

**FLORIDA STATE UNIVERSITY  
NORTHWEST REGIONAL DATA CENTER**

Cost Allocation Processes



Sherrill F. Norman, CPA  
Auditor General

## Policy Board Members and Executive Director of the Northwest Regional Data Center

Pursuant to Section 1004.649, Florida Statutes, the Northwest Regional Data Center (NWRDC) at Florida State University is authorized to provide data center services to State agencies. The NWRDC Charter establishes a Policy Board (Board), composed of customer entity representatives, as the governing body for the NWRDC. The Board's primary function is to establish and promulgate policies for the NWRDC. The Executive Director, who is appointed by the Board, is responsible for the overall administration of the NWRDC.

Tim Brown served as Executive Director of the NWRDC and the following individuals served as Board members during the period of our audit:

<u>Board Member</u>	<u>Customer Entity Represented</u>
Dr. Mehran Basiratmand, Chair	Florida Atlantic University
Michael Barrett, Vice Chair	Florida State University
David Cantrell, Non-voting Member	Florida A&M University
Michael Dieckmann	University of West Florida
Ted Duncan	Florida Department of Education
Levis Hughes	Florida Department of Education
Gene Kovacs	Florida Board of Governors
Damu Kuttikrishnan	Florida Department of Revenue
Henry Martin	Walton County School District
Pete Taylor	Florida International University

The audit was supervised by Joshua T. Barrett, CPA.

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# FLORIDA STATE UNIVERSITY NORTHWEST REGIONAL DATA CENTER

## Cost Allocation Processes

### **SUMMARY**

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This operational audit of the Northwest Regional Data Center (NWRDC) focused on NWRDC cost allocation processes. The audit also included a follow-up on finding No. 2 noted in our report No. 2015-005. Our audit disclosed the following:

**Finding 1:** The NWRDC did not correctly calculate the credits provided to the Department of Revenue, Department of Education, or Florida Virtual Campus for the staff activity costs of managed services billed, but not provided, during the 2015-16 fiscal year.

### **BACKGROUND**

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The Northwest Regional Data Center (NWRDC) is an auxiliary operation of Florida State University (University) and is headed by a Policy Board (Board) consisting of representatives from its customer entities. The Board appoints an Executive Director who is responsible for the daily operation of the data center. In its capacity as the administrative host institution and fiscal agent, the University is the contracting authority for the NWRDC and provides legal support and executive oversight. All NWRDC positions are filled with University employees who are to follow University payroll, leave, and other personnel action policies.

The NWRDC provides a variety of information technology (IT) services to its customer entities, including facilities and infrastructure services, storage and recovery services, network, mainframe, and security services, and other managed services.<sup>1</sup> The NWRDC's customer entities consist of State entities, universities, colleges, school districts, municipal and county governments, a consortium, and nonprofit and for-profit entities that contract with the NWRDC for IT services. State law<sup>2</sup> requires that the NWRDC enter into a service level agreement (SLA) with each State agency customer and that the SLA establish the services to be provided by the NWRDC and the associated cost of each service.

The NWRDC operates on a cost-recovery basis whereby the NWRDC bills customer entities for the portion of operating costs associated with the specific data center services provided to each customer. State law<sup>3</sup> specifies that the NWRDC is to maintain an appropriate cost allocation methodology that accurately bills State agency customers based solely on the actual direct and indirect costs of the services provided to State agency customers, and prohibits the subsidization of non-State agency customer costs by State agency customers. The cost allocation methodology is also to comply with applicable State and Federal regulations concerning the distribution and use of State and Federal funds.

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<sup>1</sup> According to the *Fiscal Year 2015-2016 Northwest Regional Data Center Service Catalog*, managed services included: operating systems patch management, infrastructure monitoring, technical personnel, and administrator services related to server, virtual host, backup, storage, network, and system activities.

<sup>2</sup> Section 1004.649(1)(c), Florida Statutes.

<sup>3</sup> Section 1004.649(1)(b), Florida Statutes.

After fiscal year end, the NWRDC prepares a true-up analysis to adjust the staff activity costs billed for managed services, which are based on estimated staff activity costs, to equal the actual staff activity costs of the managed services provided to customer entities. A corresponding credit or debit billing adjustment is made for each customer entity, as necessary, to reflect the results of the true-up analysis.

## ***FINDINGS AND RECOMMENDATIONS***

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### **Finding 1: Customer Account Adjustments**

As part of the managed services true-up analysis, the NWRDC reconciled the actual staff activity costs associated with the managed services provided to customer entities, to the amounts billed, and made any necessary adjustments to customer accounts. We examined NWRDC records for the seven credit adjustments made to the accounts of the customer entities that received managed services during the 2015-16 fiscal year and found that the NWRDC miscalculated the staff activity costs credited to the accounts of the Department of Education (DOE), Department of Revenue (DOR), and the Florida Virtual Campus (FVC). Specifically:

- The DOR was billed \$678,434 for 8 positions to provide managed services during the 2015-16 fiscal year. Subsequently, in September 2016, the NWRDC provided the DOR a \$74,026 credit for staff activity costs that had been billed but not incurred due to position vacancies during the 2015-16 fiscal year. However, our examination of NWRDC records disclosed that the NWRDC had not properly accounted for vacancies in 3 of the 8 positions for periods of time during the fiscal year. In response to our audit inquiry, NWRDC management indicated that the incorrect number of vacant position months had been inadvertently input into the credit calculation, and in April 2017, the NWRDC provided the DOR an additional \$13,755 credit to reflect the actual staff activity costs of the managed services provided. However, in applying the credit, the NWRDC used the 2016-17 managed services rates, which resulted in the NWRDC over crediting the DOR \$5,223.
- The DOE and the FVC were billed \$897,195 and \$392,292 for 11 and 5 positions, respectively, to provide managed services during the 2015-16 fiscal year. Subsequently, in September 2016, the NWRDC provided the DOE a \$39,535 credit and the FVC a \$36,764 credit for staff activity costs that had been billed but not incurred due to position vacancies during the 2015-16 fiscal year. However, our examination of NWRDC records disclosed that the NWRDC incorrectly calculated the DOE and the FVC credits based on the 2016-17 fiscal year managed services rates. As a result, the NWRDC over credited the DOE and the FVC by \$4,165 and \$2,486, respectively. In response to our audit inquiry, NWRDC management indicated that the NWRDC had inadvertently used the 2016-17 fiscal year managed services rates when applying the credits.

Effective customer account adjustment procedures help ensure that billing adjustments result in customer entities paying amounts for managed services commensurate with the actual costs of the services provided.

**Recommendation:** We recommend that NWRDC management enhance controls for ensuring that adjustments to customer entity accounts are correctly calculated.

## ***PRIOR AUDIT FOLLOW-UP***

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The NWRDC had taken corrective actions for the applicable finding included in our report No. 2015-005 (finding No. 2).

## ***OBJECTIVES, SCOPE, AND METHODOLOGY***

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

We conducted this operational audit from January 2017 through May 2017 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.

This operational audit of the Northwest Regional Data Center (NWRDC) focused on NWRDC cost allocation processes. The overall objectives of the 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, administrative rules, contracts, grant agreements, and guidelines.
- To 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, the reliability of records and reports, and the safeguarding of assets, and identify weaknesses in those internal controls.
- To determine whether management had corrected, or was in the process of correcting, the applicable deficiency disclosed in our report No. 2015-005.
- To identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

This audit was designed to identify, for those programs, activities, or functions included within the scope of the audit, deficiencies in management's internal controls, instances of noncompliance with applicable governing laws, rules, or contracts, 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's findings and conclusions; and reporting on the results of the audit as required by governing laws and auditing standards.

Our audit included the selection and examination of transactions and records. Unless otherwise indicated in this report, these transactions and records were not selected with the intent of statistically projecting the results, although we have presented for perspective, where practicable, information concerning relevant population value or size and quantifications relative to the items selected for examination.

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

In conducting our audit we:

- Reviewed applicable laws, Federal regulations, and NWRDC policies and procedures, and interviewed NWRDC personnel to obtain an understanding of the cost allocation, billing, and expense processes.
- Interviewed NWRDC management and recalculated NWRDC service rates to determine whether the NWRDC had established cost allocation processes that allowed for an equitable distribution of costs among activities and customers, in accordance with State law and Federal regulations.
- Examined NWRDC records for the 12 State entity customers that received NWRDC services during the period July 2015 through December 2016 to determine whether:
  - The NWRDC had executed service-level agreements (SLAs) with each State agency customer.
  - The SLAs appropriately addressed all statutorily required provisions.
  - The NWRDC provided to the 12 State entity customers cost estimates detailing the projected annual costs of the agreed-upon services by September 1, 2015, and September 1, 2016, pursuant to Section 1004.649(1)(e), Florida Statutes.
- From the population of 40 NWRDC services listed in the 2015-16 fiscal year service catalog and 49 NWRDC services listed in the 2016-17 fiscal year catalog, examined NWRDC records for 8 services from the 2015-16 fiscal year catalog and 7 services from the 2016-17 fiscal year catalog to determine whether the NWRDC adequately documented the methodology for establishing service costs and the methodology was reasonable and in compliance with applicable laws and Federal regulations.
- Analyzed NWRDC records related to the NWRDC's allocation of mainframe processing costs to State agency and other customers for the 2015-16 and 2016-17 fiscal years to determine whether customers were appropriately billed for services received and whether NWRDC processes were sufficient to ensure State agency customers did not subsidize other NWRDC customers, in accordance with Section 1004.649(1)(b), Florida Statutes.
- Examined the NWRDC's 2015-16 fiscal year Statewide Cost Allocation Plan reconciliation between total revenue and the total actual costs of providing services to determine whether appropriate adjustments were made to customer billings based on the actual costs of the services provided in accordance with Section 1004.649(1)(b), Florida Statutes, and applicable Federal cost principles.

- Examined NWRDC records for the seven credits made to three customer entities that received managed services during the 2015-16 fiscal year to determine whether customer accounts were appropriately credited based on the actual costs of the services provided.
- From the population of the 361 revenue transactions related to customer payments, totaling \$17,753,737, recorded during the period July 2015 through December 2016, examined NWRDC records for 30 selected customer payments (1 from each revenue transaction selected), totaling \$2,643,008, to determine whether customer payments were properly received, recorded, and reflected the rates approved by the NWRDC Policy Board.
- From the population of the 28,031 NWRDC expense transactions, totaling \$21,048,877, recorded during the period July 2015 through December 2016, examined NWRDC records for 25 selected expense transactions, totaling \$844,123, to determine whether the expense transactions were properly authorized, calculated, recorded, supported, and made in accordance in with applicable laws and Federal regulations.
- Evaluated NWRDC actions to correct finding No. 2 noted in our report No. 2015-005. Specifically, we interviewed NWRDC management and examined NWRDC records to determine whether the NWRDC ensured that actual staff effort was appropriately documented and adjustments to customer accounts were made in accordance with the requirements of State law.
- 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**

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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 of the NWRDC.



Sherrill F. Norman, CPA  
Auditor General

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## MANAGEMENT'S RESPONSE

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Sherrill F. Norman  
Auditor General  
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July 24, 2017

Dear Ms. Norman,

Please accept Florida State University's response to your letter of June 23<sup>rd</sup> with report of preliminary and tentative findings and recommendations from your recent audit of Northwest Regional Data Center. As always, please let us know if there are any questions or if we can be of assistance. Thank you.

Sincerely,

A handwritten signature in black ink, appearing to read "Tim Brown", with a long horizontal flourish extending to the right.

Tim Brown  
Executive Director, Northwest Regional Data Center  
Florida State University

cc:

Sam McCall, Chief Audit Officer, Florida State University  
Michael Barrett, Assoc. VP and CIO, Florida State University & Vice-Chair, NWRDC Policy Board  
Mehran Basiratmand, CTO, Florida Atlantic University & Chair, NWRDC Policy Board

## NWRDC Response

**Finding 1:** The NWRDC did not correctly calculate the credits provided to the Department of Revenue, Department of Education, or Florida Virtual Campus for the staff activity costs of managed services billed, but not provided, during the 2015-16 fiscal year.

**Recommendation:** We recommend that NWRDC management enhance controls for ensuring that adjustments to customer entity accounts are correctly calculated.

Response: NWRDC & FSU agrees with this recommendation and will investigate ways to improve its existing controls and procedures in these areas.