

FLORIDA AGRICULTURAL AND MECHANICAL UNIVERSITY

Operational Audit



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Members of the Board of Trustees and Presidents who served during the 2012-13 fiscal year are listed below:

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Karl E. White

Dr. James H. Ammons, President, to July 16, 2012
Dr. Larry Robinson, Interim President, from July 17, 2012

Notes: (1) Faculty senate chair.
(2) Student body president.

The audit team leader was Cheryl B. Buchanan, CPA, and the audit was supervised by Karen L. Revell, CPA. Please address inquiries regarding this report to James R. Stultz, CPA, Audit Manager, by e-mail at jimstultz@aud.state.fl.us or by telephone at (850) 412-2869.

This report and other reports prepared by the Auditor General can be obtained on our Web site at www.myflorida.com/audgen; by telephone at (850) 412-2722; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

FLORIDA AGRICULTURAL AND MECHANICAL UNIVERSITY

EXECUTIVE SUMMARY

Our operational audit disclosed the following:

INTERCOLLEGIATE ATHLETIC PROGRAMS

Finding No. 1: The University’s intercollegiate athletic programs continued to experience cash deficits for the 2012-13 fiscal year. Although University personnel prepared a Five-Year Deficit Reduction Plan to eliminate the cash deficits, the Plan did not adequately address eliminating the cash deficit of the intercollegiate athletic programs auxiliary enterprise fund.

ADMINISTRATIVE MANAGEMENT

Finding No. 2: The University needed to continue its efforts to enhance textbook affordability monitoring procedures to ensure that textbooks are timely posted on its Web site in accordance with State law.

STUDENT TUITION AND FEES

Finding No. 3: The University needed to continue to enhance its procedures for classifying students as Florida residents for tuition purposes.

BACKGROUND

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, 2013, 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, 2013, will be presented in a separate report.

FINDINGS AND RECOMMENDATIONS

Intercollegiate Athletic Programs

Finding No. 1: Financial Deficit

The *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. Board of Governors’ (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 1
Auxiliary Enterprise Fund
Intercollegiate Athletic Programs
Cash Accounts

Fiscal Year Ended June 30	Total Cash Balances
2008	\$(3,971,621)
2009	(4,180,183)
2010	(5,169,605)
2011	(5,975,874)
2012	(7,014,034)
2013	(7,017,525)

The deficit cash balances above do not represent actual cash 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.

To address the deficit cash balance and improve 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 the 2012-13 fiscal year the University’s intercollegiate athletic program reported cash balance deficit of \$7,017,525, an increase of \$3,491 over the prior fiscal year. However, this increase in deficit cash was only after a transfer of accumulated interest earnings of \$2,081,120 from the agency fund for athletic scholarships.

Although this is an allowable use of interest earned on agency fund investments pursuant to Section 1011.43, Florida Statutes, in the absence of the \$2,081,120 transfer from the agency fund, the intercollegiate athletic auxiliary fund would have reported a cash deficit of \$9,098,645.

On August 26, 2013, the University hired a consultant to review its athletic programs and provide recommendations for increasing revenue, renovating athletic facilities, and proposing changes to the organizational structure. In addition, the University amended the intercollegiate athletic programs auxiliary enterprise fund's operating budget for the 2013-14 fiscal year, to reduce budgeted expenditures by \$1.6 million in an effort to improve the intercollegiate athletic programs auxiliary enterprise fund's financial position in the 2013-14 fiscal year.

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 and agency fund 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 or agency fund 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. A similar finding was noted in report No. 2013-103.

Recommendation: The Board should continue to monitor its intercollegiate athletic programs and implement an effective deficit reduction plan to ensure that its intercollegiate athletic programs are self-supporting.

Administrative Management

Finding No. 2: Textbook Affordability

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 university during the upcoming term. Additionally, 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 cost of textbooks for students and document the intent of the course instructor 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 bookstore 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 bookstore system.

Our review disclosed that the University adopted 1,146 textbooks for the Fall 2012 term, 1,129 textbooks for Spring 2013, and 1,189 textbooks for the Fall 2013 term, which included the required ISBN or other identifying information.

However, information for 392 textbooks for the Fall 2012 term, 200 textbooks for Spring 2013, and 224 textbooks for the Fall 2013 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. This included 86 textbooks for the Fall 2012 term, 57 textbooks for the Spring 2013 term, and 62 textbooks for the Fall 2013 term that were posted to the University’s Web site from 5 to 86 days after the first day of class. University bookstore personnel indicated that the reason for the late posting to the University’s Web site was the late notification by professors of their textbook requirements.

Effective monitoring procedures would help ensure that textbooks are listed on the University’s Web site in accordance with State law and BOG Regulations. Timely posting of textbook information is necessary to improve textbook affordability for students. A similar finding was noted in report No. 2013-103.

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

Student Tuition and Fees

Finding No. 3: Florida Residency Status

Section 1009.21, Florida Statutes, states, in part, that students shall be classified as residents or nonresidents for the purpose of assessing tuition. Section 1009.21(10)(e), Florida Statutes, provides that students from Caribbean countries who receive scholarships from Federal or State government may be classified as Florida residents for tuition purposes.

The University collected \$94 million in tuition and fees during the 2012-13 fiscal year. The University undergraduate rate for each semester hour for non-Florida residents was \$550 and for Florida residents was \$152, during the 2012-13 fiscal year. The graduate rate for each semester hour for non-Florida residents was \$1,022 and for Florida residents was \$406 for the 2012-13 fiscal year.

Our test of 29 students classified as Florida residents, included 22 students who were reclassified from non-Florida residents to Florida residents for tuition purposes during the 2012-13 fiscal year, one of which was reclassified by the University because the student was a resident of a Caribbean country and received a \$500 scholarship from the University’s School of Architecture. However, University records did not evidence that the student had received a scholarship from the Federal or State government to qualify for a Florida resident tuition rate. We determined that 19 additional students who were residents of a Caribbean country were classified as Florida residents for tuition purposes for the 2012-13 fiscal year. Our review of the student records for these additional 19 students disclosed that they received scholarships ranging from \$500 to \$3,000 during the 2012-13 fiscal year from the University’s School of Architecture. However, University records did not evidence that these students had received a scholarship from the Federal or State government.

In response to our inquiry, University personnel indicated that it was their interpretation that since the scholarships awarded by its School of Architecture to the students were from University funds (i.e. funds from a State university), the scholarships would qualify as State scholarships as contemplated by Section 1009.21(10)(e), Florida Statutes. However, the basis for such an interpretation was not apparent as State scholarships as used in Section 1009.21(10)(e), Florida Statutes, appear to be referring to scholarships from the State of Florida government such as those set forth in Part III of Chapter 1009, Florida Statutes, and not to scholarships paid from University funds. The classification of these 20 students as Florida residents for tuition purposes resulted in a loss of \$274,149 of nonresident student fee revenue to the University. A similar finding was noted in report No. 2013-103.

Recommendation: If it is the University’s intent to continue classifying students who are residents of a Caribbean county as Florida residents for tuition purposes because such students were awarded scholarships from University funds, the Board should seek guidance from the Attorney General as to whether this practice is allowable under Section 1009.21(10)(e), Florida Statutes.

PRIOR AUDIT FOLLOW-UP

The following table provides information on recurring audit findings for the University:

Current Fiscal Year Finding Numbers	Preceding Fiscal Year Audit Report and Finding Numbers	Second Preceding Fiscal Year Audit Report and Finding Numbers
1	2013-103, Finding No. 8	NA
2	2013-103, Finding No. 4	NA
3	2013-103, Finding No. 9	NA

NA – Not Applicable

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 August 2013 to December 2013 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, safeguarding of assets, and identifying weaknesses in those controls.
- Determine whether management had taken corrective actions for findings included in our report No. 2013-103.
- 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 records and transactions occurring during the 2012-13 fiscal year, and selected actions through December 2013. Unless otherwise indicated in this report, these records and transactions were not selected with the intent of 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) access privileges and separation of duties.	Tested selected access privileges over the database and finance and human resources applications to determine the appropriateness and necessity based on employees' job duties and user account functions and adequacy with regard to preventing the performance of incompatible duties. Tested administrator account access privileges granted and procedures for oversight of administrator accounts for the network, operating system, database, and application to determine whether these accounts had been appropriately assigned and managed.
IT data loss prevention.	Reviewed written security policies, procedures, and programs in effect governing the classification, management, and protection of sensitive and confidential information.
IT logical access controls and user authentication.	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 to determine whether Board approval was obtained for policies and procedures in effect during the audit period and for evidence of compliance with Sunshine law requirements (i.e., proper notice of meetings, ready access to public, and maintenance of minutes).
Internal audit function (inspector general).	For selected internal audits, determined whether audit reports were properly completed and submitted to the Board. Reviewed the internal audit function to determine whether the University followed professional requirements and provided for peer review of reports issued.
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.
Textbook affordability.	Examined supporting documentation to determine whether the University's procedures regarding textbook affordability were in accordance with Section 1004.085, Florida Statutes.
Bank accounts.	Reviewed bank agreements and determined whether bank accounts were properly authorized in the name of the Board and designated as qualified public depositories.
Pharmaceutical inventories.	Reviewed University policies and procedures to determine whether controls were adequate to safeguard pharmacy inventory. Tested selected pharmacy inventory items to determine whether the pharmacy's inventory records were accurate.
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 Board of Governors (BOG) Regulations.

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Florida residency determination and tuition.	Tested student registrations to determine whether the University documented Florida residency and correctly assessed tuition in compliance with Sections 1009.21, 1009.24, and 1009.286(2), Florida Statutes, and BOG Regulation 7.005.
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.
Payroll and personnel.	Tested payroll transactions to determine timeliness of payments.
Severance pay.	Reviewed severance pay provisions in selected contracts 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.
Targeted student assistance program appropriation.	Reviewed University records for monitoring expenditures of targeted student assistance program appropriations.
Electronic funds transfers and payments.	Reviewed University policies and procedures related to electronic funds transfers and payments. Tested supporting documentation to determine whether selected electronic funds transfers and payments were properly authorized and supported.
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 travel expenses to determine whether the travel expenses were in compliance with laws and regulations, and were reasonable, adequately supported, and for a valid University purpose.
Contractual agreements.	Determined whether contractual services were supported by Board-approved contracts. Also, examined and tested the aforementioned contracts to ensure whether they were properly awarded and executed and whether contract terms were adequately supported.
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 construction manager's selection of subcontractors.

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 12, 2014

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, 2013. 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

Enclosure:

- Copy to: 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. Michael Smith, Interim Athletic Director

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EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

MANAGEMENT RESPONSES TO
PRELIMINARY AND TENTATIVE FINDINGS FOR FY12-13 OPERATIONAL AUDIT

INTERCOLLEGIATE ATHLETIC PROGRAMS

Finding No. 1: Financial Deficit

Finding Summary: The University's intercollegiate athletic programs continued to experience cash deficits for the 2012-13 fiscal year. Although University personnel prepared a Five-Year Deficit Reduction Plan to eliminate the cash deficits, the Plan did not adequately address eliminating the cash deficit of the intercollegiate athletic programs auxiliary enterprise fund.

Recommendation: The Board should continue to monitor its intercollegiate athletic programs and implement an effective deficit reduction plan to ensure that its intercollegiate athletic programs are self-supporting.

Response: The Board will consider the consultant's report at the March 2014 Board of Trustees meeting. A revised deficit reduction plan will be subsequently prepared for the approval of the Board. The revised plan will address eliminating the cash deficit, including specific actions to be taken and a time frame for completing the actions. The status of implementation of the deficit reduction plan will be reported to the Board on at least a quarterly basis.

Responsible Party: Interim Athletic Director, Mr. Michael Smith

Implementation Date: September 30, 2014

ADMINISTRATIVE MANAGEMENT

Finding No. 2: Textbook Affordability

Finding Summary: The University needed to continue its efforts to enhance textbook affordability monitoring procedures to ensure that textbooks are timely posted on its Web site in accordance with State 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 will continue to enhance its monitoring procedures to ensure that textbooks are timely posted on its Web site in accordance with State law. The Provost will coordinate efforts of the Academic Deans, Bookstore and University Registrar to identify and post textbooks timely on the University's Website.

Responsible Party: Interim Provost and Vice President Academic Affairs, Mr. Rodner Wright

Implementation Date: August 1, 2014

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

MANAGEMENT RESPONSES TO
PRELIMINARY AND TENTATIVE FINDINGS FOR FY12-13 OPERATIONAL AUDIT

STUDENT TUITION AND FEES

Finding No. 3: Florida Residency Status

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

Recommendation: If it is the University's intent to continue classifying students who are residents of a Caribbean county as Florida residents for tuition purposes because such students were awarded scholarships from University funds, the Board should seek guidance from the Attorney General as to whether this practice is allowable under Section 1009.21(10)(e), Florida Statutes.

Response: The University continues to enhance its procedures to ensure accurate classification of students as Florida residents for tuition purposes. The University will research the application of Section 1009.21(10)(e), Florida Statutes at other institutions in the State University System and seek guidance from the Board of Governors and Attorney General on our practices, as necessary.

Responsible Party: Vice President for Student Affairs, Dr. William Hudson

Implementation Date: Fall 2014