

STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

Report No. 2017-197
March 2017

**FLORIDA AGRICULTURAL AND
MECHANICAL UNIVERSITY**



Sherrill F. Norman, CPA
Auditor General

Board of Trustees and President

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- ^b Trustee resigned on 9-25-15, and position remained vacant through 12-17-15.
- ^c Faculty Senate Chair.
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- ^e Trustee resigned on 10-28-15, and position remained vacant through 1-20-16.
- ^f Trustee service ended 4-28-15, and position remained vacant through 9-2-15.
- ^g Trustee service ended 1-6-16, and position remained vacant through 1-20-16.

The team leader was Leslee W. Walker, CPA, and the audit was supervised by Karen L. Revell, CPA.

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FLORIDA AGRICULTURAL AND MECHANICAL UNIVERSITY

SUMMARY

This operational audit of Florida Agricultural and Mechanical (University) focused on selected University processes and administrative activities and included a follow-up on findings noted in our report No. 2014-108. Our audit disclosed the following:

Finding 1: The University's intercollegiate athletic programs continued to experience cash deficits for the 2015-16 fiscal year.

Finding 2: Prior to payment, University personnel did not compare construction management entity (CME) pay requests with applicable subcontractor bids and contracts or document comparisons of CME pay requests with costs in the guaranteed maximum price (GMP) contracts and the subcontractor invoices.

Finding 3: University procedures need improvement to ensure that subcontractors, used by CMEs for GMP projects, are selected using a competitive selection process and that documentation of the selection process is maintained.

Finding 4: University controls over negotiating and monitoring CME general conditions costs need improvement.

Finding 5: Supervisors did not always document review and approval of exempt employees' time worked.

Finding 6: Controls over the University Purchasing Card Program could be improved.

Finding 7: University employee travel expense reimbursement requests and related support were not always timely submitted for processing.

Finding 8: The University needs to enhance procedures related to the collection of student receivables.

Finding 9: University textbook affordability procedures could be enhanced. A similar finding was noted in our report No. 2014-108.

Finding 10: Certain information technology access controls need improvement.

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 (BOG). The University is directly governed by a Board of Trustees (Trustees) consisting of 13 members. The Governor appoints 6 citizen members and the BOG appoints 5 citizen members. These members are confirmed by the Florida Senate and serve staggered terms of 5 years. The faculty senate chair and student body president also are members.

The BOG 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 BOG Regulations. The

University President is selected by the Trustees and confirmed by the BOG. 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.

This operational audit focused on selected University processes and administrative activities and included a follow-up on findings noted in our report No. 2014-108. The results of our financial audit of the University for the fiscal year ended June 30, 2016, are 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, 2016, are presented in a separate report.

FINDINGS AND RECOMMENDATIONS

Finding 1: Intercollegiate Athletic Programs – Deficit Cash Balances

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, for example, bookstore, food service, housing, facilities, and intercollegiate athletic activities. Board of Governors (BOG) regulations¹ provide 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 self-supporting.

The University elected to account for its intercollegiate athletic programs in a separate auxiliary enterprise fund. Our examination of University records supporting the financial results of University auxiliary enterprises for the past 9 fiscal years disclosed that the intercollegiate athletic programs did not produce sufficient cash resources to be self-supporting. Specifically, for each of the past 9 fiscal years, the auxiliary enterprise fund intercollegiate athletic programs had a deficit cash balance and, at June 30, 2016, the intercollegiate athletic programs owed \$7,765,713 to other auxiliary enterprises. Table 1 shows the significant deficit cash balances reported for the fiscal years ended June 30, 2008, through June 30, 2016, for the intercollegiate athletic programs.

¹ BOG Regulation 9.013, *Auxiliary Operations*.

Table 1
Auxiliary Enterprise Fund
Intercollegiate Athletic Programs

Fiscal Year Ended	
June 30	Deficit 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)
2014	(7,624,061)
2015	(7,678,203)
2016	(1,000,000)

Source: University records.

While the deficit cash balances do not represent University bank account cash deficits, the balances require the use of cash resources from other auxiliary enterprises to finance expenses of intercollegiate athletic programs. For the 2015-16 fiscal year, the University transferred \$1,083,073 in accumulated interest earnings from other auxiliary enterprises to the intercollegiate athletic program auxiliary enterprise fund. After consideration of the interest earnings transfer, the intercollegiate athletic programs reported total deficit cash balances of \$1,000,000 and a due to (loan from) other auxiliary enterprises of \$7,765,713. Without the interest earnings transfer and loan from other auxiliary enterprises, the intercollegiate athletic programs auxiliary enterprise fund would have reported a cash deficit of \$9,848,786.

In response to our inquiry, University personnel indicated that the deficit cash balance began increasing in the 2007-08 fiscal year when the University changed the football program to include out-of-conference games. Additionally, because of these football games and University participation at the Division I Football Championship Subdivision 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 costs of providing athletic scholarships. Although expenses continued to increase over this period, there was no appreciable increase in revenues generated by University intercollegiate athletic programs to finance the increased expenses.

During 2016, the Trustees approved plans to address the deficit cash balance and improve the financial position of the University's intercollegiate athletic programs. However, the plan ultimately adopted by the Board is contingent on various assumptions such as increased enrollment, fundraising levels, and funds received from direct-support organizations. Specifically:

- On March 10, 2016, the Trustees approved a 5-Year Financial Plan for the period July 2016 through June 2021 that was prepared by University Athletic Department personnel and included projected revenues totaling \$14.5 million from direct support organizations and other auxiliary enterprises. The Plan projected a \$7 million positive cash balance by June 2021.
- On August 24, 2016, the Trustees replaced the March 10, 2016, plan with another 5-Year Financial Plan for the period July 2016 through June 2021. The August 24, 2016, plan presumed:

- A 10-percent annual increase in fundraising revenues beginning in the 2017-18 fiscal year, assuming an annual increase in fundraising activities of 10 percent.
- A 2.8-percent annual increase in athletic fee revenues beginning in the 2017-18 fiscal year, assuming an annual increase in enrollment of 2.8 percent.
- That expenses would remain constant over the 5-year period.
- Also on August 24, 2016, the Trustees approved the University intercollegiate athletic program budget for the 2016-17 fiscal year. The budget showed revenues equal to expenses after taking into consideration:
 - A \$1,170,000 increase over the 2015-16 fiscal year revenues generated from game guarantees.
 - No cash transfers from other auxiliary enterprise operations, compared to \$1,083,073 transferred for the 2015-16 fiscal year.
 - Projected revenues from direct support organizations totaling \$100,000, compared to \$1 million received for the 2015-16 fiscal year.
 - A projected \$820,000 decrease in total athletic program expenses from the 2015-16 fiscal year, primarily related to the elimination of various positions, reduced travel costs, and reduced scholarship costs.

Although the intercollegiate athletic programs are part of the approved budget for auxiliary enterprises, the intercollegiate athletic programs' continued use of financial resources generated by other auxiliary enterprises decreases the resources available for the other auxiliary enterprises (i.e., bookstore, food service, student housing, parking, and telecommunications). Further, should the other auxiliary enterprises lack funding to continue subsidizing the intercollegiate athletic programs, other University resources may be required to finance the University's intercollegiate athletic programs, which could reduce available funding for educational services provided by the University. Similar findings were noted in our report Nos. 2013-103 and 2014-108.

Recommendation: The Trustees should continue to monitor the financial condition of the intercollegiate athletic programs and the status of the 5-Year Financial Plan and take appropriate actions to ensure that intercollegiate athletic programs are self-supporting.

Finding 2: Monitoring Construction Pay Requests

Pursuant to State law,² the University may contract with a construction management entity (CME) for the construction or renovation of facilities. The University may require a CME to offer a guaranteed maximum price (GMP), which allows for the difference between the actual cost of the project and the GMP amount, or net cost savings, to be returned to the University.

To ensure potential savings in material and labor costs and to prevent cost overruns or other impediments to the successful completion of GMP contracts, it is important that the University verify that CME pay requests agree with supporting documentation such as CME contracts and subcontractor invoices, bids, and contract terms and amounts. The University Project Manager's Procedure Manual requires

² Section 1013.45(1)(c), Florida Statutes.

University personnel to compare CME pay requests, prior to payment approval, with corresponding cost lines on the schedules of values in the CME contracts and the subcontractor invoice.

As of April 2016, the University had contracts totaling \$49 million with four CMEs for nine new construction, renovation, maintenance, and repair projects. To determine whether University personnel compared, of record, the CME pay requests with supporting documentation such as CME contracts and subcontractor invoices, bids, and contract terms and amounts, we selected three projects, as shown in Table 2, for testing.

**Table 2
Projects Selected for Audit Testing**

Project	CME Contract Amount	General Conditions Costs
Pharmacy Building – Phase II	\$32,203,442	\$4,446,385
College of Engineering Renovation – Phase III	13,288,838	1,160,563
Student Union Minor Renovation	1,097,449	98,999

For these three projects, we requested for examination University records supporting eight CME pay requests (four from the College of Engineering and two each from the Pharmacy and Student Union projects) and examined University records related to 17 selected subcontractor cost lines totaling \$1.5 million listed on the pay requests’ schedules of values. Although University personnel indicated that they had compared the eight CME pay requests with both the corresponding cost lines on the schedule of values in the CME GMP contracts and the subcontractor invoices prior to payment, University records were not provided to evidence these comparisons. Additionally, according to University personnel, the University did not maintain copies of subcontractor bids, records identifying the subcontractor awarded the contract, or the related contracts as the CME retained these records.

Subsequent to our inquiry, the University obtained the subcontractor bids and contracts from the CME and provided the documentation for our review. Based on our review, we determined that the payments were consistent with the corresponding cost lines on the schedules of values in the CME GMP contracts and the subcontractor invoice, bid, and contract amounts for the 17 selected subcontractor cost lines. However, we also identified 7 additional subcontractor cost lines totaling \$86,105 related to the two CME pay requests selected for the Student Union project that were not initially supported by subcontractor invoices. Subsequent to our inquiry, University personnel obtained the subcontractor invoices that supported these 7 subcontractor costs lines. Although our procedures did not detect any incorrect payments, our procedures cannot substitute for management’s responsibility to comply with University procedures.

Without documentation to evidence that, prior to payment approval, CME pay requests were compared with corresponding cost lines on the schedules of values in the CME contracts and with the subcontractor invoice amounts, the University cannot demonstrate compliance with University procedures. Additionally, absent the performance of comparisons of CME pay requests with corresponding cost lines on the schedules of values in the CME contracts and with the subcontractor invoice, bid, and contract terms and amounts, there is an increased risk that the University may overpay for services and not realize maximum cost savings under GMP contracts.

Recommendation: The University should enhance procedures to require documentation evidencing that, before CME payments are made, the amounts requested by the CME for payment are compared with appropriate supporting documentation, such as the CME contracts and subcontractor invoices, bids, and related contracts.

Follow-Up to Management's Response

Management indicated in the written response that “neither the law nor the university’s operating manual require subcontractor’s contracts be maintained on file. We believe the procedures in place...represent best industry practice and reduce the risks to acceptable levels that overpayments may be made or maximum cost savings will not be realized.” Notwithstanding the University’s response, given the significant costs associated with GMP contracts, we continue to recommend that University personnel document comparisons of CME pay requests with corresponding cost lines on the schedules of values in CME contracts and with the subcontractor invoice, bid, and contract terms and amounts to help limit the possibility of CME overpayments and realize maximum cost savings under GMP contracts.

Finding 3: Subcontractor Selection

Pursuant to University CME contracts, the CME is required to solicit bids for subcontractor services. Good business practice dictates that the University monitor the CME’s competitive selection of subcontractors to ensure that subcontractor services are obtained at the lowest cost consistent with acceptable quality and that maximum cost savings under the GMP contracts are realized. Additionally, the University Project Manager’s Procedure Manual (Manual) requires, for major projects with construction project costs in excess of \$2 million, that University personnel attend the subcontractor bid openings, sign the bid tabulation sheets, approve CME letters of recommendation for awarding subcontractor contracts, and maintain copies of the subcontractor bid documents to substantiate the entire bid and award process.

To determine whether University personnel documented verification that the CME’s subcontractor selection process was appropriate, we selected two subcontractors for each of the three projects selected for testing (as shown in Table 2). Our examination of the subcontractor bid tabulation sheets for the six selected subcontractors disclosed that University personnel attended the subcontractor bid openings and signed the bid tabulation sheets; however, the University did not comply with Manual requirements by maintaining copies of signed CME recommendation letters for awarding contracts to the two subcontractors selected for the Pharmacy Building project. In addition, the University did not maintain copies of any of the subcontractor bid awards and related contracts for the three projects.

To determine whether the subcontractor with the lowest bid amount listed on the bid tabulation sheets agreed with the CMEs’ subcontractor contracts, we requested that University personnel obtain supporting subcontractor bid and contract information from the CMEs for the six selected subcontractors. Contracts awarded to these six subcontractors ranged from \$110,091 to \$2,289,000 and totaled \$5,607,018 for structural steel, concrete, mechanical, and other subcontractor services. Our examination of the documentation provided disclosed that the bid awards were consistent with the bid tabulation sheets and related contracts; however, our procedures cannot substitute for management’s responsibility to verify that subcontractor contracts are awarded using a competitive selection process.

Without University procedures to document the CME's process for competitively selecting subcontractors and to verify that the selected subcontractor bid and contract amounts agree, there is an increased risk that subcontractor services may not be obtained at the lowest cost consistent with acceptable quality and maximum cost savings under GMP contracts may not be realized.

Recommendation: The University should enhance procedures to document that CMEs selected subcontractors using a competitive process. Such procedures should require:

- Comparisons of subcontractor bid awards listed on the bid tabulation sheets with subcontractor contract amounts be performed and documented by University personnel.
- University personnel to document verification of the propriety of the CME's selection process.

Finding 4: General Conditions Costs

Effectively negotiating and documenting the reasonableness of general conditions costs is essential to ensure that potential cost savings are realized under GMP contracts. The CME GMP contracts for the Pharmacy Building – Phase II, College of Engineering Renovation – Phase III, and Student Union Minor Renovation projects selected for audit (as shown in Table 2) included general conditions costs provisions totaling \$4.4 million, \$1.2 million, and \$98,999, respectively. These costs provisions addressed such items as direct and indirect salary and temporary job-site office space costs.

As part of our audit, we examined University records supporting these three projects to determine whether the general conditions costs associated with the projects were properly supported. Although we requested, University personnel could not provide evidence that the University performed an analysis of the general conditions costs for the Pharmacy Building and Student Union projects. In response to our inquiries, University personnel indicated that University procedures require the use of a checklist to evaluate the CME's general conditions cost components to determine whether the costs are necessary and reasonable and that the costs be adjusted, as necessary, before finalizing the GMP contracts. However, although we requested, University records supporting general conditions costs component evaluations and any resulting adjustments for the Pharmacy Building and Student Union projects were not provided.

To determine the reasonableness and propriety of general conditions costs, we selected eight CME pay requests (four from the College of Engineering and two each from the Pharmacy and Student Union projects) totaling \$4.2 million, and examined University records supporting general conditions costs lines totaling \$377,152 on the pay requests schedules of values. We found that the CME general conditions costs pay requests for the College of Engineering and Pharmacy projects were supported by salary records and invoices. However, for one of the two selected Student Union CME pay requests, University records supporting the requested amounts for the salaries of field supervisory personnel and project management personnel totaling \$7,800 and \$1,300, respectively, were not available. In response to our further inquiries, University personnel provided CME documentation, such as time sheets, to support time worked; however, support for the pay rates invoiced by the CME were not provided.

Absent documentation of an analysis of the general conditions costs and any resulting adjustments, along with sufficiently detailed documentation supporting CME general conditions costs pay requests, the

University cannot demonstrate that the costs in the GMP contracts are reasonable, appropriate, and will result in the maximum cost savings for the University.

Recommendation: The University should maintain documentation to demonstrate that, as part of the GMP contract approval process, an analysis of the reasonableness and propriety of GMP general conditions costs was performed and used to negotiate the type and amount of general conditions costs. We also recommend that University personnel document the receipt and review of sufficiently detailed documentation supporting CME general conditions cost pay requests.

Finding 5: Payroll Processing – Time Records

Effective internal controls require supervisory approval of time worked and leave used by employees to ensure that compensation payments are appropriate and leave balances are accurate. The University pays exempt employees (i.e., Administrative and Professional and Faculty) on a payroll-by-exception basis whereby employees are paid a fixed authorized gross amount for each payroll cycle unless the amount is altered. A payroll-by-exception methodology assumes, absent any payroll actions to the contrary, that an employee worked or used available accumulated leave for the required number of hours in the pay period. According to University Trustees policy,³ departments are required to maintain adequate internal controls for processing their respective payrolls and to maintain adequate backup documentation to support time worked, as well as employee absences due to vacation, sick, administrative, or other leave.

During the period April 2015 through March 2016, the University reported salary costs of \$87.3 million for exempt employees. According to University personnel, supervisory personnel at each department or cost center are required to review, approve, and maintain time reports evidencing exempt employees' work efforts. To determine whether such documentation was maintained, we examined University records supporting 11 selected bi-weekly pay periods for 31 exempt employees who worked in 27 different departments. However, although we requested, University records were not initially provided to evidence supervisory review and approval of the time reports or other records used to document exempt employees' time worked for 17 employees working in 16 departments.

Subsequent to our inquiry, supervisory personnel signed time reports to evidence review and approval for employees in 13 of the 16 departments. Without records documenting exempt employees' time worked and supervisory review and approval of the records, there is limited assurance that exempt employee services were provided consistent with the Trustees' expectations. In addition, without records documenting exempt employees' time worked and supervisory review and approval of the records, there is an increased risk that exempt employees may be incorrectly compensated and their leave balances may not be accurate.

Recommendation: The University should require and ensure that supervisors timely document review and approval of exempt employees' time worked.

³ Trustees Policy 2005-19, *University Payroll*.

Finding 6: 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. P-cards are designed to provide a cost effective, convenient, and decentralized method for individuals to make certain purchases on behalf of the University.

P-cards are subject to the same rules and regulations that apply to regular University purchases. For example, P-card purchases must also comply with the University Travel and Expense Policy and Procedures Manual that requires employees to complete travel authorization request forms documenting the purpose of the travel and that supervisory review and approval be obtained in advance of the anticipated travel.

University-established P-card procedures and Trustees policies⁴ provide guidance to University personnel regarding the appropriate use of P-cards and the penalties for misuse. The University developed a Purchasing Card Manual (P-card Manual) that establishes responsibilities of the Purchasing Department P-card Program Administrator (PCA), program area supervisors, Controller's Office personnel, and cardholders for the issuance, use, and cancellation of P-cards. The P-card Manual requires, for example:

- Cardholders to submit documentation supporting P-card purchases to approvers no later than 7 business days after the expenditure date.
- Supervisory personnel to monitor cardholder activity for appropriateness and take any necessary disciplinary action for P-card misuse.
- A P-card canceled for any reason (e.g., cardholder separation from University employment or transfer to another position at the University) be destroyed by cutting it down the magnetic strip and immediately forwarded with written notification to the PCA. The PCA is responsible for notifying the financial institution administering the P-card program of the P-card cancellation.

For the period April 2015 through June 2016, the University issued P-cards to 127 employees and incurred P-card expenditures totaling approximately \$3.2 million. To determine the propriety of P-card expenditures for the period April 2015 through June 2016, we examined University records supporting 51 selected P-card expenditures totaling \$122,658 from 30 cardholder accounts, P-card cancellations for 10 employees who separated from University employment, and scanned records of other P-card expenditures. Our procedures disclosed that:

- For 31 P-card expenditures totaling \$42,925 from 18 cardholder accounts, required receipts and other supporting documentation were not timely submitted for supervisory review and approval. Specifically, the receipts and supporting documentation were submitted 2 to 228 days late for the 31 expenditures ranging from \$554 to \$4,200.
- For 10 P-card expenditures totaling \$17,450 (e.g., airline tickets, hotels, account-based Web tool subscription, camera purchase, and transportation from airport to hotel) from 7 cardholder accounts, University records did not evidence supervisory review and approval of the P-card receipts to document that the expenditures were appropriate and for a valid University purpose. Although our examination of University records supporting these expenditures indicated that the

⁴ Trustees Policy 2006-04, *Purchasing Cards*.

expenditures were for valid University purposes, our procedures cannot substitute for management's responsibility to provide for adequate internal controls over P-card expenditures.

- The P-cards for four employees who separated from University employment were not canceled until 17 to 305 days after the employees' separation dates. While our examination of University records did not disclose any P-card activity for these former employees subsequent to their employment separation dates, our procedures cannot substitute for management's responsibility to promptly cancel P-cards.

We expanded our procedures and examined University records for the period April 2015 through June 2016 for 366 travel-related P-card expenditures totaling \$148,973 made by 11 University employees (the President, the Chief of Staff, 6 Vice Presidents, 2 Executive Assistants to the President, and the Director for Academic Support Services) and also scanned 1,268 other P-card expenditures totaling \$367,686 for these 11 employees. Our procedures disclosed that:

- University records to support 134 P-card expenditures totaling \$48,027 did not include vendor receipts identifying the specific vendors, purchases, and related amounts. These expenditures are summarized in Table 3.

**Table 3
P-card Expenditures
Not Supported by Vendor Receipts**

Type of Expense	Amount
Airline Tickets	\$ 25,783
Hotel	12,365
Rental Car	807
Gasoline	89
Miscellaneous (e.g., Publishing, Cellular Telephone, and Registration Fees)	8,983
Total	<u>\$48,027</u>

- University records to support 73 travel-related P-card expenditures totaling \$16,659 included vendor receipts. However, as summarized in Table 4, travel authorization request forms documenting the purpose of the travel and supervisory review and approval in advance of the anticipated travel were not maintained in accordance with the University Travel and Expense Policy and Procedures Manual.

**Table 4
P-card Expenditures Not Supported by
Travel Authorization Request Forms**

Type of Expense	Amount
Hotel	\$ 6,805
Airline Tickets	5,745
Rental Car	698
Gasoline	560
Miscellaneous (e.g., Tolls, Parking, and Extra Baggage)	2,851
Total	<u>\$16,659</u>

In response to our inquiries on January 27, 2017, University personnel acknowledged that University policies and procedures were not always followed and efforts were underway to enhance P-card procedures and related recordkeeping functions. Without appropriate records and procedures to substantiate and authorize P-card expenditures, the risk that purchases may not benefit the University or support its mission is increased. Additionally, untimely cancellation of P-card privileges increases the risk that such privileges could be misused by former employees or others and may limit the University's ability to satisfactorily resolve disputed charges.

Recommendation: The University should enhance P-card procedures to ensure that:

- **Documentation, including travel expense request forms, vendor receipts, and other records supporting P-card purchases are timely submitted for supervisory review and approval to substantiate and authorize the purchases.**
- **P-card privileges are promptly canceled upon a cardholder's separation from University employment.**

Finding 7: Employee Travel Expense Reimbursements

State law⁵ governs and authorizes the University, under specified conditions, to reimburse employees for travel expenses and, during the period April 2015 through June 2016, University employee travel expense reimbursements totaled \$1.5 million. To request reimbursement for travel expenses, the University Travel and Expense Policy and Procedures Manual requires employees to submit a travel expense report accompanied by receipts and supporting documentation to the University for processing no later than 10 business days after the last day of travel.

To determine the propriety of travel expense reimbursements, we examined University records supporting 178 expense reimbursements totaling \$28,896 for 11 selected employees (the President, the Chief of Staff, 6 Vice Presidents, 2 Executive Assistants to the President, and the Director for Academic Support Services) and scanned other travel expense reimbursement amounts and supporting University records. Our procedures disclosed that, contrary to University procedures, 10 of the 11 selected employees submitted 48 travel expense reimbursement requests and related supporting documentation to the University for processing 1 to 140 days, or an average of 14 days, after the 10-day submission requirement. The 48 employee reimbursements ranged from \$86 to \$2,162 and totaled \$7,205.

In response to our inquiry in January 2017, University management indicated that the University understands the importance of timely submission of travel expense reimbursement requests and related support and is considering implementing additional measures to re-enforce submission deadlines. Without adherence to the submission deadlines, there is an increased risk that travel reimbursement records may be misplaced and be unavailable to support reimbursement requests.

Recommendation: The University should implement appropriate measures to ensure that, for travel expense reimbursement requests, travel expense reports are accompanied by receipts and supporting documentation and are submitted to the University for processing no later than 10 business days after the last day of the travel.

⁵ Section 112.061, Florida Statutes.

Finding 8: Student Receivables

Trustees policy⁶ allows the write off of uncollectible student accounts that have been past due more than 24 months for individuals other than current University students or current University employees. The policy also allows the University to use a collection agency to assist with collection efforts.

Our examination of University records and inquiry with University personnel disclosed that, when a past due student account balance is greater than \$500, the University places a hold on the account to prohibit the student from registering for classes or obtaining transcripts. For past due student account balances of \$500 or less, the University places a hold on the account to prohibit the student from obtaining transcripts and sends the student a letter requesting payment. According to University personnel, a student account typically remains delinquent for 120 days (approximately 4 months) before University personnel submit the account to a collection agency and, when collection agency services are obtained, the University notifies the student about the services by letter.

As of June 30, 2016, the University reported student accounts receivable and allowance for doubtful accounts of \$33.3 million and \$26.9 million, respectively, for a student accounts receivable balance net of allowance of \$6.4 million. The \$33.3 million reported student accounts receivable balance was \$1.6 million more than the balance reported as of June 30, 2015, and included accounts totaling \$26.6 million that had been outstanding more than 24 months, including accounts totaling \$23.7 million that had been outstanding 3 to 12 years.

From the population of 22,322 student accounts receivable totaling \$33.3 million and recorded as of June 2016, we examined University records supporting 30 selected student accounts totaling \$41,121 and found that:

- Holds were not placed on 2 student accounts with balances greater than \$500 to prohibit the students from registering for classes or obtaining transcripts until 1 to 9 months after the first payment was due.
- University records did not document the date holds were originally placed on 5 student accounts with balances of \$500 or less to prohibit the students from obtaining transcripts.
- According to University personnel, 12 of the student accounts totaling \$24,528 had balances outstanding 8 months to 7 years before the accounts were submitted to a collection agency. In total, the account balances had been outstanding 6 to 12 years.
- The University had not submitted 3 student accounts totaling \$2,719 with balances outstanding 1 to 5 years to a collection agency. Although we requested, University records were not provided to explain why the accounts were not submitted to a collection agency.

Prompt holds placed on student accounts with past due balances followed by the timely use of collection agencies could improve collections and reduce the amount of student accounts receivable written off as uncollectible. Subsequent to our student receivable audit procedures, on November 18, 2016, the Trustees approved the write-off of uncollectible student accounts receivable totaling \$3.2 million that a collection agency determined to be uncollectible.

⁶ Trustees Policy 2009-02, *Authority of the President Relating Settlement and Writing Off of Accounts Receivable*.

Recommendation: The University should improve efforts for collecting student accounts receivable by promptly placing and documenting holds on student accounts with past due balances and timely submitting delinquent accounts to collection agencies.

Finding 9: Textbook Affordability

State law⁷ required universities to post on their Web sites, as early as feasible, but not less than 30 days prior to the first day of classes, a list of each textbook required for each course offered at the institution during the upcoming term. Additionally, BOG regulations⁸ require universities to adopt a regulation that establishes textbook adoption procedures to minimize the cost of textbooks for students while maintaining the quality of education and academic freedom. At a minimum, the regulation should provide for:

- A procedure to document the intent of the course instructors to use all items ordered.
- A determination of the extent to which a new textbook edition differs significantly and substantively from earlier versions and the value of changing to a new edition.
- Posting, no later than 30 days prior to the first day of classes, on the universities' Web sites a list of each required textbook for each course offering for the upcoming term. The posted list must include the International Standard Book Number for each required textbook or other identifying information, which must include, at a minimum, the title, all authors listed, publishers, and other relevant information necessary to identify the specific textbook or textbooks required for each course.

During the period April 2015 through March 2016, the University adopted 3,227 textbooks, including 394 textbooks for the Summer 2015 term, 1,240 textbooks for the Fall 2015 term, and 1,593 textbooks for the Spring 2016 term. Our review of the University-adopted textbook lists, University procedures, and related University records disclosed that the University contracted with a vendor to manage and operate the University Bookstore, as well as to compile and post a list of adopted textbooks on the University Bookstore Web site. However, although we requested, University records were not provided to document the dates the required textbook information was posted to the University Bookstore Web site. In response to our inquiries, University personnel indicated that the textbooks were supposed to be published on the University Bookstore Web site within 2 days after the adopted textbooks were recorded in the vendor's bookstore system; however, the vendor did not maintain records to document the textbook posting dates.

The timely posting of required textbook information on the University Bookstore Web site is necessary for students to understand course textbook requirements, have sufficient time to consider textbook purchase options, and limit their textbook costs. Also, without evidence of the timely posting of textbook information on the University Bookstore Web site, the University cannot demonstrate compliance with State law. Effective July 1, 2016, State law⁹ was revised to require each university to post prominently in the course registration system and on its Web site, as early as is feasible, but at least 45 days before the first day of class for each term, a hyperlink to lists of required and recommended textbooks and instructional materials for at least 95 percent of all courses and course sections offered at the university during the upcoming term. Similar findings are noted in our report Nos. 2013-103 and 2014-108.

⁷ Section 1004.085(3), Florida Statutes (2015).

⁸ BOG Regulation 8.003, *Textbook Adoption*.

⁹ Section 1004.085(6), Florida Statutes (2016).

Recommendation: The University should enhance procedures to ensure that records are maintained to demonstrate lists of required and recommended textbooks and materials are timely posted in accordance with State law.

Finding 10: Information Technology – Access Controls

Access controls are intended to protect University 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 inconsistent with their assigned responsibilities. Periodic reviews of assigned IT access privileges are necessary to ensure that employees can only access those IT resources that are necessary to perform their assigned job responsibilities and that assigned access privileges enforce an appropriate separation of incompatible responsibilities.

Our test of access privileges to the University's Enterprise Resource Planning (ERP) system finance and human resources (HR) applications for 64 selected employees disclosed that some employees had access privileges that permitted them to perform unnecessary or incompatible functions and that the University did not have procedures in place for the review of IT access privileges assigned to the ERP system applications. Specifically, we found that:

- Six University 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. The six 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.

In response to our inquiry, University management indicated access privileges were changed for 1 employee; however, although we requested, an access listing was not provided documenting the access changes made for this employee. In addition, access privileges were removed for another employee upon separation of employment with the University and University management indicated they were in the process of reviewing and changing access for the remaining 4 employees.

- Sixteen University employees from various departments (Payroll, Sponsored Research Program Office, Academic Affairs, Personnel, Controller's Office, HR, and Budget Office) had unnecessary update privileges to one or more critical functions, as described above, within the ERP HR application.

In response to our inquiry, University management indicated that access privileges were changed for 3 employees; however, although we requested, an access listing was not provided documenting the access changes made for these employees. In addition, we verified by examination of University records that access privileges were removed for 4 other employees and University management indicated they were in the process of reviewing and changing access for the 9 remaining employees.

- University management had not performed a review of IT access privileges assigned to the ERP system applications. In response to our inquiry, University management indicated a security review project was in the process of being implemented, with implementation expected in December 2017.

To compensate, in part, for the inappropriate access privileges, the University had implemented certain controls (e.g., monitoring expenses and payroll certifications by departmental representatives), and our review did not disclose any misuse as a result of the access control deficiencies. However, inappropriate or unnecessary access privileges and the lack of a review of IT access privileges assigned to the ERP system applications increases the risk that unauthorized disclosure, modification, or destruction of University data or IT resources may occur.

Recommendation: The University should continue efforts to timely complete the security review project, ensure that IT access privileges granted are necessary and enforce an appropriate separation of duties, and remove any inappropriate or unnecessary access privileges detected.

PRIOR AUDIT FOLLOW-UP

Except as noted in Findings 1 and 9 and shown in Table 5, the University had taken corrective actions for findings included in our report Nos. 2013-103 and 2014-108.

Table 5
Findings Also Noted in Previous Audit Reports

Finding	Operational Audit Report No. 2014-108, Finding	Operational Audit Report No. 2013-103, Finding
1	1	8
9	2	4

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 2016 to December 2016 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, and identify weaknesses in those controls.

- Determine whether management had taken corrective actions for findings included in our report No. 2014-108.
- 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.

As described in more detail below, 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.

Our audit included transactions, as well as events and conditions, occurring during the audit period of April 2015 through March 2016, and selected University actions taken prior and subsequent 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 management, staff, and vendors, and as a consequence, cannot be relied upon to identify all instances of noncompliance, fraud, waste, abuse, or inefficiency.

In conducting our audit we:

- Reviewed the University's information technology (IT) policies and procedures to determine whether the policies and procedures addressed certain important IT control functions, such as security, systems development and maintenance, and disaster recovery.
- Reviewed University procedures for maintaining and reviewing access to IT resources. We also tested 64 employees' access privileges to the University's database and finance and human resources applications to determine the appropriateness and necessity of the access based on employees' job duties and user account functions and adequacy and whether the access prevented the performance of incompatible duties.
- Reviewed the University's written security policies and procedures governing the classification, management, and protection of sensitive and confidential information.

- Reviewed operating system, database, network, and application security settings to determine whether authentication controls were configured and enforced in accordance with IT best practices.
- Examined Trustees, committee, and advisory board minutes to determine whether Trustees approval was obtained for the policies and procedures in effect during the audit period and for evidence of compliance with Sunshine Law requirements (i.e., proper notice of meetings, meetings readily accessible to the public, and properly maintained meeting minutes).
- Examined University records for the audit period to determine whether the University informed students and employees at orientation and on its Web site of the existence of the Florida Department of Law Enforcement sexual predator and sexual offender registry Web site and the toll-free telephone number that gives access to sexual predator and sexual offender public information as required by Section 1006.695, Florida Statutes.
- Reviewed the internal audit function during the audit period to determine whether the University followed professional requirements and provided for peer review of reports issued.
- Examined University records to determine whether the University had developed an anti-fraud policy and procedures to provide guidance to employees for communicating known or suspected fraud to appropriate individuals. Also, we examined University records to determine whether the University had implemented appropriate and sufficient procedures to comply with its anti-fraud policies.
- Examined University records to determine whether the University's intercollegiate athletic programs, reported as an auxiliary enterprise, maintained sufficient cash balances to be self-supporting in accordance with Board of Governors Regulations.
- Examined University records supporting 5 selected payments totaling \$333,160 from the population of 14 payments totaling \$352,516 made during the audit period by the University to its direct-support organizations to determine whether the payments were authorized by Section 1004.28(1)(a)2. and (2), Florida Statutes.
- Examined University records for 30 selected student accounts receivable totaling \$41,121 from the population of 22,322 student accounts receivable totaling \$33.3 million and recorded as of June 2016, to determine the adequacy of University collection efforts and whether restrictions on student records and holds on transcripts and diplomas were appropriate and enforced for students with delinquent account balances.
- Evaluated 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.
- To determine whether the student fees totaling \$77.3 million during the 2015-16 fiscal year were properly assessed, accurately calculated, and correctly recorded in accordance with the Trustees' policies and Board of Governors regulations, examined University fee records for 45 selected students. We also determined whether the student status and residency determinations for the selected students complied with Section 1009.21, Florida Statutes.
- From the population of 93 distance learning courses that generated fee revenues totaling \$485,326 during the audit period, examined University records for 41 selected distance learning courses with fee revenue totaling \$37,498 to determine whether distance learning fees were assessed, collected, separately accounted for, and retained in accordance with Section 1009.24(17), Florida Statutes.
- From the population of eight auxiliary operation contracts, which generated revenue totaling \$13 million for the audit period, examined University records supporting five selected contracts, which generated revenues totaling \$11.9 million, to determine whether the University properly monitored compliance with the contract terms for fees, insurance, and other provisions. Also, we

performed analytical procedures to determine whether the University's auxiliary services were self-supporting.

- Requested for examination supporting documentation for all 3,227 textbooks added during the Summer 2015, Fall 2015, and Spring 2016 semesters to determine whether the University's policies and procedures for textbook affordability complied with Section 1004.085, Florida Statutes.
- Examined University policies, procedures, and related records for supervisory review and approval of time worked and leave used by exempt employees (i.e., full-time faculty and administrative and professional employees) during the audit period to determine whether supervisory personnel reviewed and approved employee reports of time worked.
- From the population of 4,320 employees compensated a total of \$167.5 million during the audit period, examined records for 30 selected employees compensated a total of \$39,001 to determine the accuracy of the rate of pay, the validity of employment contracts, whether performance evaluations were completed, and the accuracy of leave records.
- Evaluated University policies and procedures for payments of accumulated annual and sick leave (terminal leave pay) to determine whether the policies and procedures promoted compliance with State law and Trustees policies. Specifically, from the population of 204 employees paid \$1.4 million for terminal leave during the audit period, we selected 26 employees with terminal leave payments totaling \$611,611 and examined the supporting records to evaluate the payments for compliance with Section 110.122, Florida Statutes, and Trustees Policy 2005-23.
- Examined severance pay provisions in the one employee contract that contained such provisions during the audit period to determine whether the provisions complied with Section 215.425(4), Florida Statutes.
- Examined University records for 13 selected administrative employees (including the President) who received compensation totaling \$2.5 million to determine whether the amounts paid did not exceed the limits established in Sections 1012.975(3) and 1012.976(2), Florida Statutes.
- Determined whether employee bonuses were paid in accordance with Section 215.425(3), Florida Statutes.
- Evaluated the University's policies and procedures for obtaining personnel background screenings to determine whether employees in positions of special trust and responsibility, such as positions with direct contact with persons under age 18, had undergone the appropriate background screenings.
- Examined University expenditure documentation to determine whether the expenditures were reasonable, correctly recorded, adequately documented, for a valid University purpose, properly authorized and approved, and in compliance with applicable laws, rules, contract terms, and Trustees' policies and whether applicable vendors were properly selected and carried adequate insurance. From the population of expenditures totaling \$86,597,525 for the audit period, we examined:
 - Documentation supporting 30 selected payments for general expenditures totaling \$49,683.
 - Documentation supporting 23 selected payments for contractual services totaling \$4.6 million.
 - Documentation supporting the competitive selection of 12 vendors paid a total of \$3.2 million.
- From the population of purchasing card (P-card) transactions totaling \$3.2 million during the period April 2015 through June 2016, examined University records supporting 51 selected P-card transactions totaling \$122,658 relating to 30 cardholders and 366 travel-related P-card transactions, totaling \$148,973 for 11 selected employees to determine whether the P-card program was administered in accordance with University policies and procedures and transactions were not of a personal nature.

- Examined University P-card records for the 10 cardholders who separated from University employment during the audit period to determine whether P-cards were timely canceled upon the cardholders' employment separation.
- From the population of \$1.5 million in total employee travel expense reimbursements during the period April 2015 through June 2016, examined 178 selected travel reimbursements totaling \$28,896 for 11 employees to determine whether the travel expenditures were reasonable, adequately supported, for valid University purposes, and limited to amounts allowed by Section 112.061, Florida Statutes.
- From the population of 159 payments totaling \$40,292 made during the audit period to employees for other than travel and compensation, examined 3 selected payments totaling \$8,838 to determine whether such payments were reasonable, adequately supported, for valid University purposes and whether such payments were related to employees doing business with the University, contrary to Section 112.313, Florida Statutes.
- From the population of 9 construction projects totaling \$49 million and in progress during the audit period, selected 10 payments totaling \$5 million related to 3 construction projects with contract amounts totaling \$46.6 million and examined University records to determine whether the payments were made in accordance with contract terms and conditions, University policies and procedures, and provisions of applicable State laws and rules.
- Reviewed documentation related to 3 construction projects with contract amounts totaling \$46.6 million to determine whether the University adequately monitored the process for selecting design professionals and construction managers for compliance with State law; the University adequately monitored the process for selecting subcontractors; the Trustees had adopted a policy establishing minimum insurance coverage requirements for design professionals; and design professionals provided evidence of required insurance.
- Communicated on an interim basis with applicable officials to ensure the timely resolution of issues involving controls and noncompliance.
- Performed various other auditing procedures, including analytical procedures, as necessary, to accomplish the objectives of the audit.
- Prepared and submitted for management response the findings and recommendations that are included in this report and which describe the matters requiring corrective actions. Management's response is included in this report under the heading **MANAGEMENT'S RESPONSE**.

AUTHORITY

Section 11.45, Florida Statutes, requires that the Auditor General conduct an operational audit of each University on a periodic basis. 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.



Sherrill F. Norman, CPA
Auditor General

MANAGEMENT'S RESPONSE



Florida Agricultural and Mechanical University

TALLAHASSEE, FLORIDA 32307-3100

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OFFICE OF THE PRESIDENT

March 31, 2017

Ms. Sherrill F. Norman, CPA
Auditor General
111 West Madison Street
Tallahassee, Florida 32399-1450

Dear Ms. Norman:

Enclosed are the responses to the preliminary and tentative findings on the operational audit of the Florida A&M University for the period from April 1, 2015 through March 31, 2016. 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,

A handwritten signature in cursive script that reads "Larry Robinson".

Larry Robinson
Interim President

Enclosure

- c: Dr. William Hudson, Jr., Vice President, Student Affairs
- Ms. Wanda Ford, Interim Vice President, Financial and Administrative Services
- Dr. Rodner Wright Interim Provost and Vice President Academic Affairs
- Mr. Richard Givens, Vice President, Audit and Compliance
- Mr. Milton Overton, Athletic Director

FAMU IS AN EQUAL OPPORTUNITY/EQUAL ACCESS UNIVERSITY

**MANAGEMENT RESPONSE FOR
AUDITOR GENERAL OPERATIONAL AUDIT
PRELIMINARY AND TENTATIVE AUDIT FINDINGS
MARCH 2017**

Finding 1: Intercollegiate Athletic Programs – Deficit Cash Balances

Auditor General Observation: The University’s intercollegiate athletic programs continued to experience cash deficits for the 2015-16 fiscal year.

University Response/Corrective Action Plan:

To address the issue of making the athletic department self-sustaining, the University has developed an **Athletic Department Budget Deficit Plan** to take the following steps:

- Since detailed records were not maintained of which auxiliary fund paid for athletic department expenses, a reasonable estimate of the amount paid from each auxiliary fund was calculated for the years 2008-2015.
- Recorded a related payable of \$7,014,034 from athletics to the identified funds.
- Established a repayment plan with initial payment beginning in fiscal year 2016-2017 for a term extending 12 years with 0% interest.
- Repayment is to be shared by the Athletic Department and the University’s Foundation. Other DSOs may contribute toward the repayment in the future.

Proposed Structure for Repayment to Auxiliary Funds

Amount to be repaid \$7,014,034

Interest rate 0%

Periods	University Support from Direct Support Organization	Athletics Direct Repayment	Total
1	\$186,000.61	\$0.00	\$186,000.61
2	\$226,239.14	\$0.00	\$226,239.14
3	\$269,593.54	\$0.00	\$269,593.54
4	\$269,593.54	\$51,742.36	\$321,335.90
5	\$269,593.54	\$113,507.98	\$383,101.52
6	\$269,593.54	\$187,252.94	\$456,846.48
7	\$269,593.54	\$275,317.23	\$544,910.78
8	\$269,593.54	\$380,500.54	\$650,094.08
9	\$269,593.54	\$506,152.86	\$775,746.40
10	\$269,593.54	\$656,283.18	\$925,876.73
11	\$269,593.54	\$835,689.61	\$1,105,283.15
12	\$269,593.54	\$899,412.13	\$1,169,005.67
Total	<u>\$3,108,175.15</u>	<u>\$3,905,858.83</u>	<u>\$7,014,034.00</u>

Corrective actions/prevention plan includes:

1. Implement 3 year budget and cash balance review process to include:
 - a) Year 1 – monthly reviews internally and externally with BOG representative / BOT chair/ President / CFO / AD /Chair of Athletics Committee.
 - b) Year 2 – monthly reviews with budget office and CFO and quarterly reviews with President / CFO / AD / Chair of Athletics Committee.
 - c) Year 3 – monthly reviews with budget office and CFO and quarterly reviews with President / CFO / AD / Board Chair.
2. Require CFO and President’s approval of auxiliary transfers to athletics to ensure only allowed sources are used.
3. Restrict release of approved annual Athletics budget to 75% based on prior year’s history of collected amounts until adequate revenues are realized.
4. Monthly reconciliation of P-Card purchases, open purchase orders, and vendor invoices.
5. Reduce team travel expenses.
6. Implement aggressive fundraising campaign from Athletics and DSO groups.
7. Request Board of Governors to conduct a study of SUS institutions on use of auxiliary funds and other funds to support Athletics.
8. Review and update operating guidelines for auxiliary enterprises to establish reporting and accountability requirements.
9. Track Expenses for DSOs in separate auxiliary fund based on established budgets.

As a result of the procedures as described above, the current excess of expenses over revenues is approximately \$76,000, with a projected breakeven as of June 30, 2017.

Responsible Person(s): Milton Overton, Director, FAMU Athletic Department

Target Date: Procedures were implemented in December 2016

Finding 2: Monitoring Construction Pay Requests

Auditor General Observation: Prior to payment, University personnel did not compare construction management entity (CME) pay requests with applicable subcontractor invoices, bids, and contracts or document comparisons of CME pay requests with the cost in the guaranteed maximum price (GMP) contracts.

University Response/Corrective Action Plan:

FAMU's process is to compare the schedule of values and GMP which is provided from the CME to the Project Managers (PM) to ensure line items are not exceeded within the GMP; therefore, proper oversight is provided for each pay request. If there are any discrepancies within the pay request, the PM returns it to the CM for modification and resubmission. The University's record consisted of the GMP and schedule of values which were both provided. In the future, the comparisons will be documented by the PM's initials and date of comparison.

Furthermore, Florida Statute Section 1013.45 states "At the option of the board, the construction management entity, after having been selected, may be required to offer a guaranteed maximum price or a guaranteed completion date; in which case, the construction management entity must secure an appropriate surety bond pursuant to s. 255.05 and must hold construction subcontracts." Therefore, neither the law nor the university's operating manual require subcontractor's contracts be maintained on file. These items are subject to review and audit upon request of the university.

In addition, FAMU Project Manager's Manual task 5.2- Receipt and Approval of Invoice and Pay Request #5 refers our PM paying GC/CM-/D-B or Design Professional or Consultant invoices and the supporting documents that are required. Our manual does not reference payments to subcontractors because those payments come from the CM. As stated above, FAMU is not required by Florida Statutes or our operating manual to maintain copies of subcontractor's contracts. We believe the procedures in place, as described above, represent best industry practice and reduce the risks to acceptable levels that overpayments may be made or maximum cost savings will not be realized. This is corroborated by the auditor's determination that payments were consistent with corresponding cost lines on the schedule of values in the CME contracts and the subcontractor invoice, bid, and contract amounts. We have also consulted with facilities and construction personnel at other SUS universities and we believe our procedures represent industry practices related to monitoring construction pay requests.

Responsible Person(s):

Craig Talton, Interim Director, Facilities Planning and Construction

Target Date: This process is being performed as outlined in FAMU Project Manager's Manual which has been effect since 2013. Evidence of comparisons per our operating manual will be documented beginning March 2017.

Finding 3: Subcontractor Selection

Auditor General Observation: University procedures need improvement to ensure that subcontractors, used by CMEs for GMP projects, are selected using a competitive selection process and that documentation for the selection process is maintained.

University Response/Corrective Action Plan:

FAMU Facilities Planning and Construction (FPAC) has procedures in place to ensure that a competitive selection process is used for selection of subcontractors. These processes are included in the Project Manager's Manual and require that the PM:

- Attend bid openings for each bid package and sign (witness) bid tab sheet and take appropriate notes to document the bid opening process. The PMs are to sign each bid tab sheet.
- Obtain the letter of recommendation for each bid package from the CM that states basis of selection, and has been approved.
- Along with the Design Professional shall make a copy of the bid sheet for their records and comparison to pre-approved qualified bidders list.
- File a copy of proposals, evidence of pre-bid meetings, Trade Contractor Prequalification Forms, licenses, all bid packages, bid tabulations sheets, correspondence, notes, and documents in the official project file.

FAMU Project Managers are not required to keep subcontractor's contracts to substantiate the entire process was done using competitive selection.

FAMU FPAC will improve our documentation process by establishing a final checklist to be signed by the Project Manager, Assistant Director of Business and the Director at the closeout of each project to ensure all required documents are in place.

Responsible Person(s):

Craig Talton, Interim Director, Facilities Planning and Construction

Target Date: June 2017

Finding 4: General Conditions Costs

Auditor General Observation: University controls over negotiating and monitoring CME general conditions costs need improvement.

University Response/Corrective Action Plan:

FAMU Project Manager's Manual was established in 2013 which was after the GMP negotiations were established for the Pharmacy Building in 2004. FAMU procedures initially did not include negotiations for minor projects such as the Student Union projects, therefore a negotiation checklist was not provided.

FAMU Project Manager's Manual is in the process of being revised and will include a negotiation checklist for both major and minor projects as well as Continuing Services agreements. In addition, FAMU has a right to audit clause for major construction contracts that allows the University to review supporting documentation for charges paid for the project. Also, we will have a closeout audit done on our current major project and will also include for all major projects in the future.

Responsible Person(s):

Craig Talton, Interim Director, Facilities Planning and Construction

Target Date: June 2017

Finding 5: Payroll Processing – Time Records

Auditor General Observation: Supervisors did not always document review and approval of exempt employees' time worked.

University Response/Corrective Action Plan:

Human Resources will continue to assist in resolving this issue through:

1. Development of a communication from the President, Provost and Vice Presidents setting expectations for Leave Approval and Monitoring. Implementation: Date: March 31, 2017
2. Conduct annual and/or semi-annual workshops for departmental representatives and supervisors regarding the time and leave approval process. Implementation Date: March 31, 2017 and ongoing.
3. Biweekly notification to departmental representatives regarding cost center report review and supervisory signature for certification of payroll. Implementation Date: Ongoing

Periodic audits of selected departments regarding leave process administration, including hours worked, leave approved and taken by employees. Implementation Date: Ongoing

Responsible Person(s): Joyce Ingram, Associate Vice President, CHRO, Office of Human Resources

Target Date: See above dates

Finding 6: Purchasing Cards

Auditor General Observation: Controls over the University Purchasing Card Program could be improved.

University Response/Corrective Action Plan:

In June 2016, P-card compliance was transferred from the Controller's office to Procurement Services. We have developed a Procurement Compliance section to include P-card compliance that will monitor activities including card deactivation. P-card compliance includes mandatory cardholder training, reviewing travel authorization to include expense reports, reviewing business purposes, ensuring supervisory approval is documented, and reviewing the appropriate funding source. Cardholders are notified of noncompliance with P-card procedures and are given an opportunity to bring their account into compliance. If cardholders do not bring their accounts into compliance, the card is deactivated until the noncompliance issues are resolved. If after three payment cycles, those issues or any new noncompliance issues are not resolved the following will occur:

- Their supervisor and vice president will be contacted informing them of the noncompliance issues and request assistance for a resolution.
- The P-card may be permanently revoked.
- Reimbursement requests are made from the cardholder of those expenditures for which the business purpose cannot be substantiated.
- If a P-card holder is found to be noncompliant of the P-card Policy three times within one fiscal year, then their card will be revoked or suspended and they must attend mandatory training to include their reconcilers before the card is reinstated.

Responsible Person(s):

Wanda Ford, CFO, Interim Vice President of Finances and Administrative Services
Stephany Fall, Director, FAMU Procurement Services

Target Date: Implemented July 2016

Finding 7: Employee Travel Expense Reimbursements

Auditor General Observation: University employee travel expense reimbursement requests and related support were not always timely submitted for processing.

University Response/Corrective Action Plan:

The University Travel and Expense Manual, section 7.1, is provided as a guideline to encourage prompt submission of required documents by the traveler. The increased risk is not to the State, but is carried by the employee who is seeking reimbursement. Enforcement of the due dates for submitting travel expense reimbursements would require enhancements to our ERP system to track due dates of expense reimbursements. However, training will be provided to travelers and travel representatives to emphasize the importance of timely submission of expense reimbursement requests. All employees, including senior management personnel, will be held accountable for compliance with Section 7.1 of the Travel and Expense Manual.

Responsible Person(s): Wanda Ford, CFO, Interim Vice President, Financial and Administrative Services, and
Tiffany Holmes, Assistant Vice President, FAMU Controller

Target Date: June 2017

Finding 8: Student Receivables

Auditor General Observation: The University needs to enhance procedures related to the collection of student receivables.

University Response/Corrective Action Plan:

The University became aware that procedures were not being followed and personnel changes were made in the collections section of Student Financial Services in 2014. Most of the below findings relate to the time period before personnel changes were made. The University has already (before the start of this Operational Audit) improved collections efforts, as evidenced by the holds and collections activity that has occurred since 2014. We will continue to improve and update our procedures to ensure that the procedures for collection efforts are adequate. Currently, our procedures include sending weekly emails and texts to students who have an outstanding balance, sending a letter to the student at the end of registration for the subsequent term demanding payment in full, and assigning accounts for students who are not enrolled to a collection agency. The assistant controller reviews the collection agency placement to ensure that all eligible accounts are assigned to the collection agency and all holds are placed. Annual training will be provided to all employees involved in the collection process. Responses to the individual findings are included below.

- Holds were not placed on 2 student accounts with balances greater than \$500 to prohibit the students from registering for classes or obtaining transcripts until 1 to 9 months after the first payment was due.

As stated above, collection procedures are being adhered to after personnel changes were made in June 2014. Of the students, balances were from 2010 and 2012.

- Dates that holds were placed on 5 student accounts with balances of \$500 or less to prohibit the students from obtaining transcripts were not documented. According to University personnel, these 5 accounts had past due balances for 2 to 7 years before holds were placed on the accounts.

Please note, the "NOT" (no official transcript) hold, which is applied to students owing less than \$500, was not implemented until summer 2015. The "NOT" hold process is not Peoplesoft-delivered but is a customized hold designed by our IT staff and runs nightly. Each day the process runs, the date is overridden by the current date. Therefore, any "NOT" hold will be dated to reflect the last time the process ran. In March 2017, a request was made to ITS to modify the system so that the date the hold was placed is not overridden when the process runs.

- According to University personnel, 12 of the student accounts totaling \$24,528 had balances outstanding 8 months to 7 years before the accounts were submitted to a collection agency. In total, the account balances had been outstanding 6 to 12 years.

All but 2 of the 12 balances occurred between 2004 and 2012. As stated above, collection procedures are being adhered to after personnel changes were made in June 2014.

- The University had not submitted 3 student accounts totaling \$2,719 with balances outstanding 1 to 5 years to a collection agency. Although we requested, University records were not provided to explain why the accounts were not submitted to a collection agency.

Two of the 3 outstanding student balances occurred in 2011. The 3rd student whose balance is from 2014 did not enroll; however, the balances resulted was from a prorated housing charge. As stated above, collection procedures are being adhered to after personnel changes were made in June 2014.

Responsible Person(s): Wanda Ford, CFO, Interim Vice President, Financial and Administrative Services, and Tiffany Holmes, Assistant Vice President, FAMU Controller

Target Date: Review of operating procedures to be completed by December 2017

Finding 9: Textbook Affordability

Auditor General Observation: University textbook affordability procedures could be enhanced. A similar finding was noted in our report No. 2014-108.

University Response/Corrective Action Plan:

Board of Governors regulation requires posting of textbooks on the University website for each term. An announcement should occur no later than 30 days prior to the start of classes for each upcoming term. Plans are underway to comply with the regulation for the summer semester. The Registrar’s Office is in the process of announcing the summer courses on Monday, March 13, 2017 and instructors are required to adopt textbooks by the Monday, March 20, 2017. The Bookstore will post the list of textbooks on their website by Monday, March 27, 2017. A list of textbooks will be developed by the Division of Academic Affairs and transmitted to the bookstore by April 1, 2017. A calendar of due dates will be established and communicated to staff in the colleges and schools who are responsible for compliance, using a similar time frame for the upcoming Fall and Spring semesters. The list of textbooks developed by academic Affairs will be compared to the textbooks posted on the bookstore website to verify accuracy of the posting.

The table listed below will contain the requested textbook information that will be posted on the website.

Course Number & Section	Course Title	Instructor	Textbook Title & Author	Edition, Publisher, & ISBN	Required	Suggested
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Academic Affairs will work with the bookstore to determine the reason that posting dates were not documented and document the dates that textbooks are posted to the bookstore website.

Responsible Person(s): Carl Goodman, Associate Provost for Undergraduate Education

Target Date: April 30, 2017

Finding 10: Information Technology – Access Controls

Auditor General Observation: Certain information technology access controls need improvement.

University Response/Corrective Action Plan:

- Six University 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. The six 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.

The University has removed access for the one employee mentioned above. This access was removed on February 20, 2016 and a new access listing was provided to the Auditor General via email on January 30, 2017. The University is taking the following steps to remove access from the remaining 4 employees:

1. ITS staff is working with the HR department to verify duties and responsibilities of the 4 remaining employees.
2. ITS will then examine the HR roles within the system and/or develop a new role to modify access providing an appropriate level of separation of duties for each employee.

The above steps will be incorporated into the University's ongoing eight-month project to redesign and review all access roles and privileges at the University for the Human Resources and Campus Solutions modules.

Responsible Person(s):

Annamarie Bryan, Associate Director, Human Capital Management System/Information Technology Services),
Candace McCrary, Information Security/Information Technology Services,
Moeub Lanh, Associate Director, Human Resources

Target Date: July 2017

- Sixteen University employees from various departments (Payroll, Sponsored Research Program Office, Academic Affairs, Personnel, Controller's Office, HR, and Budget Office) had unnecessary update privileges to one or more critical functions, as described above, within the ERP HR application.

University Response/Corrective Action Plan:

The University has changed access for the three employees mentioned above. This access was removed on February 20, 2016 and a new access listing was provided to the Auditor General via email on January 30, 2017. The University is taking the following steps to remove access from the remaining 9 employees:

1. ITS staff is working with the various departments to verify duties and responsibilities of the 9 remaining employees.
2. The various roles will be reviewed within the system and/or develop a new role to provide an appropriate level of separation of duties for the remaining employees.

3. New roles created will be tested and approved by the appropriate area to ensure the access is appropriate.
4. Matrices will be designed for new roles created as well as a description of the role.

The above steps will be incorporated into the University's ongoing eight month project to redesign and review all access roles and privileges at the University for the Human Resources and Campus Solutions modules.

Responsible Person(s): Responsible Person(s):

Annmarie Bryan, Associate Director, Human Capital Management System/Information Technology Services),

Candace McCrary, Information Security/Information Technology Services,

Moeub Lanh, Associate Director, Human Resources

Target Date: July 2017

- University management had not performed a review of IT access privileges assigned to the ERP system applications.

University Response/Corrective Action Plan:

ITS is in the process of implementing an annual review procedure which will allow an employee's immediate supervisor, or a representative assigned by the respective vice president, to review and approve the employee's iRattler access.

1. This procedure established the responsibilities of each employee with respect to their obligation and outlines a step-by-step process ensuring every active employee's roles and permissions are reviewed and approved.
2. This procedure will apply to all employees within the university.
3. The approving person will be responsible for completing the review and submitting the appropriate response.

Responsible Person(s):

Ronald Henry, Chief Information Officer/Information Technology Services,

Chandra Nandineni, Director/Information Technology Services,

Candace McCrary, Associate Director/Information Technology Services, Departmental Supervisors to perform tasks upon implementation.

Target Date: September 2017