus locations. The differences noted in Table 1 below ranged from 40 over to 170 under, none of which were controlled pharmaceuticals. These differences indicated that the University’s inventory controls were not effective in providing adequate accountability for pharmaceutical inventories. Failure to maintain accurate accountability for pharmaceutical inventory increases the risk that loss, theft, or unauthorized use, should they occur, may not be detected in a timely manner, if at all.

Table 1

Item No.	Quantity Per Records	Quantity Per Physical	Overage (Shortage)
<b>Southside Clinic</b>			
2	100	0	(100)
6	610	527	(83)
10	45	0	(45)
12	57	157	100
<b>Lincoln Neighborhood Service Center</b>			
2	170	0	(170)
7	20	9	(11)
8	1,000	900	(100)
11	592	615	23
12	30	0	(30)
13	170	0	(170)
15	100	0	(100)
20	165	205	40

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**Recommendation:** The University should enhance its policies and procedures related to pharmacy operations to ensure that incompatible duties are properly separated or that compensating controls are implemented, such as periodic independent verification of purchases and issuances of pharmaceuticals. Procedures should also provide that any differences between perpetual inventory records and actual inventory on hand be timely investigated, resolved, and adequately documented by personnel independent of pharmacy operations.

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**Intercollegiate Athletic Programs**

**Finding No. 8: Financial Deficits**

BOG’s *Financial Accounting and Reporting Manual for Higher Education* provides accounting guidance for intercollegiate athletic programs that allows universities to account for these programs as a part of its auxiliary enterprises, but only if the program is essentially self-supporting. Auxiliary enterprises are operated by the University or contracted to vendors to provide goods and services to faculty, staff, students, and others. Auxiliary enterprises include, but are not limited to, bookstore, food service, housing, facilities, and intercollegiate athletic activities. BOG Regulation 9.013, *Auxiliary Operations*, provides that each university may determine whether its auxiliary services will be self-supporting on an individual or collective basis, except for intercollegiate athletics, which must be a self-supporting entity. The University has elected to account for its intercollegiate athletic programs in a separate auxiliary enterprise fund.

Our review of the financial results of the University’s auxiliary enterprises disclosed that its intercollegiate athletic programs operations did not produce sufficient cash balances to be self-sustaining and resulted in a significant decline of the financial position of its intercollegiate athletic programs reported in its auxiliary enterprise fund. The University’s intercollegiate athletic programs reported deficit cash balances, beginning with the fiscal year ended June 30, 2008, which increased each subsequent fiscal year as shown in the following table:

**Table 2  
Auxiliary Enterprise Fund  
Intercollegiate Athletic Programs  
Cash Accounts**

Fiscal Year Ended June 30	Total Cash Balance All Cash Accounts
2008	\$(3,971,621)
2009	(4,180,183)
2010	(5,169,605)
2011	(5,975,874)
2012	(7,014,034)

The deficit cash balances above do not represent actual deficits in the University’s bank accounts at fiscal year-end, but represent deficit cash balances of the University’s intercollegiate athletic programs auxiliary enterprise requiring the use of cash resources of other auxiliary enterprises to finance expenses of the intercollegiate athletic programs.

In response to our inquiry, University personnel indicated the deficit cash balance began to increase when the University made changes to its football program, which included commitments to play games outside of its conference. Additionally, because of football game commitments, and the University’s participation at the Division IA level, expenses for the various athletic programs increased overall, especially for travel and scholarships. Further, University personnel indicated that increases in student tuition and other fees contributed to increases in the cost of providing athletic scholarships. Although expenses continued to increase over this period, there was no appreciable increase in revenues generated by the University’s intercollegiate athletic programs to finance the increase in expenses.

In response to the continuing decline in the financial position of its intercollegiate athletic programs, University Athletic Department personnel presented a Five-Year Deficit Reduction Plan (Plan), covering the period of July 2012 through June 2017, to the Board at its July 11, 2012, meeting; however, the Plan did not adequately address eliminating the cash deficit or improving the financial position of the intercollegiate athletic programs auxiliary

enterprise fund. For example, the Plan showed a total projected cash deficit of approximately \$8.3 million at June 30, 2017, compared to an approximately \$7 million cash deficit at June 30, 2012, which represented an increase in the deficit over the next five years. According to the Plan, expenses are projected to exceed revenues by approximately \$1.3 million during the 2012-13 fiscal year, which is consistent with the deficit spending in the 2011-12 fiscal year, and also consistent with the projected revenues and expenses as approved by the Board in its operating budget for the 2012-13 fiscal year. In addition, the Plan shows projected annual operating expenses totaling approximately \$10 million each year over the next five years, and the Plan is dependent on new revenue contributions from the University’s Booster Club and Foundation totaling \$797,000 and \$3.5 million, respectively, over the next five years. In response to our inquiry, University personnel indicated they will continue to monitor operating expenses and revenues and cost-saving measures will be implemented to the extent possible; however, the Plan did not specifically address these factors. University personnel indicated the Plan will be reviewed on an on-going basis and revised to reflect changes in actual revenues and operating expenses.

Although the intercollegiate athletic programs are part of the Board’s approved budget for auxiliary enterprises, the continued use of cash resources of other auxiliary enterprises by the intercollegiate athletic programs increases the risk that other auxiliary enterprise operations (bookstore, food service, parking, telecommunications, and student housing) may be at risk of not having resources to meet their needs as separate auxiliary enterprises. Further, if the University’s other auxiliary enterprises are unable to continue providing additional financial resources to the intercollegiate athletic programs, there is an increased risk that other University resources may be required to finance the University’s intercollegiate athletic programs.

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**Recommendation:** The Board should continue to monitor its intercollegiate athletic programs and revise its Five-Year Deficit Reduction Plan as necessary to ensure that its intercollegiate athletic programs are self-supporting.

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<b>Student Tuition and Fees</b>
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**Finding No. 9: Florida Residency Status**

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Section 1009.21, Florida Statutes, states, in part, that students shall be classified as residents or nonresidents for the purpose of assessing tuition. According to this Statute, to qualify as a resident for tuition purposes, legal residence must be established and maintained in Florida for at least 12 months immediately prior to the student’s initial enrollment in an institution of higher learning. Section 1009.21(3)(c), Florida Statutes, provides that a university shall affirmatively determine that an applicant who has been granted admission to that institution as a Florida resident meets the residency requirements of this Section at the time of initial enrollment. Additionally, this law provides that residency determination must be documented by the submission of written or electronic verification that includes two or more specified documents, including at least one of the following: a Florida voter’s registration card, a Florida driver’s license, a State of Florida identification card, a Florida vehicle registration, proof of a permanent home in Florida, proof of homestead exemption in Florida, transcripts from a Florida high school, or proof of full-time employment in Florida. This law further provides that no single piece of evidence shall be conclusive. In addition, Section 1009.21(6)(a), Florida Statutes, states, in part, for tuition purposes, a person who is classified as a nonresident may become eligible for reclassification as a resident if that person or his or her parent (if that person is a dependent child) presents clear and convincing documentation that supports permanent legal residency rather than temporary residency for the purpose of pursuing an education, such as full-time permanent employment for the prior 12 months

or the purchase of a home in Florida, and residence therein, for the prior 12 months while not enrolled in an institution of higher education.

The University collected \$95,850,514 in tuition and fees during the 2011-12 fiscal year. The University undergraduate rate for each semester hour for non-Florida residents was \$541, and for Florida residents was \$143, during the 2011-12 fiscal year. The law school tuition rate for each semester hour for non-Florida residents was \$1,034, and for Florida residents was \$392, during the 2011-12 fiscal year. Our test of 27 students classified as a Florida resident, including 19 students that were reclassified from non-Florida residents to Florida residents for tuition purposes during the 2011-12 fiscal year, disclosed that improvements were needed in documenting Florida residency for tuition purposes as follows:

- For three students, the University did not document the student's submission of the written or electronic documentation required to establish Florida residency, contrary to law, as follows:
  - For one student, although requested, no documentation evidencing Florida residency status was provided.
  - For two students, University records disclosed that the students signed a Florida Residency affidavit form certifying that they had met Florida residency requirements and completed a section of the form identifying the specific documents used to support Florida residency. However, for these students, University records did not evidence that University personnel had performed the required written or electronic verification of the documents used to support Florida residency (i.e., Florida voter's registration card, Florida driver's license, Florida vehicle registration) and dependency (i.e., copy of the student's birth certificate or parent's tax return). We obtained the original University application for these two students and based on the information provided by the students they attended high schools in Illinois and Georgia. The misclassification of these students as Florida residents for tuition purposes resulted in a loss of \$35,254 of nonresident student fee revenue to the University.
- Three students, who were residents of Caribbean countries, were assessed Florida resident tuition rates under Section 1009.21(10)(e), Florida Statutes, which provides that students from Caribbean countries who receive scholarships from the Federal or State government may be classified as residents for tuition purposes. However, University records did not evidence that these students had received the required Federal or State scholarships to qualify for a Florida resident tuition rate. The misclassification of these students as Florida residents for tuition purposes resulted in a loss of \$85,285 of nonresident student fee revenue to the University.
- The University classified one law school student as a resident for tuition purposes based on documentation that the student was a qualified beneficiary in the Florida Prepaid College Program four years prior to initial enrollment in the University's law school. According to Section 1009.98(2), Florida Statutes, each qualified beneficiary in the Florida Prepaid College Program shall be classified as a resident for tuition purposes, pursuant to Section 1009.21, Florida Statutes, regardless of his or her actual legal residence. However, University records did not evidence that this student was a qualified beneficiary in the Florida Prepaid College Program or otherwise qualified as a Florida resident for tuition purposes at the time of enrollment in the University's law school.

Absent documentation evidencing that students are qualified to be classified as Florida residents for tuition purposes, there is an increased risk that the University may not properly assess the appropriate tuition rate.

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**Recommendation:** The University should enhance its procedures to ensure that documentation is obtained to support the classification of students as Florida residents for tuition purposes. Additionally, the University should ensure that students assessed Florida resident tuition rates pursuant to Section 1009.21(10)(e), Florida Statutes, received Federal or State scholarships.

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**Finding No. 10: Tuition Differential Fee**


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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.

The University recorded \$5,840,726 in collections and \$4,872,486 in expenses from the tuition differential fees for the 2011-12 fiscal year. The University established a separate fund to account for tuition differential fee transactions. The expenses were comprised of \$3,372,486 for specific purposes other than student financial aid and \$1,500,000 for student financial aid.

**Expenditures of Tuition Differential Fees**

Our tests of 16 student financial aid payments and 23 employees paid from tuition differential fees disclosed \$90,278 of improper expenditures of tuition differential fees, as follows:

- Fees totaling \$4,475 were spent on financial aid payments for two students not enrolled at the University during the 2011-12 fiscal year. University records indicated these financial aid payments were applied in October 2011 to outstanding charges for both of these students for the Fall 2009 term, the last time these students were enrolled at the University. Subsequent to our inquiry, on September 6, 2012, the University's Foundation reimbursed the tuition differential fee fund \$4,475 for these financial aid payments.
- Fees totaling \$46,705 were spent to fully fund salaries for two adjunct instructors to teach additional courses during the Fall 2011 and Spring 2012 terms (\$24,343), partially fund salaries for two adjunct instructors to teach an additional course during the Summer 2011 term and additional courses during the Fall 2011 term (\$13,500), and partially fund one associate professor to teach an additional course during the Summer 2011 term (\$8,862). However, University records did not evidence that these individuals taught any courses, or performed other activities, during the respective payment periods that would have qualified payment of their salaries from tuition differential fees pursuant to Section 1009.24(16), Florida Statutes. In response to our inquiry, University personnel indicated that the associate professor should not have been paid from tuition differential fees. University personnel also provided copies of Assignment of Responsibility forms or other documentation for three of the four adjunct instructors showing the additional courses they reportedly taught. However, our comparison of the courses listed on the documentation provided to the University's student records system disclosed that none of the listed courses were offered to students. Further, although requested, we were not provided documentation evidencing that the associate professor and four adjunct professors actually taught additional courses or performed other services for the University that entitled them to these salary payments totaling \$46,705. Absent such documentation, University records did not evidence that salaries paid to these employees were valid expenses of the University.
- Fees totaling \$39,098 were spent on salaries for three graduate assistants teaching undergraduate courses, contrary to Section 1009.24(16)(a), Florida Statutes. In response to our inquiry, University personnel agreed

that these graduate assistants should not have been paid from tuition differential fees. A similar finding was noted in our audit report No. 2011-029.

**Reporting**

In June 2012, pursuant to BOG Regulation 7.001(14), the University BOT submitted its 2012-13 annual Work Plan to the BOG, establishing an increase in the tuition differential fee from \$21.42 to \$36.38 and including required tuition differential supplemental information identifying how the revenues from tuition differential fees would be used to promote improvements in the quality of undergraduate education and to provide financial aid to undergraduate students who have financial need.

Our review of the tuition differential supplemental information included in the University’s 2012-13 Work Plan, disclosed the following:

- For the 70 percent initiatives, the University reported that it used tuition differential fee revenues during the 2011-12 fiscal year to purchase career development software, hire or retain 521 adjunct instructors, and hire or retain 4.5 advisors. In response to our inquiries, University personnel provided a list of 484 of the 521 faculty members hired or retained; however, supporting documentation for the software purchased and advisors hired or retained was not provided. Our review of University records disclosed that 484 faculty members were paid from the 70 percent initiatives, instead of the 521 reported by the University.
- For the 30 percent initiatives, the University reported that it used tuition differential fee revenues during the 2011-12 fiscal year to offer 22 sections of the First Year Experience course during the Fall term, and five sections of this course during the Spring term, to fund a freshman summer reading program; to sponsor critical thinking seminars; and to sponsor faculty and staff Webinars. In response to our inquiry, University personnel indicated that these uses of tuition differential fee revenues were incorrectly reported for the 30 percent initiatives and should have been reported with the 70 percent initiatives. Subsequent to our requests, in December 2012, supporting documentation for the costs associated with these initiatives was provided for our review.

Because the tuition differential information in the University’s annual Work Plan is used by the BOG when considering requests for increases in the tuition differential fee, and is included in the Annual Accountability Report to the Board of Governors, it is important that such information be accurate and properly supported.

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**Recommendation:** The University should establish procedures to ensure that tuition differential fees are expended in accordance with Section 1009.24(16), Florida Statutes, and that tuition differential fee information reported to the BOG in its annual Work Plan is accurate and adequately supported. Additionally, the University should restore the remaining \$85,803 of questioned uses of tuition differential fees to the tuition differential fee fund. Further, the University should document of record that the five employees whose salaries were paid from tuition differential fees provided services to the University, or seek to recover the \$46,705 paid to these employees.

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<b>Employee Compensation</b>
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**Finding No. 11: Payroll Processing**

University BOT Policy 2005-19, *University Payroll*, states that departments or work units are responsible for the prompt payment of employees through timely preparation and submission of complete, authorized appointment and payroll documents. We reviewed 194 payroll transactions, totaling \$343,145, paid to employees in adjunct faculty, student graduate assistant, temporary employment, and regular salary positions. Our review disclosed seven payroll transactions, totaling \$31,900, for salaries to student graduate assistants that were paid 17 to 117 business days late. According to University personnel, the late payments to these student graduate assistants occurred because the

University could not process payroll for work performed before the related contract information was entered into the payroll system. A similar finding was noted in our report No. 2011-029.

**Recommendation:** The University should enhance its controls to ensure that salary payments are timely processed to allow for prompt salary payments to employees.

**Finding No. 12: Severance Pay**

Section 215.425(4)(a), Florida Statutes, provides that, on or after July 1, 2011, a unit of government that enters into a contract or employment agreement, or renewal or renegotiation of an existing contract or employment agreement, that contains a provision for severance pay with an officer, agent, employee, or contractor must include certain provisions, including a requirement that severance pay provided may not exceed an amount greater than 20 weeks of compensation.

On October 27, 2011, the Board approved the first amendment to the employment agreement with the former University President. The terms of the agreement provided for a five-year employment period commencing on July 1, 2011, through June 30, 2016. This provision was contrary to Section 215.425(4)(a), Florida Statutes, in that it allowed for severance payments that exceeded 20 weeks of salary. The former President, effective July 16, 2012, resigned as President but continued employment as a faculty member. According to University management, the former President is on a one-year sabbatical under the current employment agreement and, once the sabbatical year has ended, he will receive a faculty employment agreement consistent with the appropriate faculty collective bargaining agreement as a tenured professor.

**Recommendation:** The University should follow through with entering into a faculty employment agreement with the former President and ensure that such agreement, and other future employment agreements, contain provisions for severance pay that are in accordance with Section 215.425(4)(a), Florida Statutes.

**Expenses and Disbursements**

**Finding No. 13: Travel Expenses**

Section 112.061, Florida Statutes, governs travel expenses of public agencies, including universities. University procedures require that travel vouchers be completed and submitted no later than 10 days after the last day of travel. The University reported travel expenses totaling \$4,389,044 for the 2011-12 fiscal year. Our test of 57 travel payments, totaling \$197,580, disclosed that University procedures for monitoring travel payments needed improvement, as follows:

- Fourteen travel reimbursement vouchers ranging in amounts from \$346 to \$1,960 were submitted 18 to 81 business days after the last day of travel, contrary to University procedures.
- One travel advance for \$37,947 was related to travel expenses for 417 band members and staff to attend a football game in September 2011. The actual number of band members and staff that attended was 379, and the unused funds, totaling \$10,659, were returned to the University. However, University rosters documenting the 361 band members that made this trip included 65 band members that were not enrolled at the University during the 2011 Fall term and did not meet the definition of an authorized University traveler according to the University’s Travel and Expense Procedures (Section 2.0, Definitions). These 65 individuals received \$72 for meals, and the University paid for a two-night hotel stay for these individuals at a rate of \$89 per night (four band members to a room). In addition, an extra bus was needed for these 65 individuals.

The University paid \$3,500 for each bus related to the trip, and paid for a one-night hotel stay for each bus driver at a rate of \$89 per night. In total, the University paid an additional \$11,117 in travel costs for individuals not enrolled as students of the University, contrary to the University’s Travel and Expense Procedures.

- One employee traveled to Sunnyvale, California to attend a training program for a computer application; however, we determined that comparable training could have been obtained locally. The employee, subsequent to our inquiry, received a price quote from the local location that indicated the specialized classes could be provided one-on-one at the employee’s work place for a total amount of \$2,000. The total cost of the California trip, including airfare, hotel, class registration, per diems, and incidentals was \$4,066, and was charged to the Title III – Historically Black Colleges, a University Federal program. As a result, the University paid an additional \$2,066 for this employee to attend the training in California rather than attending training available locally, which represents questioned costs to the Title III program.
- One former employee (terminated on August 28, 2012) submitted a travel voucher for \$598 for travel to Washington, DC, which was approved by the employee’s supervisor. The former employee requested reimbursement for a two-night stay in a hotel room for \$373 on the travel voucher. However, our review disclosed that the hotel stay was also charged to the former employee’s University-issued purchasing card. In addition, the former employee received \$26 in per diem for meals based on travel start and return times that did not match clock times on associated purchasing card receipts. We expanded our testing to include all travel reimbursements, totaling \$4,644, made to the former employee during the 2011-12 fiscal year. As shown in Table 3 below, payments totaling \$2,723 represent questioned reimbursements to the former employee.

Table 3

Travel Destination	Travel Dates and Times Per Travel Vouchers	Travel Dates and Times Per Supporting Documentation	Excess Per Diem Claimed	Hotel and Incidentals Claimed and also Charged to P-Card	Mileage Reimbursement Claimed While Rental Car Charged to P-card	Total Amount of Over-Reimbursement Per Audit
Orlando, FL	May 10 at 5am to May 11 at 9pm (1)	May 10 at 8:30am to May 11 at 9pm	\$ 50 (2)	None	\$ 215	\$ 265
Orlando, FL	August 15 at 5:30am to August 17 at 9pm	August 15 at 10am to August 16 at 6pm	150 (2)(3)	None	238	388
Hampton, VA	September 7 at 5:30am to September 9 at 9:30pm	September 7 at 7am to September 9 at 5pm	26	201	None	227
Atlanta, GA	September 21 at 5:30am to September 25 at 10pm	September 21 at 8:30am to September 25 at 10pm	6	None	260	266
Savannah, GA	October 14 at 6am to October 16 at 11pm	October 14 at 6am to October 16 at 9:15pm	0	None	235	235
Orlando, FL	October 26 at 5am to October 28 at 9pm	October 26 at 5am to October 27 at 8:15pm	80 (3)	None	229	309
Washington, DC	October 28 at 5am to October 30 at 11pm	October 28 at 7:30am to October 30 at 5:30pm	26	373	None	399
Orlando, FL	November 8 at 6am to November 9 at 9pm	November 8 at 11am to November 9 at 9pm	30 (2)	None	None	30
Orlando, FL	November 16 at 6am to November 20 at 10pm	November 16 at 1:30pm to November 20 at 7pm	11	107	235	353
Orlando, FL	December 6 at 6am to December 9 at 11pm	December 6 at 3:15pm to December 10 (4)	11	None	240	<u>251</u>
<b>Total</b>						<u>\$ 2,723</u>

Notes: (1) Includes dates of travel related to the 2010-11 fiscal year that were not paid until the 2011-12 fiscal year.  
(2) Employee charged a daily per diem on day when the employee stayed in a hotel charged to the P-card.  
(3) Employee was back in Tallahassee despite claiming per diem for additional day.  
(4) Employee stayed in the hotel an additional night longer than claimed on travel voucher and this night was charged to the P-card. See P-card testing discussed in finding No. 14 below.

The Florida Department of Law Enforcement in an Investigative Report, dated September 12, 2012, noted that this former employee consistently submitted false information on travel vouchers between July 2010 and June 2011. This former employee was subsequently charged by the Office of the State Attorney, Second Judicial Circuit, with eight counts of falsifying a travel voucher.

- Four employees submitted four travel vouchers that included requests for reimbursement for meals that were already included in the respective conference registration fees or otherwise provided to the employee during travel. These employees were over-reimbursed a total of \$69 for these meals.

Without proper monitoring procedures over travel expenses, there is an increased risk that fraud or abuse may occur without timely detection.

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**Recommendation:** The University should enhance its monitoring procedures over travel expenses to ensure travel expenses are properly approved, timely documented, reasonable and necessary, and for a valid public purpose. The University should also document to the grantor the allowability of the \$2,066 of questioned costs or restore this amount to the Title III program. In addition, the University should take actions, as appropriate, to recover the \$2,723 of questioned reimbursements to the former employee and \$69 overpayment to current employees.

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#### **Finding No. 14: Purchasing Cards**

The University administers a purchasing card (P-card) program, which gives employees the convenience of purchasing items without using the standard purchase order process. The purpose of the P-card program is to efficiently and effectively handle and expedite low dollar purchases of goods and services as well as high-volume repetitive purchases. P-cards are subject to the same rules and regulations that apply to regular University purchases. Additionally, University established P-card procedures and Board Policy No. 2006-04, *Purchasing Cards*, provide guidance to University personnel on the use of P-cards. The Policy addresses unallowed uses of, and penalties for misuse of, the P-card. The University also developed a *Purchasing Card Manual (Manual)*, which establishes responsibilities of the Purchasing Department P-card Program Administrator, program area supervisors, Controller's Office personnel, and cardholders. The University issued P-cards to 17 employees and incurred P-card charges totaling approximately \$468,000 for the period July 2011 through May 2012.

#### **P-card Charges - General**

We selected 42 P-card transactions, totaling \$23,405 from ten cardholder accounts, to determine whether P-card usage was consistent with University procedures, Board Policy, the *Manual*, and good business practices. As similarly noted in our report No. 2011-029, our current year test of P-card transactions disclosed that University controls over P-card usage needed improvement. Specifically we noted the following:

- For 38 transactions, totaling \$20,508 from nine cardholder accounts, there was no evidence of supervisory review of the P-card receipts to ensure that the transactions were appropriate and for a valid business purpose. The *Manual* requires supervisory review and approval of P-card receipts and other supporting documentation within seven days of purchase. The *Manual* also requires supervisory personnel monitor the cardholder activity for appropriateness and take any necessary disciplinary action for misuse of the P-card. Although our review of the documentation indicated these transactions were for a valid business purpose, our test cannot substitute for management's responsibility to provide for supervisory review and approval of P-card transactions.
- For 27 transactions, totaling \$16,977 from nine cardholder accounts, the cardholders did not timely submit the required receipts and other supporting documentation for supervisory review and approval. The *Manual* requires cardholders to submit the required documentation to the approver no later than seven days after the purchase date. For these 27 transactions tested, the required documentation was submitted for supervisory review from 6 to 108 days late, with charges ranging from \$20 to \$2,929.

**P-card Charges – Director of Special Events**

Our test also included 309 P-card charges by the Director of Special Events (Director), totaling \$128,062, for the period July 2011 through May 2012. These charges included purchases made by the Director on behalf of other University employees, students, and guests of the University. Our review of these 309 P-card transactions disclosed the following:

- For all 309 transactions, there was no evidence of supervisory review and approval that the transactions were appropriate and for a valid business purpose. The *Manual* requires supervisory review and approval of P-card receipts and documentation within seven days of purchase.
- For 308 transactions, totaling \$127,987, the Director did not timely submit the required receipts and other supporting documentation for supervisory review and approval. The *Manual* requires cardholders to submit the required documentation to the approver no later than seven days after the purchase date. For these transactions, the required documentation was submitted for supervisory review from 6 to 236 days late, with charges ranging from \$19 to \$2,929.
- For 5 transactions, totaling \$18,830, \$18,057 was for meals served in relation to football games and \$773 was for football game tickets, which are unallowable purchases according to Board Policy and the Manual.
- For 158 travel related P-card transactions, totaling \$50,280, the charges were supported by receipts; however, travel authorization request forms or travel vouchers documenting the details of the travel, including the purpose of the travel, were not included as summarized in Table 4 below:

**Table 4**

Type of Expense	Amount
Hotel	\$ 35,799
Gasoline	2,623
Rental Car	2,338
Miscellaneous Travel (i.e., Tolls, Parking, Extra Baggage, Etc.)	9,520
<b>Total</b>	<b>\$ 50,280</b>

Effective monitoring procedures over P-card charges, including timely review and approval of P-card charges, reduces the risk of P-cards being used for unauthorized purposes without timely detection.

**Recommendation:** The University should enhance its monitoring procedures to ensure that P-card purchases are timely submitted for supervisory approval and sufficiently documented.

**Procurement of Goods and Services**

**Finding No. 15: Consulting Services**

As a matter of good business practice, contractual arrangements should be evidenced by written contracts embodying all provisions and conditions of the procurement of such services. The use of a well written, complete, and properly executed written contract protects the interests of both parties, defines the services to be performed, and provides a basis for payment. In addition, the University is responsible for establishing controls to ensure that payments to contractors are for services actually performed and in accordance with agreed-upon terms.

During the 2011-12 fiscal year, the University expended \$2,602,908 on consulting services subject to contractual arrangements. Our review of eight payments for consulting services, totaling \$318,754, disclosed instances in which supporting documentation for payments were not adequate as follows:

- In March 2012, the University entered into a contract with a consultant to provide assistance to the University related to restructuring academic units. Pursuant to the contract, fees charged by the consultant ranged from \$85 to \$210 an hour, depending on the individual performing the work, and the University made one payment of \$29,230 to this consultant. The invoice supporting this payment did not list the individuals that performed the work or the number of hours worked, and there was no other documentation, such as timesheets, provided to evidence the actual hours worked. Absent documentation evidencing the services provided, the individuals that performed the work, and the number of hours worked, University records did not evidence that the fees charged by the consultant were in accordance with the terms of the contract.
- During the 2011-12 fiscal year, payments totaling \$38,532 were made to a consultant for legal services, of which \$887 was for copying charges, pursuant to a contract. The terms of the contract required in-house bulk copying expenses to be supported by usage logs or similar documentation; however, usage logs were not provided as support for the \$887 of copying charges. Subsequent to our inquiry, the University obtained from the vendor copies of usage logs to support these charges.

When invoices are not properly pre-audited by University personnel prior to payment to ensure payments are adequately documented, there is an increased risk that the University may pay for services not received or pay incorrect amounts.

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**Recommendation:** The University should enhance its procedures for monitoring consultant payments to ensure that payments are adequately supported and in accordance with terms of the contract. The University should also request, from the consultant providing assistance related to restructuring academic units, documentation evidencing hours worked and the individuals performing the work.

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#### **Finding No. 16: Targeted Student Assistance Programs**

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During the 2011-12 fiscal year, the University received \$5 million of State appropriated Targeted Student Assistant Program (Program) funds to be used to assist Florida high school students from low performing schools to complete their school studies and to pursue advanced education and employment. The funding for this Program was initially appropriated to the University for the 2010-11 fiscal year for \$5.9 million, an additional \$5 million was appropriated for the 2011-12 fiscal year, and another \$5 million was appropriated for the 2012-13 fiscal year. The University used an invitation to negotiate (ITN) selection process to award these funds to implement the Program. Through the ITN process, the University entered into grant agreements with two not-for-profit organizations in April 2012: The Professional Opportunities Programs for Students, Inc. (POPS), and the Florida Endowment Foundation for Graduates, Inc. (Foundation). Pursuant to the agreements, the University awarded \$900,000 to each organization, totaling \$1.8 million from the Program funds.

The University entered into agreements with the two not-for-profit organizations describing the responsibilities of each party related to developing a budget, disbursing funds, and preparing required reports. The agreements provided that organizations are required to submit a detailed budget related to the use of the funds and that the University would review and approve the budgets. The agreements further provided that any funds not used for the purposes in the approved budget must be returned to the University. Our review disclosed that the University did not have adequate monitoring procedures related to the use of the funds, as follows:

- University records did not evidence that University personnel reviewed and approved budgets related to the use of the funds for the two organizations. According to University personnel, they reviewed, discussed, and

approved the budgets for these organizations; however, in response to our inquiry, only a few e-mails were provided demonstrating general discussions between University staff regarding the budgets.

- The agreement with the Foundation provides that the funds are to be disbursed in three equal installments of \$285,000 (\$300,000 less a five percent administrative fee withheld by the University). Before each disbursement, following the initial disbursement, the Foundation was required to provide the University a detailed financial report recapping the use of the funds for the previous disbursement and supporting invoices and receipts for each expenditure of the funds. The University paid the Foundation the first \$285,000 on May 2, 2012, and the second \$285,000 on June 25, 2012. As of November 30, 2012, University records did not evidence that University personnel, prior to the second \$285,000 payment, had received from the Foundation a financial report recapping the use of the first \$285,000 payment or supporting invoices and receipts. University personnel indicated that the University has not made the third installment payment due to the Foundation pending review of the required report and supporting documentation.
- The agreement with the Foundation also provides that, prior to each disbursement, the Foundation is to submit a report on activities completed during the reporting period. The Foundation submitted two such reports for the first two \$285,000 installment payments. However, the reports were summary reports and did not provide sufficient information to determine performance of the activities. For example, the reports did not include lists of students served or verifiable documentation for the services listed. In addition, University records did not evidence that University personnel properly reviewed the reports on activities to approve the next installment payment. According to University personnel, the Foundation provided no additional information on activities completed during the reporting period.

In the absence of required reports and supporting documentation, and the University’s documented review of such reports and supporting documentation, the University could not be assured that the funds were used as intended for authorized purposes.

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**Recommendation:** The University should document review and approval of the budgets for the two organizations. The University should also obtain from the Foundation the required financial and activities reports, and supporting documentation, and review such reports and documentation to ensure funds were used as intended and activities required in the contract were performed.

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<b>Construction Administration</b>
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Pursuant to Section 1013.45(1), Florida Statutes, the University may contract for the construction or renovation of facilities using various delivery methods, including the selection of a design-build firm. BOG Regulation 14.0055, *Certification and Competitive Selection for Construction Management Services and Design-Build Services*, provides conditions to consider in determining when it is in the best interest of a university to use the design-build process and provides the requirements for the selection process. BOG Regulation 14.007, *Competitive Negotiation*, requires that a contract for design-build services be negotiated based on a design-build proposal, and provide a guaranteed maximum price for all professional services and construction costs, which shall include reimbursable costs plus fees for design, project management, overhead, and profit. Our review of the University’s design-build firm selection process and subsequent negotiation and monitoring of contracts awarded disclosed deficiencies as described in Finding Nos. 17 through 22 below.

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**Finding No. 17: Design-Build Services**

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On May 5, 2008, the University issued an invitation to negotiate (ITN) for design-build services for three projects: (1) the construction of a new 800-bed dormitory; (2) the renovation of two existing dormitories (Sampson and Young residence halls); and (3) renovation of other existing student housing facilities. The ITN timeline anticipated that final negotiations would result in a contract to be awarded on November 28, 2008, and project completions for these

projects of July 2010, July 2010, and by 2015, respectively. The project completion for the 800-bed dormitory and Sampson and Young projects were subsequently revised to July 2013 and August 2011, respectively.

As shown in Table 5 below, there were substantial lapses in time between the initial ITN and the subsequent dates of agreements with the design-build firm and approval of funding sources for the 800-bed dormitory and Sampson and Young projects. As of October 31, 2012, the University had not entered into an agreement or obtained funding approval for the renovation of other existing student housing facilities project.

Table 5

Design Build Projects	Invitation to Negotiate (ITN) (1)	Date of Selection (2)	Date of Initial Agreement	Initial Agreement Amount (3)	Final Guaranteed Maximum Price	Funding Approved	Notice to Proceed
Sampson and Young Residence Halls Renovation	May 5, 2008	June 24, 2009	December 11, 2009	\$ 9,345,000	\$10,470,650	May 6, 2010	August 2, 2010
New 800-Bed Dormitory	May 5, 2008	June 24, 2009	November 28, 2011	\$34,650,000	(4)	March 22, 2012	May 9, 2012
Other Existing Student Housing Renovations	May 5, 2008	June 24, 2009	(5)	(5)	(5)	(5)	(5)

Notes: (1) All projects were included in the same ITN.  
 (2) All projects awarded to the same design-build firm.  
 (3) Amount is per the construction cost budget.  
 (4) Contract cancelled on August 16, 2012.  
 (5) No agreement or funding approval as of October 31, 2012.

**Project Financing**

Financing for the Sampson and Young residence halls renovation was not secured until May 6, 2010, when the BOG approved a resolution to issue \$30 million in housing and refunding bonds to cover the projected costs of \$13.5 million for the renovations to the residence halls and refinance two previous housing bonds issued in 1992 and 1996. Financing for the 800-bed dormitory was not secured until March 22, 2012, when the BOG approved issuance of \$49 million in housing bonds to cover estimated project costs of \$44 million.

Considering the scope of the 800-bed dormitory and the uncertainty of the funding source, it is not apparent why the University issued an ITN almost three and a half years before, and entered into an agreement with the design-build firm several months before, funding was determined to be available. Issuing an ITN, and negotiating and entering into a contract, too far in advance of securing funding and starting construction increases the risk that costs used as the basis for negotiating a GMP and project cost components may significantly change. During the process to negotiate a GMP for the 800-bed dormitory, estimated construction costs submitted by the design-build firm increased from \$34.7 million to \$41.5 million between November 2011 and August 2012, an increase of \$6.8 million. The design-build firm indicated that the increased cost for the project was due primarily to delays in starting construction resulting in considerable overtime work being needed to meet the revised July 2013 project completion date. Although the agreement with the design-build firm included a provision for cancellation of the contract at the sole discretion of the University (which the University exercised on August 16, 2012), issuing an ITN and entering into a contract closer to approval of the funding source may have prevented the University from entering into a contract that subsequently had to be cancelled.

In the absence of a clearly established funding source prior to selecting a firm, and entering into contracts, for design-build services, the University cannot be assured of the timely and successful completion of major construction projects.

**Documentation of the Selection Process**

Pursuant to BOG Regulation 14.0055, the University President was required to appoint a selection committee of at least three members to rate each firm’s design-build proposal on the basis of a point scale and to recommend three

firms, in priority order, to the President for approval. For the ITN described above for the Sampson and Young residence halls renovation, the new 800-bed dormitory, and other student housing renovation projects, a selection committee made up of seven members evaluated proposals submitted by six firms and determined the three highest rated firms. A review and advisory committee, made up of eight members, further reviewed, evaluated, and ranked the three firms.

Our review of the University's documentation of the ITN selection process disclosed that the evaluation scoring sheets for four of the eight members of the review and advisory committee could not be located for our review. Of the four members' evaluation scoring sheets provided, we noted that:

- The points awarded for two of the members' evaluation scoring sheets provided did not agree with the ITN evaluation results and rankings.
- The points awarded for the other two members' evaluation scoring sheets were not included in the evaluation results as the rankings were instead based on e-mails provided by review and advisory committee members.

Absent complete documentation supporting the selection of the design-build firm, University records did not demonstrate that the selection process was properly evaluated and awarded in accordance with BOG regulations, and the University may be limited in its ability to demonstrate that the firm was properly selected in the event of legal disputes by firms not selected.

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**Recommendation:** The University should establish procedures to ensure project funding is approved prior to entering into agreements for design-build services. In addition, the University should adequately document that design-build firms are selected in accordance with BOG regulations.

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#### **Finding No. 18: Construction Contract Management**

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As noted in Finding No. 17, the University entered into an agreement for design-build services with a guaranteed maximum price (GMP) contract on December 11, 2009, for the Sampson and Young residence halls renovation project at an estimated cost of \$9.3 million. The project was funded from dormitory revenue bonds issued by the State Board of Administration, Division of Bond Finance, and was substantially completed in August 2011. Under the design-build process, the contracted firm is responsible for both the design and construction phases, and is generally responsible for the successful, timely, and economical completion of the construction project. Under a GMP contract, the University may realize cost savings if the actual cost of the project is less than the GMP. Cost savings are generally maximized under a GMP contract when fees are negotiated for design, project management, and overhead and profit; subcontracts are awarded on a competitive basis; and project costs are closely monitored.

Our review of the contract with the design-build firm for the Sampson and Young residence halls renovation project disclosed that the University did not negotiate and agree upon the overhead and profit, project management costs, and a detailed GMP proposal for all construction cost components of the project prior to the start of construction. The final negotiated GMP proposal should provide for all components of the project budget to serve as a detailed statement supporting the contract sum and be used in preparing periodic progress payments. The design-build firm provided a construction cost estimate summary proposal dated September 30, 2009, with fees and costs totaling \$12,186,555. The contract provisions relating to overhead and profit, project management costs, and the GMP did not specify negotiated percentages or amounts and indicated the provisions would be subsequently negotiated. However, a final GMP proposal was not, of record, negotiated and subsequently incorporated into the December 11, 2009, contract by a single GMP amendment for the total construction cost. Instead, the University subsequently approved four partial GMP amendments from August 2, 2010, through April 15, 2011, as follows:

Table 6

Guaranteed Maximum Price Summary				
GMP Notice to Proceed Date	GMP Amendments	Description	Amount	Cumulative Contract Amount
8-02-10	Partial GMP 1	Demolition and Hazardous Materials Abatement	\$ 757,891	\$ 757,891
11-18-10	Partial GMP 2	Limited Scope of Work	2,108,056	2,865,947
12-16-10	Partial GMP 3	Complete the Work	6,820,103	9,686,050
4-15-11	Partial GMP 4	Complete Additional Work	784,600	10,470,650

Our review of the University’s procedures for negotiating and contracting with the design-build firm disclosed the following:

- The University did not complete negotiations and agree upon significant contract terms and provisions prior to the start of construction. The contract allowed for a separate GMP for the demolition and abatement phase from the construction phase; however, the design-build firm began construction after GMP amendment No. 2, totaling \$2,108,056, which represented less than 25 percent of the \$8.9 million total estimated construction costs at the time the University completed negotiations with the design-build firm. BOG Regulation 14.007, *Competitive Negotiation*, provides that, should the University be unable to negotiate a satisfactory contract with the design-build firm, considered the most qualified, at a fair, competitive, and reasonable price (i.e., GMP), negotiations shall be terminated and then undertaken with the next most qualified firm. However, by starting construction without an approved GMP for total construction costs, with caps for each cost component, the University may have limited its ability to evaluate and ensure that the overall cost of the project was fair, competitive, and reasonable, and to negotiate with the next most qualified firm should it become necessary.
- Individual performance and payment bonds were issued for GMP amendment Nos. 1 through 3 totaling \$9,686,050. University records indicated that payments to the design-build firm included approximately \$7,400 for additional bond coverage related to GMP amendment No. 4 totaling \$784,600, and a report from the surety company indicated that the design-build firm acquired the additional bond coverage. However, although requested, we were not provided an actual bond document evidencing that the additional bond coverage was obtained. Section 255.05(1), Florida Statutes, requires a payment and performance bond with a surety insurer authorized to do business in the State when a governmental entity contracts to construct, remodel, or renovate a facility where the project costs exceed \$200,000. When a performance and payment bond is not executed for the full construction GMP amount, and not increased timely for subsequent change orders, the University is at risk for the portion of the project not bonded in the event of the design-build firm defaults. In addition, the bonds for GMP amendments Nos. 2 through 4 were not filed with the Clerk of Court, contrary to Section 255.05(1), Florida Statutes, which requires that the executed bond be delivered to the public owner and recorded in the public records of the county where the improvement is located before work is commenced.
- The contract required the design-build firm to use its best efforts to obtain bids that were less than the final GMP estimates, and provided that bids received that were less than the GMP amount became part of the University’s contingency to be used at the University’s sole discretion. Under the design-build at-risk project delivery method, the GMP provision requires a commitment by the design-build firm to deliver the project within the GMP amount. However, contrary to contract provisions, major subcontracts were bid prior to entering into the GMP amendments. When subcontracts are bid prior to establishing the GMP amount, the design-build firm has limited incentive to minimize subcontractor costs.
- The design-build contract provided that the design-build firm fee would be a percentage of the cost of the work, converted to a lump-sum amount upon acceptance of each GMP amendment, and that the sum of the cost of the work and the design-build firm fee would comprise the total GMP amendment. The design-build firm fee (overhead and profit) rate was not specified in the original contract. Instead, rates were negotiated at

8 percent for GMP amendment No. 1, and 6.5 percent for the other three amendments. Subsequent to our inquiry, University records provided indicated that the GMP amendment No. 1 rate was negotiated by University personnel from 10 to 8 percent to be more consistent with the market. In addition, University personnel indicated the University's owner representative was assigned to negotiate the rates for GMP amendments Nos. 2 and 3. Recommendations provided by the University's owner representative indicated that, based on experience, the proposed fee was within the range for the project's size and complexity. However, University records did not evidence the methodology applied and factors considered during negotiations and, as such, it was not apparent from University records how the reasonableness of the rates were determined.

- Each GMP amendment included a separate provision for general conditions costs, totaling approximately \$1 million. General conditions (reimbursable expenses of the design-build firm) include such items as direct and indirect salary costs of project staff (\$537,019) and costs of jobsite office space, furniture, equipment, supplies, communication, and utility costs (\$509,825). The indirect salary cost element is 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. While the University obtained a detailed breakdown from the design-build firm of the components used to compute the labor burden of 44 percent, the University did not request or obtain documentation from the firm to support the component amounts used in calculating the labor burden rate. Recommendations provided by the University's owner representative indicated that the salary rates and labor burden were within industry standards; however, documentation of industry standards used was not provided for our review. The United States Department of Labor, Bureau of Labor Statistics, reports that benefits generally averaged less than 32 percent of total compensation during the periods in which each GMP was negotiated, which was significantly lower than the 44 percent provided for in each GMP. Failure to obtain and review documentation supporting the labor burden amounts limits the University's ability to determine whether the rate is fair and equitable.

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**Recommendation:** The University should evaluate and revise as appropriate, its procedures for contracting with design-build firms to ensure that a GMP contract is based on a detailed final proposal for total construction costs and is established prior to the start of construction, a performance and payment bond is executed for the entire construction GMP amount and properly filed with the Clerk of the Court, and subcontractors are bid after the GMP is established. The University should also establish written policies and procedures addressing the negotiation of overhead and profit and general conditions and require documentation of the methodology used and application of various factors considered in evaluating the reasonableness of such costs.

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#### **Finding No. 19: Subcontractor Selection**

The GMP contract for the Sampson and Young residence halls renovation project, described in Finding No. 18, provided that the design-build firm was responsible for selecting subcontractors using a competitive bid process, and after reviewing and clarifying the scope of work in detail with the apparent low responsive bidders, awarding those contracts to the most qualified and lowest bidder. In response to our request for bid documentation for the subcontractors on this project, University personnel provided bid proposals and tabulation sheets for the 19 bids related to the subcontractor cost component provided in GMP amendments Nos. 2 and 3; however, bid proposals were not provided for the subcontractor cost component for demolition and hazardous materials abatement, totaling \$757,000, provided in GMP amendment No. 1.

The bid tabulation sheets that we were provided were signed by a University representative documenting their attendance and witness of the bid openings, and the bid tabulations were supported by the bid proposals. In response to subsequent requests for the remaining documentation required by the contract, University personnel indicated that they had to obtain these documents from the design-build firm because the documentation was not maintained by

University personnel. Documentation obtained from the design-build firm by the University and provided for our review included the request for proposals, evidence of pre-bid meetings, prequalification forms with proof of licensure, final bid tabulation summary detailing scope clarifications, list of subcontractors recommended for award, subcontractor award notifications, subcontracts between the design-build firm and the University-approved subcontractor, subsequent subcontract change orders, and a final list of subcontract amounts. However, although requested, we were not provided the individual bid award recommendations signed by University personnel and four subcontract change orders that provided reconciliation between the subcontract and the final list of subcontract amounts.

Our review of the documentation provided disclosed that for subcontractor cost component for glass and glazing and window restoration, totaling \$433,251, for GMP amendment No. 3, the two lowest bidders were both awarded subcontracts although the bid tabulation sheet indicated that both had incomplete bids.

Absent complete documentation supporting the selection of subcontractors, University records did not evidence that the above subcontractor services were obtained at the lowest price consistent with acceptable quality and that the University realized maximum cost savings, and the University may be limited in its ability to demonstrate the proper handling and awarding of subcontract bids in the event of legal disputes by subcontractors not selected.

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**Recommendation:** The University should establish procedures for maintaining documentation of the subcontractor selection process to demonstrate that bids were properly solicited, evaluated, and awarded, and that bid documents were properly controlled.

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#### **Finding No. 20: Verification of Subcontractor Licensure Status**

Chapter 489, Florida Statutes, establishes certain licensing requirements for specialty subcontractors such as electrical, air conditioning, plumbing, and roofing contractors. The GMP contract for the Sampson and Young residence halls renovation project required the design-build firm to represent that its project team and all subcontractors performing services under the contract have all applicable licenses required by the State to perform those services, and to verify licensure during competitive bid prequalification procedures.

University personnel indicated that subcontractor licensure verification was also performed through the University's internal building permitting process, in that building permits were approved and issued by the University only after verification of applicable licenses and insurance for both the contractor and subcontractors. Our review of the building permit applications provided by University personnel to document subcontractor license verification disclosed the following:

- The University did not maintain the building permit applications to evidence licensure verification. Subsequent to our inquiry, University personnel obtained the building permit applications from the design-build firm for our review.
- Separate building permit applications were submitted for each GMP amendment. University personnel indicated that a single building permit was issued for GMP amendments Nos. 2 and 3; however, although requested, we were not provided the approved permit. As such, University records did not evidence that licensure verifications had been performed.
- Licenses for both the roofing and electrical subcontractors were not included with any of the building permit applications. In addition, the license included for the elevator subcontractor expired prior to the date of the subcontractor being hired and for the period the subcontractor worked on the project, and a renewed license was not on file. Subsequent to our inquiry, all of the licenses provided demonstrated that the subcontractors were properly licensed prior to and while working on the project.

Although we were ultimately provided evidence that all subcontractors were properly licensed, our procedures and the procedures performed by the design-build firm do not substitute for the University's responsibility to monitor the qualifications of subcontractors.

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**Recommendation: The University should enhance procedures to document the verification of subcontractors' licensure status prior to commencement of work on projects and monitor licensure status through completion of the projects.**

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### **Finding No. 21: Monitoring Payment Requests**

The University's Facilities Planning and Construction Department (Facilities) is responsible for construction administration, including the monitoring of contractor activities, implementing construction-related procedures, and ensuring compliance with applicable State laws and rules. As part of these procedures, payment requests for the Sampson and Young residence halls renovation project were reviewed and approved by Facilities personnel or an architectural firm the University had contracted with to serve as the University's representative on the project.

As of June 30, 2012, the University had made 15 payments to the project's design-build firm totaling \$8,670,385. The University's GMP contract with the design-build firm stipulated that applications for payment be submitted in detail sufficient for an audit thereof. In addition, total payments were not to exceed the GMP for the cost of the work for each of the following cost components: subcontractor work and the design-build firm's staffing costs, general conditions, overhead and profit, and contingency.

We reviewed all 15 payment requests for proper approval, inclusion of salary records and timesheets supporting staffing costs (including the labor burden), accurate overhead and profit calculations, and agreement of previous cost component balances and cumulative amounts paid from one payment request to the next. We also reviewed various criteria for certain payment requests such as those representing the initial payment related to each of the four GMP amendments (payment request Nos. 1, 2, 3, and 8 totaling \$2,263,833); No. 7 for \$1,022,736, paid June 7, 2011, for the initial payment of retain age; and No. 10 for \$1,239,048, paid September 27, 2011.

Our review indicated that all except one of the applications and certificates for payment were approved by either the University representative or Facilities staff. However, it was not apparent that the University's review included procedures to reconcile each line in the schedule of values to applicable supporting documentation, such as original bids adjusted for approved change orders, which support the negotiated GMP for subcontractor work, and invoices or receipts for general conditions costs. Our review of the 15 payment requests disclosed the following:

- Charges totaling \$140,407 were not applied to the correct cost component of the GMP contract, as follows:
  - Charges were incorrectly made to the subcontractor work component for staffing costs (\$69,678) and general conditions costs (\$28,362) for payment request No. 3.
  - Staffing costs were incorrectly charged to the general conditions component (\$28,427) for payment request No. 2 and (\$13,940) for payment request No. 3.
- For 5 of the 11 payment requests in which overhead and profit were charged, the calculation was either incorrect or we could not determine the basis for the amount charged. For example, for payment request No. 1, builder's risk insurance was incorrectly included in the total used to calculate the overhead and profit resulting in an overcharge of \$763. For the other four payment requests, University records did not evidence the basis of amounts charged for overhead and profit.

- Ten of the 15 payment requests that included staffing cost component charges, totaling \$537,019, lacked adequate support to document the reasonableness of the amounts charged, such as payroll records to support actual salary costs and the indirect labor burden. Only 3 of 10 applicable payment requests included salary records; however, none of the payment requests included timesheets to support the salary records used to support payment requests.
- For request Nos. 12 and 14 totaling \$400,882, University records did not include documentation supporting the amounts requested. For request Nos. 13 and 14 amounts totaling \$56,625, the application and certificate for payment was the only item included, and for request No. 12 totaling \$364,092, the application did not agree with the continuation sheet or schedule of values attached to the payment request.
- The basis of the allocation was not always apparent for seven payment requests totaling \$7,104,144 in which construction costs totaling \$597,450 were allocated between GMP amendments Nos. 2 and 3. For example, for payment request No. 9, construction costs totaling \$68,645 were allocated as follows: \$55,730 to staffing costs at 97 and 3 percent, respectively, and \$12,915 to general conditions costs at 13 and 87 percent, respectively. However, University records did not evidence the basis for these allocations.

We also reviewed nine payments totaling \$78,845, made from March 4, 2011, to January 11, 2012, pursuant to the contract with the architectural firm serving as the University representative, as noted above. Although the hourly rates charged were in accordance with the contract, we noted four pay requests totaling \$39,700 did not include timesheets supporting the hours charged.

In the absence of adequate controls over the monitoring of construction payments, there is an increased risk that the University may overpay for services provided or fail to realize potential cost savings.

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**Recommendation:** The University should modify its procedures for monitoring construction payment requests to ensure that charges are properly applied to the correct GMP contract components and payment requests are adequately documented.

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### **Finding No. 22: Insurance Coverage**

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The Sampson and Young residence halls renovation project contract required the design-build firm to maintain specified insurance coverage at designated minimum amounts at least until the project was completed and accepted by the University. Certificates of insurance were to be provided prior to commencement of work on the project, and evidence of renewals at least 30 days prior to the policy expiration date. The required insurance coverages included commercial general liability, automobile liability, workers' compensation, professional design errors and omissions liability, builder's risk, and, in addition to payment and performance bonds, a commercial blanket bond and fidelity bond. The workers' compensation insurance minimum coverage was required by Chapter 440, Florida Statutes. The contract also required that the Board be named as insured on the commercial general liability and builder's risk coverages, and the BOG named as an additionally insured party on the builder's risk coverage.

Our review of the certificates of insurance documenting required insurance coverage for the Sampson and Young residence halls renovation project disclosed the following:

- University records did not evidence the required coverage for commercial general liability, automobile liability, and workers' compensation as the certificate of insurance provided to us for these coverages expired 7 months prior to substantial completion of the project. Subsequent to our inquiry, University personnel obtained from the insurance company, and provided for our review, a renewal certificate dated August 30, 2012, evidencing these coverages for the remainder of the project period.
- The worker's compensation coverage of \$500,000 was not in compliance with the \$1 million statutory minimum stipulated in the contract.

- The required builder's risk policy did not name the Board or the BOG as additional insured. In addition, the policy did not require notice to the University of at least 30 days for cancellation or modifications made prior to the expiration date.
- University records did not evidence a commercial blanket bond and fidelity bond at the contractually required amount of \$500,000 each. Subsequent to our inquiry, University personnel obtained from the insurance company, and provided for our review, a certificate of insurance dated August 21, 2012, evidencing the required insurance for the period.
- Although the University's contract included an insurance requirement to maintain professional liability coverage at a designated amount, the University had not implemented a policy establishing minimum professional liability insurance requirements for design professionals, such as architects and engineers. For certificates of insurance provided for professional liability insurance to cover the professional architectural and engineering services provided by or on behalf of the design-build firm for the project, we noted the following:
  - University records did not evidence the insurance required by the contract. Subsequent to our inquiry, University personnel obtained from the insurance company, and provided for our review, certificates of insurance dated July 6, 2012, evidencing coverage for the architect and engineer.
  - University records did not evidence that insurance was provided for the annual coverage period in which pre-construction and design services were performed.
  - Professional liability insurance for this project was \$2 million per claim with annual aggregate coverage in the same amount, \$1 million more than stipulated in the contract. Given that the total construction costs for this project was \$10.5 million and the lack of a Board policy addressing the type and amount of professional liability insurance coverage to be required for design professionals, it was not apparent how University personnel determined whether the type and amount of professional liability insurance coverage provided by the design professional was sufficient to protect the University's investment in the construction project.
  - The policy was a single-year policy written on a claims-made basis. A claims-made policy provides coverage only during the period in which a claim is made, rather than the period in which the event occurs that gives rise to the claim. Claims-made liability policies may not provide the University with sufficient protection if, for example, a design or construction flaw is discovered subsequent to the construction period and the responsible design professional no longer carries such insurance, carries an insufficient amount of insurance, or is no longer in business.

Failure to ensure that contractors and architects are maintaining adequate insurance could increase the University's risk of loss in the event of an occurrence causing injury to persons, damage to property, or the contractor defaults on its contractual obligations.

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**Recommendation:** The University should implement a policy establishing minimum professional liability insurance requirements for design professionals. The University should also establish monitoring procedures to ensure that construction contractors and architects are properly insured in accordance with applicable contractual requirements and timely provide to the University certificates of insurance evidencing the required coverage through completion of the projects.

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<b>Information Technology</b>
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**Finding No. 23: Access Privileges**

Access controls are intended to protect data and information technology (IT) resources from unauthorized disclosure, modification, or destruction. Effective access controls provide employees access to IT resources based on a demonstrated need to view, change, or delete data and restrict employees from performing incompatible functions or functions outside of their areas of responsibility. For example, access privileges should typically be configured to enforce a separation of IT and application end-user duties whereby only the responsible end-users can originate or correct transactions and initiate changes to data files and IT employees are restricted from performing end-user functions. In addition, appropriate restrictions of application end-user access privileges are necessary to preclude the possibility of one employee controlling all critical stages of a transaction process, including a combination of functions such as data entry and verification of data, reconciliation of output, or supervisory authorization functions.

Our review of selected access privileges to the University's enterprise resource planning (ERP) finance and human resources (HR) applications disclosed that some employees had access privileges that either permitted the employees to perform incompatible duties or were not necessary for their responsibilities. Specifically:

- Thirteen Enterprise Information Technology (EIT) employees had update privileges to one or more critical functions within the finance and HR applications, including the ability to add and update vendors, purchase orders, and vouchers; process payment transfers and vendor warrants; create and post journal entries; add employees and update employee information; add and fund employee positions; make salary and time adjustments; and process direct deposits and payroll warrants. The access privileges granted were contrary to an appropriate separation of end-user duties and the employees' assigned IT duties related to the technical support of the University's ERP system.
- One employee within the General Accounting department had update privileges to critical functions within the ERP finance application that, in combination, allowed the employee control over the entire vendor payment process. Specifically, the employee had the ability to add and update vendors, purchase orders, and vouchers and process payment transfers and vendor warrants.
- Five employees from the HR department had update privileges to critical functions within the ERP HR application that, in combination, allowed the employees control over the entire employee payment process. Specifically, the five employees had the ability to add and update an employee, add and fund a position, make salary and time adjustments, and process direct deposits and payroll warrants.
- Forty-two employees from various departments had update privileges to one or more critical functions, as described above, within the ERP finance application.
- Twenty-one employees from various departments had update privileges to one or more critical functions, as described above, within the ERP HR application.

These privileges permitted the employees, in some instances, to perform incompatible duties and, upon our inquiry, University management acknowledged that the privileges were unnecessary for the employees' assigned job responsibilities. To compensate, in part, for the effect of the above deficiencies, the University had certain controls, such as independent reviews of selected transactions and change reports. However, the absence of effective access controls that enforce an appropriate separation of incompatible duties and restrict employees to only those functions necessary for their assigned job responsibilities may diminish the reliability of data and increase the risk that erroneous or fraudulent transactions could be processed.

Periodically reviewing assigned IT access privileges promotes good internal control and is necessary to ensure that employees cannot access IT resources inconsistent with their assigned job responsibilities. The existence of the

inappropriate access privileges described above indicated a need for the University to review employee access privileges. EIT Security Policies and Procedures provide that the Information Security Organization ensure that recertification of user identifiers (IDs) is performed annually or when significant changes or additions to applications are made. The recertification process includes verification by the data owners that user IDs are valid, appropriate access privileges are granted, and all inactive user IDs have been deleted or disabled. In response to our inquiry, University management indicated that the recertification procedure had not been in place and was currently under review for necessary changes to increase verification ability. Without a periodic review of all employees' access, inappropriate or unnecessary access privileges may not be timely detected and addressed by the University, increasing the risk that unauthorized disclosure, modification, or destruction of University data and IT resources may occur.

**Recommendation:** The University should modify access privileges assigned within the ERP finance and HR applications to ensure that privileges enforce an appropriate separation of incompatible duties and do not exceed what is necessary for assigned job responsibilities. In addition, the University should continue its efforts to enhance the recertification procedure to ensure that a comprehensive periodic review of employee access privileges is performed.

**Finding No. 24: Security Controls**

Security controls are intended to protect the confidentiality, integrity, and availability of data and IT resources. Our audit disclosed certain University security controls related to user authentication and data loss prevention 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 and data loss prevention, the risk is increased that the confidentiality, integrity, and availability of University data and IT resources may be compromised.

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

**PRIOR AUDIT FOLLOW-UP**

The University had taken corrective actions for findings included in our report No. 2011-029, except that finding Nos. 7, 10, 11, and 14 were also noted in prior audit report No. 2011-029, as finding Nos. 2, 1, 5, and 4, respectively.

**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 March 2012 to December 2012 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:

- Evaluate management's performance in establishing and maintaining internal controls, including controls designed to prevent and detect fraud, waste, and abuse, and in administering assigned responsibilities in accordance with applicable laws, rules, regulations, contracts, grant agreements, and other guidelines.
- Examine internal controls designed and placed in operation to promote and encourage the achievement of management's control objectives in the categories of compliance, economic and efficient operations, reliability of records and reports, and the safeguarding of assets, and identify weaknesses in those controls.
- Determine whether management had taken corrective actions for findings included in our report No. 2011-029.
- Identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

This audit was designed to identify, for those programs, activities, or functions included within the scope of the audit, deficiencies in management's internal controls, instances of noncompliance with applicable laws, rules, regulations, contracts, grant agreements, and other guidelines, and instances of inefficient or ineffective operational policies, procedures, or practices. The focus of this audit was to identify problems so that they may be corrected in such a way as to improve government accountability and efficiency and the stewardship of management. Professional judgment has been used in determining significance and audit risk and in selecting the particular transactions, legal compliance matters, records, and controls considered.

For those programs, activities, and functions included within the scope of our audit, our audit work included, but was not limited to, communicating to management and those charged with governance the scope, objectives, timing, overall methodology, and reporting of our audit; obtaining an understanding of the program, activity, or function; exercising professional judgment in considering significance and audit risk in the design and execution of the research, interviews, tests, analyses, and other procedures included in the audit methodology; obtaining reasonable assurance of the overall sufficiency and appropriateness of the evidence gathered in support of our audit findings and conclusions; and reporting on the results of the audit as required by governing laws and auditing standards.

The scope and methodology of this operational audit are described in Exhibit A. Our audit included the selection and examination of various records and transactions occurring during the 2011-12 fiscal year, and selected actions taken prior thereto. Unless otherwise indicated in this report, these records and transactions were not selected with the intent of statistically projecting the results, although we have presented for perspective, where practicable, information concerning relevant population value or size and quantifications relative to the items selected for examination.

An audit by its nature does not include a review of all records and actions of agency management, staff, and vendors, and as a consequence, cannot be relied upon to identify all instances of noncompliance, fraud, waste, abuse, or inefficiency.

**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) policies and procedures.	Reviewed the University’s written IT policies and procedures to determine whether they addressed certain important IT control functions.
IT access privileges and separation of duties.	Reviewed procedures for maintaining and reviewing access to IT resources. Tested selected access privileges over operating systems, database, network, and applications to determine the appropriateness and necessity based on the employees’ job functions and responsibilities and adequacy with regard to preventing the performance of incompatible duties.
Deactivation of employee IT 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 deactivated.
IT data loss prevention.	Reviewed the University’s written policies, procedures, and programs in effect governing the classification, management, and protection of sensitive and confidential information.
IT logging and monitoring.	Reviewed procedures and reports related to the capture, review, maintenance, and retention of selected system and security event logs.
IT security incident response.	Determined whether the University had developed an adequate security incident response plan.
IT logical access and authentication controls.	Reviewed selected operating system, database, network, and application security settings to determine whether authentication controls were configured and enforced in accordance with IT best practices.
Board and committee meetings.	Reviewed Board and committee minutes for evidence of compliance with Sunshine law requirements (i.e., proper notice of meetings, ready access to public, maintain minutes).
Textbook affordability.	Examined supporting documentation to determine whether the University’s procedures regarding textbook affordability were in accordance with Section 1004.085, Florida Statutes.
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.
Internal audit function (inspector general).	Reviewed the internal audit function to determine whether the University followed professional requirements and provided for peer review of reports issued.
Bank accounts.	Determined whether bank accounts were properly authorized in the name of the Board and designated as qualified public depositories. Reviewed University procedures to determine whether bank reconciliations were prepared timely.

**EXHIBIT A (CONTINUED)**  
**AUDIT SCOPE AND METHODOLOGY**

Scope (Topic)	Methodology
Electronic payments.	Reviewed University policies and procedures related to electronic vendor payments and tested supporting documentation to determine whether selected electronic payments were properly authorized and supported.
Student loans.	Determined whether the University had established procedures for students that transferred from other institutions of higher education, to verify whether the student was not in default on student loans or was not past due on a student receivable.
Pharmaceutical inventories.	Tested 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.
Annual physical inventory of property.	Reviewed rules and procedures related to performing annual inventory counts of property. Examined supporting documentation of the University's annual physical inventory property.
Land acquisitions, property deletions, and disposals.	Inquired of land acquisitions. Examined Board minutes related to approval of surplus land deletions and disposals, obtained a listing of surplus property items awaiting Board approval for disposal as of June 30, 2012, and reviewed control procedures with applicable University personnel.
Donation, acquisition, or construction of capital assets involving outside entities.	Reviewed documentation for donation, acquisition, or construction of capital assets involving an outside entity and determined whether such transactions and agreements were appropriate.
Intercollegiate athletic programs.	Determined whether the University's intercollegiate athletic programs, reported as an auxiliary enterprise, maintained sufficient cash balances to be self-sustaining in accordance with BOG Regulations.
Florida residency determination, and tuition and fees.	Tested student registrations to determine whether the University documented Florida residency and correctly assessed tuition and fees in compliance with Sections 1009.21, 1009.24, and 1009.286(2), Florida Statutes.
Tuition differential fees.	Reviewed 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.
Distance learning fees.	Determined whether distance learning fees were assessed and collected as provided by Section 1009.24(17), Florida Statutes.
Payroll and personnel.	Tested payroll transactions to determine timeliness of payments.

**EXHIBIT A (CONTINUED)**  
**AUDIT SCOPE AND METHODOLOGY**

Scope (Topic)	Methodology
Overtime payments.	Reviewed University policies, procedures, and supporting documentation evidencing the approval of, and necessity for, overtime payments. Performed analytical procedures to determine the reasonableness of overtime payments.
Terminal pay.	Reviewed the University’s policies and procedures for terminal pay to ensure consistency with Florida law. Tested former employees to determine appropriateness of terminal pay. Additionally, reviewed severance pay provisions in contracts entered into after July 1, 2011, to determine whether the University was in compliance with Florida Statutes.
Administrative employees’ compensation.	Reviewed administrative employees compensation to determine whether compensation did not exceed limits provided in Florida law.
President’s compensation.	Determined whether the President’s compensation was in accordance with Florida law, BOG Regulations, and University policy.
Bonuses.	Determined whether employee bonuses were paid in accordance with Section 215.425(3), Florida Statutes.
Targeted Student Assistance Appropriation.	Reviewed University records for expenditures of legislative appropriation of targeted student assistance funds.
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.
Travel expenses.	Tested executive foreign and out-of-state travel expenses to determine whether the travel was reasonable, adequately supported, and for University purposes.
Student activity fee expenses.	Tested student activity fee transactions and supporting documentation to determine whether the expenses were in accordance with the approved budget, made timely, and were lawful and beneficial to the student body in general.
Contractual agreements.	Determined whether contractual services were supported by Board-approved contracts. Also, examined and tested the aforementioned contracts to ensure that they were properly awarded and executed, that contract terms were adequately supported, and whether vendors carried adequate insurance.

**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 laws and rules. Also, for construction management contracts, determined whether the University monitored the selection process of architects and engineers, construction managers, and subcontractors by the construction manager.
Earmarked capital project resources.	Determined, on a test basis, whether Public Education Capital Outlay and other restricted capital outlay expenditures were in compliance with the restrictions imposed on the use of these resources.
Purchase of software applications.	Determined whether the University evaluated the effectiveness and suitability of the software application prior to purchase and whether the purchase was performed through the competitive vendor selection process. Also, determined whether the deliverables met the terms and conditions of the contract.
Direct-support organizations – conflicts of interest.	Determined whether the University had established policies and procedures to avoid conflicts of interest with vendors who were doing business with the University and made donations to the University’s direct-support organization.

EXHIBIT B  
MANAGEMENT'S RESPONSE



Florida Agricultural and Mechanical University

TALLAHASSEE, FLORIDA 32307-3100

LARRY ROBINSON, Ph.D., INTERIM PRESIDENT

TELEPHONE: (850) 599-3225  
FAX: (850) 561-2152  
TDD: (850) 561-2784

OFFICE OF THE PRESIDENT

February 13, 2013

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

Dear Mr. Martin:

Enclosed are the responses to the preliminary and tentative findings on the operational audit of the Florida A&M University for the fiscal year ended June 30, 2012. The responses reflect the actual and proposed corrective actions, as well as the estimated completion dates.

We appreciate the work of your staff assigned to the audits of our campus. If there are any questions, please contact me at 850-599-3225.

Sincerely,

Larry Robinson  
Interim President

Enclosure

- c: Dr. William Hudson, Jr., Vice President, Student Affairs
- Mr. Joe Bakker, Interim Vice President, Administrative and Financial Services
- Dr. Rodner Wright Interim Provost and Vice President Academic Affairs
- Mr. Richard Givens, Vice President, Audit and Compliance
- Mr. Derek Horne,
- Mr. Michael James, Interim Director, Information Technology

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

**MANAGEMENT RESPONSES TO  
PRELIMINARY AND TENTATIVE FINDINGS FOR FY11-12 OPERATIONAL AUDIT**

**ADMINISTRATIVE MANAGEMENT AND BOARD POLICIES**

**Finding No. 1: Electronic Funds Transfer**

**Finding Summary:** The Board needed to enhance its written policies and procedures relating to electronic funds transfers.

**Recommendation:** The Board should enhance its policy to address accounting and control procedures related to electronic funds transfers.

**Response:** The Board of Trustees of Florida A&M University adopted Board Policy 2005-04 which provides guidelines for financial transactions (direct deposit, wire transfer, withdrawal, investment or payment) using electronic medium. The University will further enhance the policy to include specific accounting and control procedures to mitigate the risk and to be in accordance with Board directives and the provisions of Chapter 668, Florida Statutes. The policy will be submitted to the Board for approval.

*Responsible Party: Dr. William Featherstone, Assistant Vice President and Controller*  
*Implementation Date: June, 2013*

**Finding No. 2: Internal Audit Function**

**Finding Summary:** The University's Division of Audit and Compliance, contrary to its charter and professional standards, did not provide for a required quality assurance review.

**Recommendation:** The Board should continue its efforts to correct deficiencies in its internal audit function noted by the law firm, and ensure that DAC undergoes a timely quality assurance review in accordance with *GAS* and *IIA Standards*.

**Response:** The University has taken the following actions to provide assurance that the internal audit function operates in conformance with applicable auditing standards and in accordance with Board directives:

**Audit Charters.** Charters for both the Board of Trustees Audit Committee and the Division of Audit & Compliance were revised to more clearly define the roles and responsibilities of each group. The major revisions were to update the charters to more closely conform them to the model charters of the Institute of Internal Auditors.

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

Operating Procedures. An operating procedures manual (Manual) governing the operation of the Division, including audits and the investigation process, was adopted in May 2012 to provide a methodology and consistency with which the Division's work, including both audits and investigations are to be performed. The Manual provides that all Division staff adhere to the Code of Ethics adopted by the Institute of Internal Auditors, the Code of Ethics for Public Officers and Employees per Chapter 112, part III, Florida Statutes, and the University Code of Conduct.

Audit Plan. An audit plan was developed based on the risk assessment performed by an outside agency. The higher risk areas identified in the risk assessment were evaluated and used to develop the plan given the Division's resources.

Staff Training. Division Staff have completed audit related training, including the new yellow book standards, best practices for compliance programs, enterprise risk management, governmental financial management and control, and operation of a small audit shop.

Audit Committee Training. Training for the Board's audit committee was provided by an international audit firm with extensive experience in working with audit committees in February 2013.

Quality Assurance Review. A quality assurance program has been implemented as required by auditing standards. As required by the auditing standards, the quality assurance program includes monitoring, processes to ensure that work complies with auditing standards, processes to help the internal audit activity to add value and improve organizational operations, includes both periodic and ongoing internal assessments, and provisions for an external assessment, with the results to be communicated to the Board of Trustees. The next quality assurance review is to be performed by September 2013.

*Responsible Party: Richard Givens, Vice President, Audit and Compliance*  
*Implementation Date: September, 2013*

**Finding No. 3: Board Minutes**

**Finding Summary:** The University needed to improve its procedures to ensure that timely public notice is made for Board and committee meetings and that written minutes of all meetings subject to the provisions of the Sunshine Law are prepared and made available for public inspection.

**Recommendation:** The University should ensure reasonable public notice of each Board or committee meeting, and ensure that written minutes of all meetings subject to the provisions of the Sunshine Law are prepared and made available to the public in accordance with Florida law.

**Response:** The FAMU Board of Trustees Operating Procedures provides that regular and special meetings will be noticed at least 7 days in advance and emergency meetings will be noticed at least 24 hours in advance. To ensure compliance with this procedure, a board meeting time-line will be created to ensure that meetings are noticed within the requisite time-frame from the date of the actual meeting. This internal document will identify the notice deadline and other deadlines that need to be adhered to in preparation for a BOT meeting.

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

The FAMU Board of Trustees Operating Procedures requires Board minutes to be promptly transmitted to Trustees and committee members and other parties deemed appropriate. To ensure compliance with this procedure and to ensure compliance with the Sunshine Law, the draft minutes from a Board meeting will be posted on the BOT's Web site, with other Board meeting agenda materials, at least two weeks before for the next regularly scheduled Board meeting. The approved minutes will be posted on the Web site within 10 days of approval.

*Responsible Party: Linda Barge-Miles, Special Assistant to the President*

*Implementation Date: April, 2013*

**Finding No. 4: Textbook Affordability**

**Finding Summary:** The University needed to enhance its textbook affordability policies to ensure that textbooks are timely posted on its Web site in accordance with Florida Law.

**Recommendation:** The University should enhance its monitoring procedures to ensure that textbooks are timely posted on its Web site in accordance with State law.

**Response:** The University is conducting an analysis of the reasons why some textbooks are ordered late and why they were not posted on the University Web site in a timely manner. The University has already identified corrective actions to help prevent late orders and the timely posting on Web site. In addition, to enhance monitoring and timely posting of textbooks on FAMU's Web site, the University has set a textbook ordering deadline that is before the adoption deadline. The Bookstore is developing a "Late Textbook Ordering" management report which will be issued immediately following this ordering deadline but before the adoption deadline. This report will allow administrators to easily identify areas that require action and notify the respective Deans before the adoption deadline. No textbook orders will be permitted after the adoption deadline of 35 days prior to the beginning of the semester and textbook lists will be posted on the Web site 30 days before the first day of class. Procedures will be written to implement this system.

*Responsible Party: Dr. Donald Palm, Assistant Vice President, Division of Academic Affairs*

*Implementation Date: May, 2013*

**Finding No. 5: Identity Theft Prevention**

**Finding Summary:** The University needed to improve its identity theft prevention program to ensure compliance with the Fair and Accurate Credit Transaction Act of 2003.

**Recommendation:** The University should provide training to its employees as required by the Red Flags Rule. In addition, the University should ensure red flag indicators of potential identity theft are reported as required by its identity theft prevention program.

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

**Response:** The Board approved the University's Identity Theft Program on May 04, 2009 (Policy 2009-1). The Program provides the requirements for the implementation of the Red Flags Rule. The University is taking the following steps to ensure that its Identity Theft Program meets the requirements of the Fair and Accurate Credit Transaction Act of 2003:

- Re-activating the Identity Theft Committee;
- Providing staff training as required for the Red Flags Rule; and
- Revising the procedures for University's Identity Theft Program to include training and monitoring frequencies and reporting. The revised procedures will be submitted for Board approval.

*Responsible Party: Dr. William Featherstone, Assistant Vice President and Controller*  
*Implementation Date: June, 2013*

**CASH MANAGEMENT**

**Finding No. 6: Bank Agreement**

**Finding Summary:** The University did not timely amend its bank agreement for changes in personnel.

**Recommendation:** The University should enhance its controls over banking agreements to timely update employees authorized to administer bank transactions.

**Response:** The University will enhance its procedures and controls over banking agreements to ensure employees authorized to administer bank transactions are updated in a timely manner. The University is developing a checklist for verifying that only authorized employees are administering bank transactions. Additionally, procedures are being updated to reflect the immediate actions to be taken when there is a change in authorized personnel.

*Responsible Party: Dr. William Featherstone, Assistant Vice President and Controller*  
*Implementation Date: May, 2013*

**INVENTORY**

**Finding No. 7: Pharmaceutical Inventory**

**Finding Summary:** Records and control procedures related to pharmaceutical inventory needed improvement.

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

**Recommendation:** The University should enhance its policies and procedures related to pharmacy operations to ensure that incompatible duties are properly separated or that compensating controls are implemented, such as periodic independent verification of purchases and issuances of pharmaceuticals. Procedures should also provide that any differences between perpetual inventory records and actual inventory on hand be timely investigated, resolved, and adequately documented by personnel independent of pharmacy operations.

**Response:** Separation of duties has been accomplished at both pharmacies operated by the College of Pharmacy. Policies and procedures already exist which comply with Florida Board of Pharmacy requirements. However, the policies and procedures will be enhanced to ensure continued separation of duties, appropriate compensating controls, and accurate management, maintenance, and documentation of inventory records.

*Responsible Party: Dr. Michael Thompson, Dean, College of Pharmacy*

*Implementation Date: May, 2013*

**INTERCOLLEGIATE ATHLETIC PROGRAMS**

**Finding No. 8: Financial Deficits**

**Finding Summary:** The University's intercollegiate athletic programs have experienced cash deficits for several years. Although University personnel prepared a five-year deficit reduction plan to eliminate the operating deficits, the Plan did not adequately address eliminating the cash deficit or improving the financial position of the intercollegiate athletic programs auxiliary enterprise fund.

**Recommendation:** The Board should continue to monitor its intercollegiate athletic programs and revise its Five-Year Deficit Reduction Plan as necessary to ensure that its intercollegiate athletic programs are self-supporting.

**Response:** The University is revising its current 5-year deficit reduction plan. The revised plan will focus on the: (a) addition of new sources of revenues; (b) reduction of expenditures; (c) return to a balanced budget and; (d) repayment plan for the cumulative deficit. The plan will be presented to the Board of Trustees for review and approval. Updates will be given to the Board at least quarterly.

*Responsible Party: Mr. Derek Horne, Athletic Director*

*Implementation Date: July, 2013*

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

**STUDENT TUITION AND FEES**

**Finding No. 9: Florida Residency Status**

**Finding Summary:** The University needed to enhance its procedures for classifying students as Florida residents for tuition purposes.

**Recommendation:** The University should enhance its procedures to ensure that documentation is obtained to support the classification of students as Florida residents for tuition purposes. Additionally, the University should ensure that students assessed Florida resident tuition rates pursuant to Section 1009.21(10) (e), Florida Statutes, received Federal or State scholarships.

**Response:** The University will enhance its procedures to ensure the accurate classification of all students, (including those being assessed under Section 1009.21(10) (e), Florida Statutes), who seek classification as Florida residents for tuition purposes. Procedures will specify documentation requirements and include the method for monitoring compliance. The University will also conduct training of staff to ensure adequate knowledge and implementation of requirements.

*Responsible Party: Dr. Agatha Onwunli, University Registrar*  
*Implementation Date: May, 2013*

**Finding No. 10: Tuition Differential Fee**

**Finding Summary:** The University needed to enhance its procedures to ensure that tuition differential fees are used in accordance with Florida Law, and to ensure that tuition differential fee information reported to the Board of Governors (BOG) is accurate and adequately supported. Also, our tests disclosed payments totaling \$46,705 to five employees from tuition differential fees for which University records did not evidence that these employees were entitled to these salary payments.

**Recommendation:** The University should establish procedures to ensure that tuition differential fees are expended in accordance with Section 1009.24(16), Florida Statutes, and that tuition differential fee information reported to the BOG in its annual Work Plan is accurate and adequately supported. Additionally, the University should restore the remaining \$85,803 of questioned uses of tuition differential fees to the tuition differential fee fund. Further, the University should document of record that the five employees whose salaries were paid from tuition differential fees provided services to the University, or seek to recover the \$46,705 paid to these employees.

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

**Response:** The University is developing procedures to ensure that tuition differential fees are expended in accordance with statutory and other regulatory requirements. The procedures will include the method for verifying accuracy and timeliness for maintaining appropriate records. Training will also be provided to all employees involved in the tuition differential accounting. The University will restore any incorrectly allocated funds from the tuition differential fee fund.

*Responsible Party: Mr. Herbert Bailey, Assistant Vice President, Academic Affairs*  
*Implementation Date: June, 2013*

**EMPLOYEE COMPENSATION**

**Finding No. 11: Payroll processing**

**Finding Summary:** The University's controls related payroll processing needed improvement.

**Recommendation:** The University should enhance its controls to ensure that salary payments are timely processed to allow for prompt salary payments to employees.

**Response:** The University is enhancing its procedures and controls to ensure prompt salary payments to employees. The new procedures and guidelines will be made available to all departmental representatives through the Human Resources Web site and will include provisions for mandatory training, bi-weekly non-compliance reporting, and accountability measures for departments and work units.

*Responsible Party: Ms. Sherrye Earst, Interim Assistant Vice President, Human Resources*  
*Implementation Date: July, 2013*

**Finding No. 12: Severance Pay**

**Finding Summary:** The former President's employment agreement included a severance pay provision that was contrary to Section 215.425, Florida Statutes.

**Recommendation:** The University should follow through with entering into a faculty employment agreement with the former President and ensure that such agreement, and other future employment agreements, contain provisions for severance pay that are in accordance with Section 215.425(4)(a), Florida Statutes.

**Response:** The University will develop new templates for the President's and other employees' contracts that will incorporate the requirements of Section 215.425(4) (a), Florida Statutes.

*Responsible Party: Mr. Avery McKnight, General Counsel*  
*Implementation Date: April, 2013*

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

**EXPENSES AND DISBURSEMENTS**

**Finding No. 13: Travel Expenses**

**Finding Summary:** The University needed to enhance controls over employee travel reimbursements.

**Recommendation:** The University should enhance its monitoring procedures over travel expenses to ensure travel expenses are properly approved, timely documented, reasonable and necessary, and for a valid public purpose. The University should also document to the grantor the allowability of the \$2,066 of questioned costs or restore this amount to the Title III program. In addition, the University should take actions, as appropriate, to recover the \$2,723 of questioned reimbursements to the former employee and \$69 overpayment to current employees.

**Response:** The University has implemented the following procedures to ensure travel expenses are properly approved, timely documented, reasonable and necessary, and for a valid public purpose:

- The University is hiring a Music Compliance Officer whose responsibility will include reviewing of group travel expenses for the Music Department.
- The employee charged by FDLE was terminated as a result of the FDLE findings.
- The University revised the group travel form required of all group travelers.
- The University implemented procedures to reconcile travel-related expenditures placed on the monthly P-card reports to expense reports submitted to the Travel Office.
- The University continues to provide monthly training on travel processes, policies and procedures as outlined in the Board of Trustees Travel and Expense Policy and Procedures Manual.

The university is in the process of further investigating and identifying all questioned reimbursements and overpayments and will restore them as appropriate.

*Responsible Party: Dr. William Featherstone, Assistant Vice President and Controller*  
*Implementation Date: June, 2013*

**Finding No. 14: Purchasing Cards**

**Finding Summary:** The University needed to improve controls over its purchasing card program.

**Recommendation:** The University should enhance its monitoring procedures to ensure that P-card purchases are timely submitted for supervisory approval and sufficiently documented.

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

**Response:** The University revised its P-card reconciliation report to include justification for purchases; a description of items purchased, Travel Authorization number, if applicable, and implemented a lost receipt form. The lost receipt form requires the same documentation as noted above. In addition, supervisory approval is required on both the reconciliation report and lost receipt form. The University also held a mandatory P-card training session in September 2012 to reinforce the importance of following Board of Trustees P-card Policy and Procedures. The University will also require training at the issuance and renewal of P-cards for each card holder. The University will revise its procedures accordingly.

*Responsible Party: Ms. Stephany Fall, Director, Procurement Services*  
*Implementation Date: June, 2013*

**PROCUREMENT OF GOODS AND SERVICES**

**Finding No. 15: Consulting Services**

**Finding Summary:** The University needed to enhance controls over consultant payments.

**Recommendation:** The University should enhance its procedures for monitoring consultant payments to ensure that payments are adequately supported and in accordance with terms of the contract. The University should also request, from the consultant providing assistance related to restructuring academic units, documentation evidencing hours worked and the individuals performing the work.

**Response:** The University is in the process of hiring a Contract Administrator and Contract Coordinator to assist in monitoring all University Procurement Contracts. Additionally, the University is developing a Contract Management Training Manual to enhance the contracting process. The manual includes procedures for the monitoring and payment of invoices. Contract Management Training will be offered quarterly, starting June, 2013. The University will contact the consultant who performed academic consulting service (restructuring) to provide the appropriate information to support the invoice. The University will also enhance its procedures to monitor all procurement contracts for consultants.

*Responsible Party: Ms. Stephany Fall, Director, Procurement Services*  
*Implementation Date: June, 2013*

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

**Finding No. 16: Targeted Student Assistance Programs**

**Finding Summary:** The University needed to enhance procedures over monitoring the award and use of Targeted Student Assistance funds.

**Recommendation:** The University should document review and approval of the budgets for the two organizations. The University should also obtain from the Foundation the required financial and activities reports, and supporting documentation, and review such reports and documentation to ensure funds were used as intended and activities required in the contract were performed.

**Response:** The University initially received and reviewed documentation submitted by the organizations and determined the documentation for expenses and reports were not adequate. The organizations were contacted and additional documentation and reports were requested and have been received. Effective November 2012, the Office of Procurement Services started managing and monitoring the Targeted Assistance Program contracts. As noted above, the documentation and reports were received from the Foundation to determine the status of the program.

*Responsible Party: Ms. Stephany Fall, Director, Procurement Services*

*Implementation Date: June, 2013*

**CONSTRUCTION ADMINISTRATION**

**Finding No. 17: Design-Build Services**

**Finding Summary:** The University needed to establish procedures to ensure funding is approved prior to entering into agreements for design-build services and the design-build firm selection process is adequately documented.

**Recommendation:** The University should establish procedures to ensure project funding is approved prior to entering into agreements for design-build services. In addition, the University should adequately document that design-build firms are selected in accordance with BOG regulations.

**Response:** The finding and recommendation are noted. Confronted with a depleted and deteriorated housing inventory, the University on May 5, 2008, issued an invitation to negotiate (ITN) for financing, designing, constructing, and renovating of Florida A&M University's Student Housing design-build services for three projects: (1) the construction of a new 800-bed dormitory; (2) the renovation of two existing dormitories (Sampson and Young residence halls); and (3) renovation of other existing student housing facilities. The ITN was thought to be the best instrument to increase and improve the housing inventory in an accelerated time and thus promote the graduation, retention, and recruitment objectives of the University. In accordance with section 39 of the ITN document, the University later decided not to pursue, through the ITN, the options for financing and for renovation of the other existing student housing facilities.

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

*Project Financing.* Financing for the Sampson and Young residence halls renovation was not secured until May 6, 2010. Once the University realized that the financing was very likely to be obtained in May 2010, it was immediately decided that there was an opportunity to have the Sampson and Young renovation completed for occupancy in Fall 2011 rather than follow a regular schedule and have the project completed in 2012. As such the University took the following steps:

- Used internally-generated funds to get the project started;
- Negotiated and entered into partial but discrete GMPs as planning progressed and funds became available;
- Set budgets for each partial and discrete GMP within the context of the overall budget; and
- Bid all work to ensure competitive prices.

The project was successfully completed on schedule and within budget. As a result the University was able to: (a) house 238 students one year earlier; (b) begin generating revenues for the repayment of the bond one year earlier; and (c) generate surpluses for the Housing Department one year earlier. In addition, the financing and construction projects in phases are done for PECO projects as well and do not violate any BOG regulations.

The successful model used for Sampson and Young was applied to the 800-bed facility also. Financing for the 800-bed dormitory was obtained through the sale of bonds in July, 2012. Once again the University decided that there was an opportunity to have the 800-bed construction completed for occupancy in Fall 2013 rather than follow a regular schedule and have the project completed in 2014. Success would result in advantages similar to those for Sampson and Young but on a larger scale. In July of 2012, the University realized that the design-builder did not do its due diligence in keeping the University timely apprised of the estimated costs associated with meeting the July 2013 deadline. As a result the University decided to terminate its contract with the design-builder and proceed with the regular schedule for completion in Fall 2014.

*Documentation of the Selection Process.* The selection of the successful proposer for the ITN, conducted in 2008 and 2009, was based on rankings by each evaluator. Subsequent to the rankings by the Selection Committee and the Negotiation Team, the University's Purchasing Department tallied the rankings and attested to the validity of the rankings (attestation documents presented). All rankings were subsequently posted on the Purchasing Department's Web site and the scoring and ranking results were made available for public review for 72 hours as required by the University's Purchasing Regulations. While some scoring sheets could not be found, scoring sheets which were provided supported the validity of the rankings. Although some documentation could not be located, we respectfully believe the selection process was done with full integrity and in accordance with BOG regulations.

**Finding No. 18: Construction Contract Management**

**Finding Summary:** The University needed to improve its procedures for negotiating and documenting construction-related fees and guaranteed maximum price for construction projects.

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

**Recommendation:** The University should evaluate and revise as appropriate, its procedures for contracting with design-build firms to ensure that a GMP contract is based on a detailed final proposal for total construction costs and is established prior to the start of construction, a performance and payment bond is executed for the entire construction GMP amount and properly filed with the Clerk of the Court, and subcontractors are bid after the GMP is established. The University should also establish written policies and procedures addressing the negotiation of overhead and profit and general conditions and require documentation of the methodology used and application of various factors considered in evaluating the reasonableness of such costs.

**Response:** The University has completed drafts of the following documents:

- (a) "Project Manager's Procedure Manual"
- (b) "Service Guide for Design and Construction Professionals"
- (c) "Design Standards for Professionals"

These documents will include enhanced procedures for contracting with design-build firms to ensure appropriate solicitation, negotiation, and documentation for all contracts and subcontracts. The documents will be submitted for BOT approval.

*Responsible Party: Mr. Samuel Houston, Director, Facilities Planning and Construction*  
*Implementation Date: June, 2013*

**Finding No. 19: Subcontractor Selection**

**Finding Summary:** The University's procedures for documenting the monitoring of the subcontractor selection process for construction projects needed improvement.

**Recommendation:** The University should establish procedures for maintaining documentation of the subcontractor selection process to demonstrate that bids were properly solicited, evaluated, and awarded, and that bid documents were properly controlled.

**Response:** The University has completed drafts of the following documents:

- (d) "Project Manager's Procedure Manual"
- (e) "Service Guide for Design and Construction Professionals"
- (f) "Design Standards for Professionals"

These documents will include enhanced procedures to ensure appropriate solicitation, evaluation, negotiation, award, and documentation for all contracts and subcontracts. The documents will be submitted for BOT approval at the June 2013 meeting.

*Responsible Party: Mr. Samuel Houston, Director, Facilities Planning and Construction*  
*Implementation Date: June, 2013*

**Finding No. 20: Verification of subcontractor Licensure Status**

**Finding Summary:** The University needed to enhance its procedures for verifying subcontractors' licensure status.

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

**Recommendation:** The University should enhance procedures to document the verification of subcontractors' licensure status prior to commencement of work on projects and monitor licensure status through completion of the projects.

**Response:** The University has completed drafts of the following documents:

- (g) "Project Manager's Procedure Manual"
- (h) "Service Guide for Design and Construction Professionals"
- (i) "Design Standards for Professionals"

These documents will include enhanced procedures for contracting with design firms to ensure appropriate documentation (including licensure) for all contracts and subcontracts. The documents will be submitted for BOT approval at the June 2013 meeting.

*Responsible Party: Mr. Samuel Houston, Director, Facilities Planning and Construction*  
*Implementation Date: June, 2013*

**Finding No. 21: Monitoring Payment Requests**

**Finding Summary:** The University needed to enhance its procedures for monitoring construction payment requests.

**Recommendation:** The University should modify its procedures for monitoring construction payment requests to ensure that charges are properly applied to the correct GMP contract components and payment requests are adequately documented.

**Response:** The University has completed drafts of the following documents:

- (j) "Project Manager's Procedure Manual"
- (k) "Service Guide for Design and Construction Professionals"
- (l) "Design Standards for Professionals"

These documents will include enhanced procedures to ensure appropriate payment monitoring and associated documentation for all contracts and subcontracts. The documents will be submitted for BOT approval at the June 2013 meeting. In addition, the University will perform a post-audit on the payments made for the Sampson and Young project.

*Responsible Party: Mr. Samuel Houston, Director, Facilities Planning and Construction*  
*Implementation Date: June, 2013*

**Finding No. 22: Insurance Coverage**

**Finding Summary:** The University needed to implement a policy establishing minimum professional liability insurance requirements for design professionals, and establish monitoring procedures to ensure that construction contractors and architects are properly insured.

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

**Recommendation:** The University should implement a policy establishing minimum professional liability insurance requirements for design professionals. The University should also establish monitoring procedures to ensure that construction contractors and architects are properly insured in accordance with applicable contractual requirements and timely provide to the University certificates of insurance evidencing the required coverage through completion of the projects.

**Response:** The University has completed drafts of the following documents:

- (m) "Project Manager's Procedure Manual"
- (n) "Service Guide for Design and Construction Professionals"
- (o) "Design Standards for Professionals"

These documents will include enhanced procedures to ensure insurance requirements are established, met, and filed. The documents will be submitted for BOT approval at the June 2013 meeting.

*Responsible Party: Mr. Samuel Houston, Director, Facilities Planning and Construction*

*Implementation Date: June, 2013*

**INFORMATION TECHNOLOGY**

**Finding No. 23: Access Privileges**

**Finding Summary:** Some inappropriate or unnecessary information technology (IT) access privileges existed, indicating a need for an improved review of access privileges.

**Recommendation:** The University should modify access privileges assigned within the ERP finance and HR applications to ensure that privileges enforce an appropriate separation of incompatible duties and do not exceed what is necessary for assigned job responsibilities. In addition, the University should continue its efforts to enhance the recertification procedure to ensure that a comprehensive periodic review of employee access privileges is performed.

**Response:** *Access Privileges.* The University is working with the various offices to remove access privileges which permitted employees to be able perform incompatible duties or were not necessary for their responsibilities. Some of the access which was documented has already been corrected. Other access requires a detailed review of PeopleSoft roles and permission lists as they relate to access to individual screens, and further agreement by the respective departments.

The University is also working to address the unique situation within EIT which requires their employees to have access to PeopleSoft Production which is contrary to state recommendations. Resolution to this issue will involve a careful combination of removing some access privileges as noted, while developing and placing compensating controls to mitigate risk for other users where access cannot be removed.

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

*Annual Review.* The University is developing a PeopleSoft utility which will force all managers to perform an annual review of the access privileges of the employees who directly report to them. Managers will be required to verify that each employee listed is still employed at the university, and that their roles have not changed. Failure to perform this verification may result in suspension of access until such time as verification is completed. We are developing an annual review policy which will enforce this procedure.

*Responsible Party:* Mr. Arthur Bialowas, Director of Security, Enterprise Information Technology  
*Implementation Date:* August, 2013

**Finding No. 24: Security Controls**

**Finding Summary:** University IT security controls related to user authentication and data loss prevention needed improvement.

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

**Response:** The University has evaluated the security controls which have been recommended to be changed, and will make the necessary changes in 2 phases. We have currently scheduled to execute these changes beginning in February, following completion of other concurrent upgrades sharing the same infrastructure. The changes will be enforced by the systems on which they are applied. The University will institute procedures to evaluate security controls on an annual basis.

*Responsible Party:* Mr. Arthur Bialowas, Director of Security, Enterprise Information Technology  
*Implementation Date:* August, 2013