

FLORIDA STATE UNIVERSITY

Operational Audit



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Notes: (1) The vice chair position remained vacant from July 1, 2013, through January 23, 2014.
(2) Student body president.
(3) Faculty senate president.

The audit team leader was Iris M. Bitner, CPA, and the audit was supervised by Karen L. Revell, CPA. For the information technology portion of this audit, the audit team leader was Bill Allbritton, 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 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 STATE UNIVERSITY

EXECUTIVE SUMMARY

Our operational audit disclosed the following:

ROYALTIES, TUITION, AND FEES

Finding No. 1: Royalty fees owed to the University were provided to its direct-support organization without specific legal authority. Additionally, the University should establish monitoring procedures to ensure compliance with contract provisions for guaranteed royalty fees.

Finding No. 2: Our tests disclosed payments totaling \$265,443 to three employees from tuition differential fees for which University records did not evidence that these employees provided a benefit to undergraduate programs, contrary to Section 1009.24(16), Florida Statutes.

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

PERSONNEL AND PAYROLL

Finding No. 4: The University's remuneration to an administrative employee exceeded the limitation contained in Section 1012.976(2), Florida Statutes.

PURCHASING CARD PROGRAM

Finding No. 5: The University needed to enhance its procedures to ensure the timely cancellation of purchasing card accounts.

INFORMATION TECHNOLOGY

Finding No. 6: University information technology security controls related to user authentication needed improvement.

BACKGROUND

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

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

The results of our financial audit of the University for the fiscal year ended June 30, 2014, 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, 2014, will be presented in a separate report.

FINDINGS AND RECOMMENDATIONS**Royalties, Tuition, and Fees****Finding No. 1: Transfer of Royalty Fees to Direct-Support Organizations**

Section 1004.28(1)(a)2., Florida Statutes, provides that a direct-support organization is organized and operated exclusively to receive, hold, invest, administer property, and make expenditures to and for the benefit of a university. Section 1004.28(2), Florida Statutes, in part, provides that each State university board of trustees is authorized to permit the use of property, facilities, and personal services at any State university by any university direct-support organization and subject to the provision of that section, which include references to rules and guidelines of the Board of Governors. University Policy No. 4-OP-D-3 for revenue-generating contracts requires that all monies received by the University as a result of the execution of a revenue-generating contract must be deposited in an appropriate University account. In addition, all records, held by either party, pertaining to a revenue-generating contract are subject to audit by the University.

The University entered into an agreement with a company to license certain University athletic properties (e.g., rights to produce, sell, broadcast, or rebroadcast any events involving the University's athletic teams) for the purpose of promoting the properties for the mutual benefit of both parties. The original written agreement was for a ten-year period beginning July 1, 2007, and provided for the University to receive annual guaranteed royalty fees in exchange for the worldwide multi-media rights including, but not limited to, all commercial advertising and sponsorship rights. For the 2013-14 fiscal year, the agreement provided that the University receive a guaranteed financial royalty totaling \$5,104,594.

Our review of the license agreement disclosed that none of the annual guaranteed royalty fees, totaling over \$35 million since the inception of the agreement, had been received from the company and deposited in the University's accounts. University personnel indicated that the annual royalty fees had been provided instead to the Seminole Boosters, Inc., a University direct-support organization organized pursuant to Section 1004.28, Florida Statutes. In response to our inquiry, University personnel indicated that there is no University record that documents the authority for payment of the royalties to a direct-support organization. Further, although requested, University personnel did not provide documentation of Board approval to transfer these royalty fees to a direct-support organization.

University personnel indicated that, once received by the Seminole Boosters, Inc., the funds were transferred to another University direct-support organization, the Florida State University Foundation, as the funding source of the Foundation's Athletic Development Fund (ADF). University personnel further indicated that the royalty fees are returned to the University because the ADF is the primary funding source for payments made to the University for University athletic personnel compensation above the State limits stipulated in Section 1012.976, Florida Statutes. However, we are unaware of any specific authority in Florida Statutes or Board of Governor regulations permitting the University to direct royalty fees owed to the University to a University direct-support organization.

Our review also disclosed that the University had not established adequate procedures for monitoring the terms of the licensing agreement to ensure all royalty fees owed to the University were received. In response to our inquiry, University personnel indicated that University personnel annually meet with the independent auditors of the University's direct-support organizations and the University relies on the auditor's review of the royalty payments for compliance with the contract terms during their annual financial audits of the direct-support organizations. Although

requested, documentation of these meetings and documentation of the review of the contractor's records supporting the royalty fees generated and paid was not provided. Because the license agreement for royalty payments was between the University and the company, good business practices indicate that the University should monitor compliance with terms of the licensing agreement. Without periodic verification of the company's records and a complete accounting of all royalty fee payments, the University cannot be assured it has received all royalties to which it is entitled pursuant to the license agreement.

Recommendation: In the absence of specific authority, the University should discontinue the practice of allowing the payment of royalty fees owed to the University to be paid to its direct-support organizations. In addition, the University should enhance its procedures for monitoring the company's compliance with the terms of the licensing agreement by periodically reviewing the company's records.

Finding No. 2: Tuition Differential Fee

Section 1009.24(16), Florida Statutes, states in part that each university board of trustees may establish a student tuition differential fee for undergraduate courses, which shall be used to promote improvements in the quality of undergraduate education and provide financial aid to undergraduate students who exhibit financial need. Section 1009.24(16)(a), Florida Statutes, provides that 70 percent of revenues from tuition differential fees must be expended for certain specified purposes other than for student financial aid, which include increasing course offerings, improving graduation rates, increasing the percentage of undergraduate students who are taught by faculty, decreasing student-faculty ratios, providing salary increases for faculty who have a history of excellent teaching in undergraduate courses, improving the efficiency of the delivery of undergraduate education through academic advisement and counseling, and reducing the percentage of students who graduate with excess hours. This Section also provides that the tuition differential fees for undergraduate education may not be used to pay the salaries of graduate teaching assistants. This Section further provides that except as otherwise provided in Section 1009.24(16)(a), Florida Statutes, the remaining 30 percent of revenue 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 established a separate fund and account to record tuition differential fee transactions, and recorded \$44,894,369 in collections and \$28,051,370 in expenses from the tuition differential fees for the 2013-14 fiscal year. The expenses were comprised of \$23,176,669 for specific purposes other than student financial aid and \$4,874,701 for student financial aid. Of the amount spent for other than financial aid, \$18,070,818 was spent on salaries for 472 employees.

Our tests of 15 employees paid \$695,819 in salaries from tuition differential fees disclosed \$72,750 of questioned expenditures that represented 100 percent of one professor's salary during the Fall 2013 and Spring 2014 terms. University records indicated that the professor spent 25 percent of the time during those terms teaching two undergraduate and three graduate classes and the remaining 75 percent of the time performing other research and administrative activities that did not directly involve the delivery of undergraduate education. In response to our inquiry, University personnel indicated that since the professor taught at least one undergraduate course each term, this promoted improvements in the quality of undergraduate education as required in Section 1009.24(16), Florida Statutes; therefore, 100 percent of the professor's salary could be charged to tuition differential fees. However, University records did not evidence that 100 percent of the professor's time was spent enhancing undergraduate education and, as such, records did not evidence the basis for charging 100 percent of the professor's salary to tuition differential fees.

A similar finding was noted in our report No. 2014-037, and we questioned \$191,693 in salary payments to two professors for which University records did not evidence time spent by these professors on activities consistent with the specific purposes for which tuition differential fees may be expended per Section 1009.24(16), Florida Statutes. As of November 25, 2014, the University had not documented of record how the payments of these professors' salaries were consistent with the specified purposes of Section 1009.24(16), Florida Statutes, or restored these amounts to the tuition differential fee fund.

Recommendation: The University should enhance its procedures to ensure that tuition differential fees are expended in accordance with Section 1009.24(16), Florida Statutes. In addition, the University should document of record how the payments of the professors' salaries are consistent with the specified purposes of Section 1009.24(16), Florida Statutes, or restore the \$264,443¹ in questioned costs to the tuition differential fee fund.

Follow-up to Management's Response

The University reiterated in its response that nothing in Section 1009.24, Florida Statutes, requires that 100 percent of a faculty member's efforts be directed to undergraduate activities. This interpretation results in significant amounts of tuition differential fees being used for purposes not directly related to undergraduate education. The University also stated in its response that it had initiated a policy to require faculty paid from tuition differential fees teach at least one undergraduate course. In determining its actions to resolve this audit finding, the University should seek guidance from the Florida Board of Governors regarding its use of these fees and its related policy.

Finding No. 3: Florida Residency

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 Latin American and Caribbean countries who receive scholarships from Federal or State government may be classified as Florida residents for tuition purposes.

The University collected \$364 million in tuition and fees during the 2013-14 fiscal year. The University undergraduate rate for each semester hour for non-Florida residents was \$721 and for Florida residents was \$216, during the 2013-14 fiscal year. The graduate rate for each semester hour for non-Florida residents was \$1,111 and for Florida residents was \$479 for the 2013-14 fiscal year.

Our test of 26 students classified as Florida residents during the 2013-14 fiscal year, included 8 students who were reclassified from non-Florida residents to Florida residents for tuition purposes because the students were residents of a Latin American or Caribbean country and were awarded a \$500 scholarship from either the University's Republic of Panama campus or the University's Department of Intercollegiate Athletics. However, University records did not evidence that these 8 students had received a scholarship from the Federal or State government to qualify for a Florida resident tuition rate. Our review of University records disclosed an additional 109 students who were residents of a Latin American or Caribbean country that were classified as Florida residents for tuition purposes for the 2013-14 fiscal year. Our review of the student records for these additional 109 students disclosed that 89 students received scholarships from the University's Republic of Panama campus and 20 students received athletic

¹ \$72,750 of questioned costs from the current audit plus \$191,693 of questioned costs from our report No. 2014-037.

scholarships. However, University records did not evidence that these 109 additional students had received a scholarship from the Federal or State government.

In response to our inquiry, University personnel indicated that since the residents of a Latin American or Caribbean country were awarded scholarships by the University's Department of Intercollegiate Athletics or by the University from student generated fees (i.e., funds from a State University), controlled, administered, and awarded by the Republic of Panama Board of Trustees, the scholarships should be considered State scholarships as contemplated by Section 1009.21(10)(e), Florida Statutes. However, 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 117 students as Florida residents for tuition purposes resulted in a loss of \$1.3 million of nonresident student fee revenue to the University.

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

Follow-up to Management's Response

The University reiterated in its response that the funds used for the scholarships were from funds appropriated by the Legislature, and therefore considered State scholarships as contemplated by Section 1009.21(10)(e), Florida Statutes. However, State scholarships, as used in Section 1009.21(10)(e), Florida Statutes, appears 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. Accordingly, we remain of the opinion that the payments of scholarships from University funds would not qualify as a State scholarship in accordance with existing law. In determining its actions to resolve this audit finding, the University should seek guidance from the Florida Board of Governors regarding its interpretation of this law.

Personnel and Payroll

Finding No. 4: Remuneration of Administrative Employees

Section 1012.976(2), Florida Statutes, stipulates that a State university administrative employee may not receive more than \$200,000 in annual remuneration² from appropriated State funds. This limitation does not apply to university teaching faculty, or medical school faculty or staff, pursuant to Section 1012.976(3), Florida Statutes.

Our review of the remuneration paid to 27 employees totaling \$15,309,957, disclosed 1 employee, the Provost and Executive Vice President for Academic Affairs (Provost), whose total remuneration paid from appropriated State funds for the period July 1, 2013 through April 2, 2014, exceeded the remuneration limitation by \$61,275.

The Provost is the chief academic officer of the University and oversees the overall academic mission of the University. The Provost directs the allocation of academic resources, leads the development and enhancement of

² Remuneration means salary, bonuses, and cash-equivalent compensation paid to a State university administrative employee for work performed, excluding health insurance and retirement benefits.

scholarship and research, evaluates the quality of academic activity, reviews all faculty appointments, and collaborates with the deans, faculty, and officers of the University to promote academic excellence at all levels of the institution.

Based on our review of the Provost’s actual responsibilities, the Provost did not serve as teaching faculty or as medical school faculty or staff at any time during the 2013-14 fiscal year. In response to our inquiry, the University personnel indicated that since the Provost position is classified as a professor, which is a faculty position, the remuneration limitation does not apply. However, the University’s records did not evidence that the individual served as a teacher, faculty, or medical school staff and the position description did not evidence that the individual was acting in other than an administrative capacity. Accordingly, it is not clear on what basis the Provost would be exempt from the remuneration limitation applicable to administrative Provost as provided in Section 1012.976(2), Florida Statutes.

Recommendation: The University should review the salaries of all employees working in an administrative capacity to ensure that salaries are paid within the limitations provided in Section 1012.976(2), Florida Statutes, based on the employee’s actual duties. Also, the University should restore the amount of remuneration paid in excess of the amounts allowed by Statute to its appropriated State funds from other University sources.

Follow-up to Management’s Response

The University in its response stated the Provost position oversees the core academic mission of the University, including the College of Medicine, and that the Board of Governors 2011-12 Allocation Document did not identify the Provost position as an administrative position. However, this Allocation Document was for purpose of budget preparation and not for the specific purpose of identifying positions that would qualify as teacher, faculty, or medical school staff. As noted in our finding, the University’s records did not evidence that this individual served as a teacher, faculty, or medical school staff and the position description did not evidence that the individual was acting in other than an administrative capacity. Accordingly, it is not clear on what basis the Provost would be exempt from the remuneration limitations provided in Section 1012.976(2), Florida Statutes. In determining its actions to resolve this audit finding, the University should seek guidance from the Florida Board of Governors regarding its interpretation of this law.

Purchasing Card Program

Finding No. 5: Purchasing Card Cancellation

The University administers a purchasing card (P-card) program, which give employees the convenience of purchasing items without using the standard purchase order process. The University’s Purchasing Card User’s Policy Manual requires that cardholders terminating employment or transferring to another position with the University stop using the purchasing card at a minimum of two weeks prior to their last working date, and notify the University’s Purchasing Card Administrator. In addition, the employee must return the card to their immediate Supervisor, Dean, Director or Department Head, who must complete a Cardholder Termination Form certifying that the card was returned, cut the card in half and attach the pieces of the card to the form, and return the form with the card attached to the Purchasing Card Administrator.

University records indicated that 46 employees that were issued a purchasing card terminated employment during the 2013-14 fiscal year. Our review of 30 of these terminated employees disclosed that the University’s controls over purchasing card cancellation needed improvement. For 10 of the 30 former employees, the University did not cancel the purchasing card account until 6 to 75 days after the employee’s termination date. Of these 10 employees, the

termination forms were not submitted to the Purchasing Card Administrator until 2 to 66 days after the termination date for 7 employees; the date the termination forms were received by the Purchasing Card Administrator was not documented for 2 employees; and the termination form was never received by the Purchasing Card Administrator for the remaining employee.

Our examination of purchasing card activity for these 30 former employees' accounts disclosed that no charges were made with the cards after the employees terminated employment. However, the untimely cancellation of purchasing card accounts of former employees increases the risk of unauthorized purchasing card usage.

Recommendation: The University should strengthen procedures to ensure that purchasing card accounts of former employees are timely cancelled.

Information Technology

Finding No. 6: Security Controls – User Authentication

Security controls are intended to protect the confidentiality, integrity, and availability of data and information technology (IT) resources. Our audit disclosed that certain University security controls related to user authentication needed improvement. We are not disclosing specific details of the issues in this report to avoid the possibility of compromising University data and IT resources. However, we have notified appropriate University management of the specific issues. Without adequate security controls related to user authentication, the risk is increased that the confidentiality, integrity, and availability of University data and IT resources may be compromised. A similar finding was communicated to University management in connection with our report Nos. 2012-075 and 2014-037.

Recommendation: The University should improve IT security controls related to user authentication 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. 2014-037, except that finding Nos. 2 and 6 were also noted in prior audit report No. 2014-037, as finding Nos. 1 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 April 2014 to October 2014 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 safeguarding of assets.
- Determine whether management had taken corrective actions for findings included in our report No. 2014-037.
- 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, weaknesses 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 2013-14 fiscal year. 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 University 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.	Reviewed procedures for maintaining and reviewing access to IT resources. Tested selected access privileges to the University’s Enterprise Resource Planning finance and human resources applications to determine the appropriateness and necessity based on employees’ job functions and responsibilities and adequacy with regard to preventing the performance of incompatible duties.
IT logging and monitoring.	Reviewed procedures and reports related to the capture and review of system activity that were designed to ensure the appropriateness of access to and modification of sensitive or critical resources.
IT authentication controls.	Reviewed supporting documentation to determine whether authentication controls were configured and enforced in accordance with IT best practices.
Textbook affordability.	Examined supporting documentation to determine whether the University’s procedures regarding textbook affordability were in accordance with Section 1004.085, Florida Statutes.
Fund equity controls.	Determined whether the unencumbered available balance in the education and general fund of the University Board of Trustees’ approved operating budget was below five percent of the total available fund balance at June 30, 2014, and if so, whether the University notified the Board of Governors (BOG), as required by Section 1011.40(2), Florida Statutes, and BOG Regulation 9.007(3)(a)2. Performed analytical procedures to determine whether financial transactions in other funds may require resources from other unrestricted funds that would cause a significant reduction in the unencumbered available balance in the education and general fund.
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.
Distance learning fees.	Determined whether distance learning fees were assessed and collected in accordance with Section 1009.24(17), Florida Statutes.
Royalty fees.	Examined a royalty fee contract to determine whether the University was properly monitoring compliance with contract terms.
Dual enrollment programs.	Reviewed University policies and procedures related to dual enrollment programs.

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
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.
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.
Background screenings.	Reviewed the University's policies and procedures for obtaining background screenings for personnel. Determined whether employees in sensitive positions, such as positions in direct contact with children, had undergone the appropriate background screenings.
Employee payments.	Tested employee payments, other than travel and payroll payments, to determine whether such payments were reasonable, adequately supported, and for valid University purposes. Also, determined whether such payments were for employees doing business with the University, contrary to Section 112.313, Florida Statutes.
Bonuses.	Determined whether employee bonuses were paid in accordance with Section 215.425(3), Florida Statutes.
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.
Rebate revenues.	Determined whether rebate revenues received from purchasing card and e-Payable programs were allocated to the appropriate University funds.
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 that they were properly awarded and executed and whether contract terms were adequately supported.

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Earmarked capital project resources.	Determined, on a test basis, whether Public Education Capital Outlay (PECO) and other restricted capital outlay expenditures were expended in compliance with the restrictions imposed on the use of these resources. Determined whether PECO funds were properly encumbered by the required reversion date.
Related-party transactions.	Reviewed University policies and procedures related to identifying potential conflicts of interest. For selected University officials, reviewed Department of State, Division of Corporation, records; statements of financial interest; and University records to identify any potential relationships that represent a conflict of interest with vendors used by the University.
Direct-support organizations.	Tested payments, transfers, and loans between the University and its direct-support organizations to determine the legal authority of such payments, transfers, and loans.

EXHIBIT B
MANAGEMENT'S RESPONSE



THE FLORIDA STATE UNIVERSITY
OFFICE OF THE PRESIDENT

December 19, 2014

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

Dear Mr. Martin:

The Florida State University's response to your findings and recommendations, for the Operational Audit of The Florida State University for the fiscal year ended June 30, 2014, is attached.

We continue to appreciate the work of your staff and your audits, as they assist us in our ongoing efforts to improve our operations. If you have any questions about the responses, please contact Dr. Sam McCall, Chief Audit Officer, at 644-6031 or smmccall@fsu.edu.

Sincerely,


John E. Thrasher
President

Attachment

- | | | |
|-----|------------------|------------------|
| cc: | Eric Algoe | Andy Miller |
| | Michael Barrett | Ian Robbins |
| | Matt Behnke | Michael Russo |
| | Anne Blankenship | Garnett Stokes |
| | Kyle Clark | Stan Wilcox |
| | David Coburn | Michael Williams |
| | Carolyn Egan | |
| | Renisha Gibbs | |
| | Sally McRorie | |

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

FLORIDA STATE UNIVERSITY OPERATIONAL AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
RESPONSE TO AUDITOR GENERAL'S PRELIMINARY AND TENTATIVE FINDINGS

Transfer of Royalty Fees to Direct-Support Organizations

Recommendation 1: In the absence of specific authority, the University should discontinue the practice of allowing the payment of royalty fees owed to the University to be paid to its direct-support organizations. In addition, the University should enhance its procedures for monitoring the company's compliance with the terms of the licensing agreement by periodically reviewing the company's records.

University Response: The Intercollegiate Athletic Department reviews all revenue contracts for compliance, in an effort to ensure that amounts due to the University are accurate and timely. The Department will prepare formal written procedures to document their contractual review processes.

The Department will seek direction from the current University administration regarding who should receive all future Athletic royalty fees. If it is decided that royalty fees shall be paid to a direct-support organization, the University will obtain specific authority from all applicable governing bodies.

Responsible Auditee: Matt Behnke, Senior Associate Athletic Director

Tuition Differential Fee

Recommendation 2: The University should enhance its procedures to ensure that tuition differential fees are expended in accordance with Section 1009.24(16), Florida Statutes. In addition, the University should document of record how the payments of the professors' salaries are consistent with the specified purposes of Section 1009.24(16), Florida Statutes, or restore the \$264,443 in questioned costs to the tuition differential fee fund.

University Response: We continue to work with the Deans and College fiscal staff to ensure that faculty paid from tuition differential funds work with undergraduate students. We also run a query towards the end of the fiscal year to determine if graduate assistants have been paid from these funds. If so, the expenditures are transferred to the appropriate account.

We reiterate that there is nothing in the Statutes that requires 100 percent of a faculty member's effort to be directed to undergraduate activities. As a research university, we focus on bringing highly competitive, research focused faculty to the university. This means that the faculty assignments for these faculty include instruction, research and service, in accordance with the Collective Bargaining Agreement between the university and the faculty union. The reputation and accomplishments of the faculty greatly enhance the undergraduate experience for students taking courses taught by faculty paid

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

from tuition differential funds. Our policy that requires at least one undergraduate course be taught by faculty paid from tuition differential is consistent with our verbal conversations with legislative staff as the language was passed.

Regarding the two faculty paid in 2012-13, we believe that the documentation of 3 undergraduate students receiving patents based on research performed under the supervision of the first faculty member identified in the audit justifies the payment from tuition differential funds even though he did not teach an undergraduate course. In response to this finding, we initiated a university policy requiring all faculty paid from tuition differential to teach at least one undergraduate course. The second faculty member identified in the audit was on paid sabbatical leave. This is a benefit offered to these employees, similar to retirement, health subsidies or leave benefits. Indeed, the university is required, under the terms of the Collective Bargaining Agreement, to offer sabbatical and professional development leave to in-unit faculty members. The sabbatical benefits are earned by employees and are taken into consideration when an employee is hired and covered from the same source as the employee is paid. In addition, it is the university's position that sabbatical leave increases a faculty member's value to the university and its students through enhanced opportunities for professional development, research, writing, or other forms of creative activity. We reimbursed the tuition differential fund for the other employees noted last year, but believe the justifications provided warranted payment from tuition differential for the two faculty mentioned above.

Responsible Auditee: Anne Blankenship, Associate VP for Academic Affairs

Florida Residency

Recommendation 3: If it is the University's intent to continue classifying students who are residents of a Latin American or Caribbean country 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.

University Response: Section 1009.21(10)(e) allows students from Latin America and the Caribbean who receive scholarships from the federal or state government to be classified as residents for tuition purposes. While we cannot track the original intent of the language, we have verified that for over 13 years we have provided the scholarships to students from the Republic of Panama and classified them as residents for tuition purposes. There is also a long history of students from Latin America and the Caribbean being provided state funded scholarships and being classified as residents for tuition purposes. As mentioned, these scholarships are from funds appropriated by the Legislature and we've considered them state government funds.

Responsible Auditee: Anne Blankenship, Associate VP for Academic Affairs

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

Remuneration of Administrative Employees

Recommendation 4: The University should review the salaries of all employees working in an administrative capacity to ensure that salaries are paid within the limitations provided in Section 1012.976(2), Florida Statutes, based on the employee's actual duties. Also, the University should restore the amount of remuneration paid in excess of the amounts allowed by Statute to its appropriated State funds from other University sources.

University Response: The University has appropriate procedures in place to monitor Administrative salaries and to reimburse appropriated funds for salaries that exceeded the \$200K limit. The Provost oversees the core academic mission of the University, including the College of Medicine. This faculty position is responsible for all instructional activities including the development of teaching resources and the evaluation of its quality.

The Board of Governors 2011-2012 Allocation Document, <http://www.flbog.edu/about/budget/docs/2011-12-Allocation-Summary-Workpapers.pdf>, illustrates where the 2011 Legislature reduced FSU's E&G budget by \$107,367, as found on page 41. The legislative workpapers associated with this item can be found on page 63. Positions marked with an * were not considered administrative and were not included in the remuneration limitations, which included the Provost position.

Based on the exception made by the Legislature and the exceptions provided in Section 1012.976(3), Florida Statutes, the University believes the Provost salary of \$261,275 was properly paid with appropriated funds.

Responsible Auditee: Michael Williams, Assistant VP for Finance & Controller

Purchasing Card Cancellation

Recommendation 5: The University should strengthen procedures to ensure that purchasing card accounts of former employees are timely cancelled.

University Response: The P-Card User Manual addresses this issue under General Information, Cardholder Responsibilities, Dean, Director, Department Head, Immediate Supervisor and Budget Manager Responsibilities. Specifically under Cardholder responsibilities it states, "Upon termination of employment or transfer to another position within the university:

- **Stop using the P-Card at least two (2) weeks prior to departure.**
- Return the P-Card to the P-Card Administrator in Procurement Services using the [Cardholder Termination Form](#).
- Review all outstanding P-Card transactions with the appropriate Proxy prior to leaving the department.

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

The initial and renewal training includes this requirement, so each Cardholder sees that information before they can get their P-Card and every two to three years upon renewal of the P-Card as training is required before the renewal card is issued.

Procurement Services has requested the HR Termination Checklist be updated to include the following: Item 10 "Purchasing Card" to read as follows: "Cardholders – Turn in Purchasing Card a minimum of two weeks prior to leaving the department either in person or attached to the Cardholder Termination Form. Departments can contact the P-Card Administrator at 644-6850 or nmilburn@fsu.edu to verify the card has been returned by the cardholder. The FSU_DPT_PCARD_HOLDERS query can be run to determine the cardholders in your department." We are currently awaiting HR approval to make that change in our effort to remind department personnel of the two-week requirement.

The Procurement Services P-Card Administrator will also run a query on a monthly basis to identify personnel who do not turn in their P-Cards prior to their employment termination and will cancel these cards immediately.

Responsible Auditee: Ian Robbins, Director of Procurement Services

Security Controls – User Authentication

Recommendation 6: The University should improve IT security controls related to user authentication to ensure the continued confidentiality, integrity, and availability of University data and IT resources.

University Response: The University agrees with the finding and we are working on a solution to improve security controls.

Responsible Auditee: Michael Barrett, Chief Information Officer