

**STATE OF FLORIDA AUDITOR GENERAL**

**Operational Audit**

Report No. 2020-190  
April 2020

**MIAMI DADE COLLEGE FOUNDATION, INC.**



Sherrill F. Norman, CPA  
Auditor General

## Board of Directors and Executive Director

During the period April 2017 through March 2018, Mr. Mark Cole served as Executive Director of Miami Dade College Foundation, Inc. and the following individuals served as Directors of the Board:

Julie Grimes, Chair	René Hagen from 9-26-17 <sup>c</sup>
Jorge A. Plasencia, Vice Chair	Beatrice Louissaint
Maria C. Alonso through 7-25-17 <sup>a</sup>	Nelson R. Mezerhane B. from 9-26-17 <sup>a</sup>
Sheldon T. Anderson	Dr. Eduardo J. Padrón <sup>d</sup>
David M. Arditi	Dr. Lenore Rodicio <sup>e</sup>
Ernie Diaz through 11-30-17 <sup>b</sup>	Alfredo Salas
Miguel G. Farra	Dr. Penny Shaffer
Arthur J. Furia	Alexandra Villoch
Augusto J. Gil	Louis Wolfson III

<sup>a</sup> Board member position remained vacant 7-26-17, through 9-25-17.

<sup>b</sup> Board member resigned on 11-30-17, and position remained vacant through 3-31-18.

<sup>c</sup> Board member position was vacant from 4-1-17, through 9-25-17.

<sup>d</sup> Miami Dade College President.

<sup>e</sup> Miami Dade College Vice President and Provost.

Note: Five ex-officio director positions remained vacant during the period.

The team leader was Ramon L. Bover, CPA, and the audit was supervised by Hector J. Quevedo, CPA.

Please address inquiries regarding this report to Jaime N. Hoelscher, CPA, Audit Manager, by e-mail at [jaimehoelscher@aud.state.fl.us](mailto:jaimehoelscher@aud.state.fl.us) or by telephone at (850) 412-2868.

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# MIAMI DADE COLLEGE FOUNDATION, INC.

## **SUMMARY**

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This operational audit of Miami Dade College Foundation, Inc. (Foundation) focused on selected Foundation processes and administrative activities. Our operational audit disclosed the following:

**Finding 1:** Foundation electronic funds transfer (EFT) controls were not always effective as EFT duties for preparing, approving, and recording EFTs were not adequately separated and some employees had excessive EFT dollar limits.

**Finding 2:** Five College or Foundation employees' access privileges were incompatible as the privileges allowed the preparation and approval of journal entries. In addition, Foundation records did not always evidence approval of journal entries.

**Finding 3:** The Foundation had not established procedures to require and ensure documented supervisory review and approval of exempt employees' time worked.

**Finding 4:** Foundation records were not always maintained to demonstrate that scholarship recipients met donor-established eligibility requirements.

**Finding 5:** Foundation efforts to apprise students of scholarship opportunities could be enhanced.

**Finding 6:** The Foundation had not established policies and procedures to identify when spending distributions from endowment fund corpus balances should be suspended, and did not effectively monitor and limit such distributions when the fair value of the corpus balances were less than either the original gift amount or the amount required by the donor to be maintained.

**Finding 7:** Contrary to Foundation policies, the Foundation received a \$2.2 million contribution without an executed agreement with the donor outlining the programs to be supported or a schedule of contributions.

**Finding 8:** Travel expenses did not always comply with Foundation policies.

**Finding 9:** The Foundation did not obtain fidelity bonds for persons handling or responsible for Foundation moneys or investments.

**Finding 10:** Contrary to State law, the Foundation did not provide public notice for Board and committee meetings.

**Finding 11:** The Board's composition was not always in accordance with the governing *Articles of Incorporation* and by-laws and some directors did not always comply with meeting attendance requirements.

**Finding 12:** The Foundation did not budget for all revenues and expenses of the temporarily restricted and permanently restricted funds or amend the annual operating budget of the unrestricted fund to include additional funds received and expensed during the 2017-18 fiscal year.

**Finding 13:** The Foundation had not established an information technology (IT) security incident response plan to promote an appropriate, effective, and timely response by Foundation management to security incidents.

**Finding 14:** The Foundation had not established an IT disaster recovery plan.

## **BACKGROUND**

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The Miami Dade College Foundation, Inc. (Foundation) is a Florida not-for-profit corporation, chartered in 1965 to serve as a direct-support organization, as defined in Section 1004.70, Florida Statutes, of Miami Dade College (College). The Foundation was organized and operates exclusively to receive, hold, invest, and administer property, and make expenditures to or for the benefit of the College. Although the Foundation is a legally separate entity from the College, the College is financially accountable for the Foundation as the College reports the Foundation's financial activities to the State of Florida and the Foundation is included within the College's financial reporting entity.

The Foundation is governed by a Board of Directors (Board) that, during the period April 2017 through March 2018, was to consist of no less than 15 directors elected by the Board, along with 7 ex-officio directors. According to the Foundation's *Articles of Incorporation* and by-laws, the elected directors serve 3-year terms and may be elected to a second consecutive 3-year term; whereas, 3 of the 7 ex-officio directors serve on the Board while they hold the positions of College President, Chair of the College Board of Trustees (College Board), and President of the College Alumni Association. The other 4 ex-officio directors serve 1-year terms and include a campus president selected by the College President and 3 additional members of the College Board.

The Foundation's Executive Director is primarily responsible for administering the policies prescribed by the Board and managing Foundation operations. The College President appoints, and the Board confirms, the Executive Director, who reports jointly to the Board and the College President.

## **FINDINGS AND RECOMMENDATIONS**

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### **Finding 1: Electronic Funds Transfers**

To help protect electronic bank account information from internal and external threats, such as the unauthorized use of Foundation funds, effective policies and procedures should be established to maintain the integrity, security, confidentiality, and auditability of electronic funds transfers (EFTs). Such policies and procedures should require and ensure that the Foundation:

- Assigns appropriate EFT authorization limits for personnel based on their job responsibilities.
- Separates the incompatible duties of EFT preparation, review and approval, and recording in the accounting system and identifies the employees who perform each of these duties.
- Records EFTs promptly in Foundation accounting records.

According to Foundation personnel, the Foundation uses EFTs to, for example, transfer funds between Foundation bank accounts, make vendor payments, and direct program support to College bank

accounts. Foundation records indicated that, during the period April 2017 through March 2018, the Foundation recorded a total of 28 EFTs totaling \$142,684 for vendor payments. We reviewed Foundation policies, procedures, and banking records and found that the Foundation had not established effective controls over EFTs. Specifically, the EFT authorization limits in the Foundation banking profiles appeared excessive based on the amount of EFT payments and incompatible duties existed as:

- The College Controller, responsible for monitoring College and Foundation financial activities, had an excessive individual and cumulative EFT authorization limit of \$10 million. The College Controller was also assigned the incompatible duties of preparing and approving EFTs and recording EFTs in the Foundation accounting system without documented independent review and approval.
- The Foundation Executive Director had an excessive EFT authorization limit of \$2 million for individual and cumulative EFTs.

Subsequent to our inquiries, in April 2019 Foundation personnel evaluated EFT authorization limits and, as a result, reduced the limits to \$25,000 for each of these employees.

We also examined Foundation records supporting 18 selected EFT transactions totaling \$132,948 and noted that the transactions were not always timely recorded in the Foundation accounting system or supported by appropriate review and approval documentation. Specifically:

- 4 EFTs, ranging from \$1,155 to \$34,532 and totaling \$39,887, for grant and travel expenses and other program activities were recorded in the accounting system by the Finance Director and the Account Service Manager 131 to 523 or an average of 273 days after funds were transferred to vendors.
- 9 EFTs, ranging from \$750 to \$19,750 and totaling \$58,042, for travel expenses, supplies, and consulting fees were prepared by the Account Service Manager. The Account Service Manager also recorded the EFTs in the Foundation accounting system. Furthermore, 4 of the EFTs, ranging from \$1,476 to \$18,167 and totaling \$27,220, were recorded in the accounting system 46 to 69 or an average of 56 days after funds were transferred to vendors.
- A \$2,500 EFT did not evidence any supervisory review and approval.

In response to our inquiries, Foundation personnel indicated that the untimely recording of the EFTs and lack of EFT supervisory review and approval occurred due to staffing changes and office relocations. While our tests did not disclose any EFTs for unauthorized purposes, our tests cannot substitute for management's responsibility to establish effective controls. Absent appropriate controls, including reasonable EFT limits, appropriately separated EFT responsibilities, documented supervisory review and approval of EFTs, and promptly recorded EFTs, there is an increased risk that unauthorized EFTs could occur and not be timely detected and resolved.

**Recommendation: The Foundation should establish effective policies and procedures for EFTs that require and ensure that the Foundation:**

- **Assigns appropriate EFT authorization limits for personnel based on their job responsibilities.**
- **Separates the incompatible duties of EFT preparation, review and approval, and recording in the accounting system and identifies the employees who perform these duties.**
- **Records EFTs promptly in the accounting records.**

## Finding 2: Journal Entries

Foundation policies<sup>1</sup> require the Executive Director to authorize and approve all journal entries up to \$25,000 and, in the Executive Director's absence, the College Chief Financial Officer (CFO) is delegated this authority. Journal entries over \$25,000 require approval of the Executive Director and the College Provost and, should either of these individuals be absent, this authority can be delegated to the CFO or Board Secretary, respectively. The Foundation Finance Department is responsible for maintaining financial records, including recording journal entries of adjustments to account balances and transactions, and the related financial reporting.

Our examination of Foundation records disclosed that, during the period April 2017 through March 2018, there were a total of 741 journal entries, including 111 entries both prepared and approved by the same employee. Specifically, five employees, including the Director of Finance, a former Director of Finance, the Account Manager, a Network Director, and the College Controller both prepared and approved journal entries. According to Foundation personnel, the Foundation accounting system had not been programmed to separate the access privileges needed to prepare and approve journal entries.

In response to our inquiries, Foundation personnel indicated that the Executive Director or his designee approved journal entries prepared and approved by the same employee before the entries are recorded in the accounting system. We requested for examination Foundation records supporting 30 selected journal entries totaling \$5.9 million to determine whether appropriate approval was documented and found that 23 journal entries ranging from \$694 to \$1.4 million and totaling \$4.1 million did not evidence appropriate approval. Specifically:

- 17 journal entries, ranging from \$694 to \$1 million, were not supported by any documented approval.
- 6 journal entries ranging from \$27,701 to \$1.4 million were approved, as evidenced by the Executive Director signature, but lacked evidence of the College Provost, or Board Secretary approval required by Foundation policies for entries exceeding \$25,000.

According to Foundation personnel, appropriate approval documentation was not always maintained because of oversights. While we found that the journal entries examined were for authorized purposes, such as pledge receivables, accounts payable payments, and scholarship accruals, our procedures cannot substitute for management's responsibility to implement effective controls over journal entries. Appropriate documented approval is necessary to reduce the risk of, and timely detect, errors or fraud and to promote the accuracy of the financial data maintained by the accounting system.

**Recommendation: The Foundation should update the accounting system to separate the access privileges of individuals who prepare journal entries from those who approve the entries. In addition, Foundation records evidencing the appropriate approval of journal entries should be maintained.**

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<sup>1</sup> Foundation Policy IV-2, *Approval of Expenditures, Journal Entries and Fund Transfers*.

### Finding 3: 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. Foundation by-laws<sup>2</sup> require the Executive Director to supervise Foundation employees, the College to compensate Foundation employees for services, and the Foundation to reimburse the College for the compensation costs. The College pays Foundation exempt employees (i.e., Executive, Technical, and Administrative employees) 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.

For the period April 2017 through March 2018, the Foundation reimbursed the College \$1.5 million for 19 exempt employees who provided Foundation services. In response to our inquiry, Foundation personnel indicated that exempt employees were not required to prepare time sheets or other records to document their time worked. However, 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 Board expectations. In addition, without records documenting exempt employees' time worked and supervisory review and approval of records, there is an increased risk that exempt employees may be incorrectly compensated, employee leave balances may not be accurate, and Foundation records may not be sufficient in the event of a salary or leave dispute.

**Recommendation: The Foundation should establish a mechanism for exempt employees to report time worked and implement procedures requiring supervisors to document the review and approval of such time.**

#### **Follow-Up to Management's Response**

*Management's response states that the Foundation follows the College's standard procedures for time records for exempt employees, which are based on requirements of the Federal Fair Labor Standards Act (FLSA). Foundation management also asserted that, "based on the risks involved with the recommendation made in the audit report, the Foundation plans to continue to follow the College's current procedures." Notwithstanding management's response, given the Foundation's responsibility to monitor exempt employee services and the significant costs (\$1.5 million for the audit period) associated with these services, records of attendance and time worked by exempt employees, reviewed and approved by applicable supervisors, would provide crucial additional assurances regarding the accuracy of employee leave records and that the services provided by exempt employees were consistent with Board expectations. Accordingly, we continue to recommend that the Foundation require exempt employees to prepare time reports and also require supervisory personnel to certify the accuracy of the time reported as worked by exempt employees.*

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<sup>2</sup> Fourth Amended and Restated By-Laws of Miami Dade College Foundation, Inc., Article VI, Section 2, dated November 2, 2007.

#### **Finding 4: Compliance with Donor Restrictions**

Foundation policies and procedures<sup>3</sup> provide that the expenditure and use of Foundation funds must, when applicable, fall within the donor's intent for the contribution. Consequently, when donors stipulate criteria or restrictions for the use of contributions, it is essential that Foundation records demonstrate that the criteria or restrictions were met before the funds are disbursed. The Foundation incurred expenses totaling \$9.7 million funded from donor-restricted contributions during the 2017-18 fiscal year. As part of our procedures, we examined Foundation records supporting 29 selected expenses funded from donor-restricted contributions totaling \$1.3 million. While Foundation records generally demonstrated the propriety of the expenses, we noted that support for 16 payments totaling \$253,040 to the College and a State university that received College transfer students to award scholarships to 167 students could be improved.

According to Foundation personnel, students were required to, for example, meet certain financial eligibility requirements; submit a written essay; be a dependent of an employee of certain Miami-Dade County cities; graduate from a Miami-Dade County high school; or enroll in specific degree programs or courses. Foundation records indicated that the Foundation received a list of the intended recipients from the College and a State university and Foundation personnel indicated that they relied on these respective institutions to ensure students who received the awards were eligible. However, although we requested, Foundation records were not provided to show that the Foundation obtained documentation from the institutions demonstrating the eligibility of the scholarship recipients prior to making the payments to the institutions.

In September 2019, we requested that the Foundation obtain from the College student records to determine whether 26 selected students who received scholarship awards totaling \$28,669 from Foundation endowed and non-endowed awards were eligible for the awards. College personnel indicated that the students met the eligibility criteria of the scholarships; however, although we requested, College records were not provided to demonstrate that:

- 15 students who received scholarship awards totaling \$13,500 met the financial eligibility requirement for the awards, or that 1 of those students who received an award of \$500 submitted the required essay.
- 3 students who received scholarship awards totaling \$5,137 met the dependent eligibility requirements for the awards.
- 3 students who received scholarship awards totaling \$1,865 enrolled in the required degree programs and courses for the awards or met the high school graduation requirement.

While it is the responsibility of the College and other recipient institution to determine and verify eligibility of students applying for scholarships, prudent business practices provide that the Foundation monitor that process to help ensure that only eligible students are awarded scholarships. Although we requested, Foundation records were not provided to demonstrate that the Foundation performed any monitoring procedures to ensure that scholarship recipient eligibility determinations made by the College and other

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<sup>3</sup> Foundation Policy IV – 8, *Disbursements*.

institutions were appropriate, thereby limiting the Foundation's ability to demonstrate that donor-restricted contributions were used for authorized purposes.

**Recommendation: The Foundation should enhance procedures by documenting, before the Foundation reimburses the College and other applicable institutions for scholarship expenses, that scholarship recipients have met the donor-established eligibility requirements.**

### **Finding 5: Unspent Endowment Funds**

Pursuant to State law,<sup>4</sup> an endowment fund is an institutional fund that, under the terms of a gift instrument, is not wholly expendable by the institution on a current basis. State law provides that, subject to the intent of a donor expressed in the gift instrument, an institution may accumulate so much of an endowment fund as the institution determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established.

The Foundation established endowment funds to account for contributions from donors that provide scholarships to students or support for College programs. The Foundation maintains endowed funds in perpetuity<sup>5</sup> and the principal (corpus) for each individual endowment in separate accounts within the Foundation's Permanently Restricted Fund (Fund 20).<sup>6</sup> Foundation policies require that only the investment income earned on endowed funds will be expended for the purposes designated by donors.<sup>7</sup> Investment income generated from endowment funds and endowment expenses are recorded in individual endowment funds in Funds 15 and 18, respectively.

Best business practices<sup>8</sup> provide that institutions with significant endowments adopt earning and spending policies to ensure long-term endowment growth while maintaining spending levels that provide long-term support to faculty and students. Industry studies show that, during the past decade, the average spending rate for college and university endowments approached 5 percent. Consistent with the result of those studies, the Foundation established endowment earning and spending policies<sup>9</sup> requiring an annual distribution to a spending account in an amount equal to at least 5 percent of the previous 3-year average of the fair market value of all investments held in endowment funds, net of investment and management fees. According to Foundation policies, all earnings in excess of the annual distribution and unspent distributions remain as part of the endowment principal to hedge against inflation and other threats of loss of the principal's purchasing power. Foundation policies allow the Board to change the expendable endowment allocation rate in any given year and require the Investment and the Budget and Finance Committees to review the spending policies annually to determine their appropriateness.

On April 1 of each fiscal year, the Foundation calculates the annual expendable endowment allocation and makes the annual distribution from Fund 15 to Fund 18. Foundation personnel indicated that the policies do not require the Foundation to spend the entire annual distribution within that year; however, not spending the 5 percent annual distribution within a year or soon thereafter is inconsistent with best

<sup>4</sup> Section 617.2104, Florida Statutes, the "Florida Uniform Prudent Management of Institutional Funds Act."

<sup>5</sup> Foundation Policy III-1, *Establishment of Endowment Accounts*.

<sup>6</sup> Permanently restricted Fund 20 (Miami Dade College Foundation, Inc. audit report for the year ended March 31, 2018).

<sup>7</sup> Foundation Policy III-1, *Establishment of Endowment Accounts*.

<sup>8</sup> American Council on Education, *Understanding College and University Endowments* 2014.

<sup>9</sup> Foundation Policy V-4, *Endowment Earnings and Spending Policy*.

business practices, which recommend that the Board establish a spending rate of approximately 5 percent of the value of the endowment funds.

Foundation records show that, as of April 1, 2017, the Foundation had \$37 million in cumulative unspent endowment allocations available for additional scholarships and College program support services. This amount included the 2017-18 fiscal year annual distribution of \$5.9 million, which represented 5 percent of the previous 3-year average of the fair market value of all investments held in endowment funds, net of investment and management fees, and the cumulative unspent endowment moneys in Fund 18 from prior fiscal years totaling \$31.1 million.

Our examination of Foundation records disclosed that, during the 2017-18 fiscal year, the Foundation transferred \$3.1 million to the College for scholarships and College program support services, which represented only 2.6 percent of the previous 3-year average of the fair market value of all investments held in endowment funds, net of investment and management fees. As a result, the Foundation spent \$2.8 million less than the amount recommended by best business practices, and the Foundation carried forward \$33.9 million in cumulative unspent endowment allocations to the 2018-19 fiscal year.

According to Foundation personnel, the College is responsible for advertising, managing, and awarding student scholarships. In accordance with this responsibility, the College implemented an annual scholarship awarding process that requires a scholarship budget, students to complete and submit a general application through the College Web site for scholarships, campus-based scholarship committees to match the list of applicants with donor criteria and available funds, and scholarships to be awarded to eligible applicants for use in the Fall and Spring terms.

In response to our inquiries regarding why only \$3.1 million of the annual expendable amount of \$5.9 million was provided to the College, Foundation personnel indicated that, in some instances, the donor restrictions associated with the funds provided for scholarships are not consistent with the needs of students and the College. Foundation personnel also indicated that the carried-forward unspent endowment allocation of \$33.9 million is available to spend in the future if the number of students meeting donor restrictions increases. In addition, Foundation personnel indicated that the Foundation works with donors and the College to modify scholarship criteria for the purpose of increasing the number and amount of scholarships awarded to students.

We examined Foundation scholarship information provided to College students on the Foundation and College Web sites. We determined that the Foundation Web site did not include information about scholarship opportunities available to current or prospective College students, and the College Web site only included information for a limited number of Foundation-funded scholarships. Foundation personnel indicated that the Foundation relies on the College process to match qualified students with available scholarships, which the Foundation believes is more efficient than providing students the opportunity to apply for individual scholarships. However, large amounts of unspent endowment allocations may be carried forward partially because students are unaware of scholarship opportunities. Without an effective mechanism to inform students about available Foundation scholarships, the use of funds donated for the purpose of student scholarships may be limited.

**Recommendation: The Foundation should enhance efforts to address and monitor unspent endowment allocations and maximize support to students and faculty. Such efforts**

should include the development of policies and procedures, such as enhanced Web site communications, to help inform current and prospective students of Foundation scholarship opportunities.

#### **Finding 6: Endowment Fund Corpus Fair Values**

State law<sup>10</sup> allows the Foundation to appropriate for expenditure so much of an endowment fund as the Foundation determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established. State law<sup>11</sup> provides that an endowment fund cannot be wholly expended by the Foundation on a current basis and Foundation policies<sup>12</sup> provide that the principal (corpus) of an endowment fund is to be maintained in perpetuity and only the investment earnings generated by the endowment fund will be expended for the purpose indicated by the donor. Foundation policies<sup>13</sup> also provide for the calculation of annual spending and management fee amounts and the accumulation of excess investment earnings in the endowment funds to hedge against inflation and other threats to the endowment fund purchasing power.

Accounting standards<sup>14</sup> deem an endowment fund to be underwater when the fair value of the endowment fund is less than either the original gift amount or the amount required to be maintained by the donor. However, Foundation policies do not specifically provide for the identification of underwater endowment funds and the monitoring of spending distributions from those funds. To determine whether other foundations' policies provided for identification of underwater endowment funds and the monitoring of spending distributions from those funds, we reviewed policies adopted for three other foundations supporting State educational institutions. We found that one foundation prohibited spending distributions from underwater endowment funds and the other two foundations suspended spending distributions from underwater endowment funds when certain ratios of corpus fair to book values were met.

As part of our audit, we examined Foundation records as of March 31, 2019, for the 589 endowment funds with corpus fair values totaling \$51.6 million and found that 94 endowment funds with corpus fair values totaling \$4.9 million were underwater by a total of \$691,088 or 14.1 percent of the funds' aggregate corpus. Our examination disclosed that 7 of the 94 endowment funds, with aggregate corpus fair values totaling \$1.6 million, were underwater by \$300,263 or 19 percent of their aggregate corpus book values. These 7 endowment funds included, for example, an endowment fund with a corpus fair value totaling \$348,562 that was underwater by \$88,105 or 25 percent of the fund's corpus book value and another endowment fund with corpus fair value totaling \$60,000 that was underwater by \$30,254 or 50 percent of the fund's corpus book value.

We also determined that, during the 2018-19 fiscal year, the Foundation expended a total of \$566,830 from 70 of those 94 underwater endowment funds. However, Foundation policies had not been established to identify when spending distributions should be suspended from corpus balances for underwater endowment funds and Foundation procedures had not been established to effectively monitor

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<sup>10</sup> Section 617.2104, Florida Statutes, the "Florida Uniform Prudent Management of Institutional Funds Act."

<sup>11</sup> Section 617.2104(2)(a), Florida Statutes.

<sup>12</sup> Foundation Policy III-1, *Establishment of Endowment Accounts*.

<sup>13</sup> Foundation Policy V-4, *Endowment Earnings and Spending Policy*.

<sup>14</sup> Financial Accounting Standard Board Accounting Standards Update No. 2016-14.

and limit such distributions. As of September 30, 2019, 82 of the 94 endowment funds were still underwater by a total of \$643,336.

In response to our inquiries, Foundation personnel indicated that an analysis of the endowment fund fair values to identify underwater endowment funds was not performed prior to our audit. Foundation personnel also indicated that the endowment funds were underwater because management fees and expendable endowment allocation rates remained relatively consistent during periods when the financial markets and investment returns underperformed. Notwithstanding these responses, without identifying when spending distributions from corpus balances should be suspended for underwater endowment funds and procedures to effectively monitor and limit such distributions, the risk increases for the corpus held by the Foundation to be partially or fully expended, diminishing the income generating power of those funds, contrary to Board and donor intent.

**Recommendation: The Foundation should establish policies and procedures to identify underwater endowment funds and effectively monitor and appropriately limit spending distributions from the corpus balances of those funds.**

#### **Finding 7: Donor Contributions**

The Foundation is the principal vehicle for receiving and administering donor contributions for the College, which are classified as endowed, non-endowed, or unrestricted.<sup>15</sup> Foundation policies<sup>16</sup> require the terms of all contributions of \$10,000 or more be specified in a written agreement that outlines the program to be supported and includes a schedule of contributions. The policies also require that:

- All agreements be reviewed by the Director of Advancement Services and approved by the Executive Director prior to presentation to the donor.
- An approved agreement be first signed by the appropriate academic officer, followed by the Executive Director, and then by the donor.
- The College President sign agreements for contributions of \$1 million or more.

Good business practices provide that, before contributions are received, agreements embodying all provisions and conditions of contributions be executed with donors to protect the interests of the donor and the recipient organization. Effective agreements identify the responsibilities of the donor and recipient organization, stipulate the basis for collecting and spending donor contributions, and establish resolution procedures in the event of a dispute.

Our examination of Foundation records and discussions with Foundation personnel disclosed that donor contributions totaled \$13.3 million during the period April 2017 through March 2018. To evaluate the Foundation contribution acceptance process, we examined Foundation records supporting 34 selected contributions totaling \$3 million. Our examination disclosed that in March 2018 a nonprofit corporation associated with a Foundation director made three contributions to the College, including a donation of

<sup>15</sup> Endowed donor contributions are invested in perpetuity and, pursuant to donor-restricted contributions, only the income generated from the initial contributions may be expended. Non-endowed donor contributions are maintained in liquid investments and, pursuant to donor-restricted contributions, the investments and investment income may be expended. Unrestricted donor contributions may be used for any Foundation purpose.

<sup>16</sup> Foundation Policy II-3, *Gift Agreements*.

\$2.2 million transferred from the College to the Foundation and that, contrary to Foundation policies, the Foundation did not execute an agreement with this donor that outlined the programs to be supported or provided a schedule of contributions.

In response to our inquiry, Foundation personnel provided correspondence dated March 2018 between the College and the Foundation indicating that the \$2.2 million donation transferred to the Foundation included \$1 million for a showcase lab, referred to as the Digital Factory, for several interactive stations for robotic, advanced manufacturing, and mechatronics; \$1 million to support a cyber-security training center; \$200,000 for scholarships up to \$5,000 each; and \$5,173 for the College President. Also, correspondence dated March 2018 between the donor, the College Chief of Staff, and the Foundation Executive Director acknowledged that the College and the donor had agreed on the uses of the donated funds and, while other details were not documented, the correspondence identified \$200,000 for scholarship use. However, the Foundation did not document that this correspondence was approved by the Director of Advancement Services, the College President, or other appropriate academic officer and the correspondence did not specify the uses for the remaining funds totaling \$2 million.

Subsequent to our inquiry, in February 2019, almost a year after the contribution was received, the Foundation executed an agreement with the donor that was consistent with the correspondence between the College and the Foundation and listed the programs to be supported and included a schedule of contributions.

**Recommendation: The Foundation should enhance procedures to ensure compliance with Board policies and execute agreements with donors before contributions of \$10,000 or more are received. Such agreements should outline the programs to be supported by the contributions and include a schedule of contributions.**

## **Finding 8: Travel Expenses**

Foundation policies<sup>17</sup> authorize the College President to travel business class during official trips when the flight time is 4 hours or longer and the College is to reimburse the Foundation based on the economy class airfare rate.

We examined Foundation records supporting selected College President travel expenses and found that, during the period April 1, 2017 through March 31, 2018, the Foundation paid \$9,297 and \$9,224 for two round-trip business class fares from Miami to Rome, Italy, and from Miami to Vienna, Austria, respectively. The College President traveled to Rome to attend the Global Forum on “Higher Education for Diversity, Social Inclusion and Community: A Democratic Imperative” sponsored in part by the Council of Europe, the International Consortium for Higher Education and LUMSA University in Italy from June 15 to June 16, 2017, and the College President was a co-moderator in two group sessions. Similarly, the College President traveled to Vienna to attend a conference of the International Association of University Presidents (IAUP) from July 5 to July 7, 2017. The President determined that his participation in the Forum and conference was part of his official duties; however, the Foundation did not request the College to reimburse the Foundation for the airfare based on the economy class airfare rates

<sup>17</sup> Foundation Policy IV-10, *Travel of District President*.

and, due to oversights, Foundation records did not document the economy class airfare rates that should have been reimbursed by the College.

Absent documentation of the economy class airfare costs for official trips by the College President, the Foundation cannot support travel costs required to be reimbursed by the College. Absent College reimbursements for the College President's official travel, the Foundation did not comply with the travel reimbursement policies and the Foundation's available funds are reduced.

**Recommendation: The Foundation should enhance controls to ensure that applicable travel costs are documented, and reimbursements are promptly obtained from the College for travel expenses incurred by the College President in accordance with Foundation policies.**

## **Finding 9: Fidelity Bonds**

Foundation by-laws<sup>18</sup> require all persons handling or responsible for Foundation moneys or investments to obtain fidelity bonds and the amount and form of such bonds to be approved and paid by the Board. In addition, Foundation policies<sup>19</sup> require that staff and officers who are responsible, in any manner, for handling or expending Foundation funds or property be adequately bonded. Although the policies do not specify an adequate bond amount, bonding relevant individuals for at least 10 percent of the amount of money or property likely to be in the custody of the individuals at any time may help cover losses from embezzlement, misappropriations, or loss of money or property from dishonest acts committed by those individuals.

As of March 31, 2018, Foundation investments totaled \$138.9 million and Foundation cash and cash equivalents totaled \$10.7 million. Our examination of Foundation records and discussions with Foundation personnel disclosed that certain individuals responsible for handling Foundation investments, cash, cash equivalents, and property, or expending Foundation funds, were not bonded, including:

- Eight members of the Investment Committee who oversee the purchase and sale of Foundation investments.
- Four Foundation operating bank account authorized signatories.
- The Foundation Executive Director who accepts, on behalf of the Board, cash gifts, grants, and marketable securities up to \$100,000.
- A College treasury analyst who allocates investment assets based on Board investment decisions.

In response to our request, Foundation personnel indicated that State law did not require individuals to be bonded and individuals who were not bonded were insured by the College crime insurance policy. Notwithstanding, the College crime insurance policy only insures persons involved with counting or handling College funds and does not extend to persons involved with Foundation moneys or property. When persons handling or responsible for Foundation moneys or property are not adequately bonded,

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<sup>18</sup> Fourth Amended and Restated By-Laws of Miami Dade College Foundation, Inc., Article IX, Section 5, dated November 2, 2007.

<sup>19</sup> Foundation Policy I-8, *Staff and Officers – Bonds*.

the risk increases that the Foundation may not be protected for losses incurred as a result of fraudulent acts made by such persons.

**Recommendation: The Foundation should ensure that persons handling or responsible for Foundation moneys or investments are adequately bonded in accordance with Foundation by-laws.**

### **Finding 10: Sunshine Law – Board and Committee Meetings**

The Florida Attorney General has opined<sup>20</sup> that a direct-support organization created pursuant to State law, such as the Foundation, is subject to the provisions of the Sunshine Law.<sup>21</sup> The Sunshine Law requires all meetings of any board or commission at which official acts are to be taken are declared to be public meetings open to the public at all times and that reasonable notice of all such meetings should be given to the public. Additionally, the Florida Supreme Court<sup>22</sup> has held that meetings of certain advisory boards and fact-finding committees participating in the decision-making function of a State agency or authority are public meetings under the Sunshine Law.<sup>23</sup> Pursuant to the Sunshine Law, no resolution, rule, regulation, or formal action shall be considered binding, except as taken or made at an open meeting.

The Board holds regular meetings throughout the year to discuss and approve necessary actions related to its responsibility for overseeing donations, investments, and other operating activities. In addition, the Foundation established various committees, which include two or more directors, and are responsible for making policy recommendations to the Foundation in various matters. The committees hold regular meetings throughout the year and include the Governance Committee, the Budget and Finance Committee,<sup>24</sup> the Development Committee,<sup>25</sup> the Investment Committee,<sup>26</sup> and the Audit Committee.<sup>27</sup>

Our examination of Foundation records and discussions with Foundation personnel disclosed that, during the period February 2017 through June 2018, the Board held 6 meetings and Foundation committees held 21 meetings. Although the minutes of the meetings were promptly prepared and made available for public inspection, the Foundation did not provide public notice of the meetings.

In response to our inquiry, Foundation personnel indicated that the meetings were not publicly noticed because they were unaware that the meetings were considered public; although, occasionally College students and faculty attended some of the meetings. Notwithstanding, absent effective controls to provide public notice of all meetings not exempted from notice by law, the public may not be duly notified of upcoming meetings and, therefore, may not be given the opportunity to attend and participate in the

<sup>20</sup> Florida Attorney General Opinion No. 2005-27, dated April 20, 2005.

<sup>21</sup> Section 286.011, Florida Statutes.

<sup>22</sup> Wood v. Marston, 442 So. 2d 934 (Fla. 1983).

<sup>23</sup> The Sunshine Law is established in Article I, Section 24 of the State Constitution and codified in Chapter 286, Florida Statutes.

<sup>24</sup> The Budget and Finance Committee reviews all financial policies and procedures on a regular basis and annually prepares and submits the Foundation budget to the Board.

<sup>25</sup> The Development Committee is to oversee the planning of fundraising activities and setting of developmental goals.

<sup>26</sup> The Investment Committee is to exercise the Foundation's fiduciary responsibility to donors and beneficiaries by directing the investment of assets in a prudent manner, with preservation of capital as a primary concern.

<sup>27</sup> The Audit Committee is to oversee the preparation of the Foundation's annual financial audit and consults with the independent auditors periodically, out of the presence of management, regarding the adequacy of internal controls and makes recommendations, where appropriate, to the Board, concerning oversight of all assets.

meetings. In addition, when Board and committee meetings are not duly noticed, the Foundation cannot demonstrate compliance with State law and the risk increases that Board-approved resolutions, rules, regulations, or formal actions may not be considered binding.

**Recommendation: The Foundation should enhance procedures to ensure that reasonable notice of Board and committee meetings are provided to the public.**

### **Follow-Up to Management's Response**

*Management's response indicates that Management respectfully disagrees with this finding, the College Board has not delegated any of its public responsibilities or authority to the Foundation, and the Foundation has not denied public access to its Board meetings. However, the response also indicates that the Foundation has already started posting meeting notices on the Foundation Web page. As the Foundation must comply with the Sunshine Law, the Foundation should continue efforts to ensure that reasonable notice of Board and committee meetings are provided to the public.*

### **Finding 11: Board of Directors**

During the period April 2017 through March 2018, the Foundation *Articles of Incorporation (Articles)*<sup>28</sup> required the Board to be composed of no less than 15 elected directors and 7 ex-officio directors as discussed in the **BACKGROUND** section of this report. After Governance Committee<sup>29</sup> recommendations or Board meeting nominations, directors were elected annually based on a majority vote of a quorum of all directors. Although not elected, ex-officio directors were to serve on the Board because of their College position. The College Board or College President contacted the individuals in the respective positions to fill ex-officio director vacancies.

Board members are expected to articulate and support the Foundation mission, purpose, and responsibilities. To help achieve these expectations, the Board established policies<sup>30</sup> requiring elected directors to, for example, attend at least 50 percent of Board and applicable committee meetings each year.

Our examination of Foundation records from April 2017 through September 2018 disclosed that the Board composition and director attendance at meetings did not always comply with the Foundation *Articles* and policies in effect during that period. Specifically, we found that:

- Although the Foundation by-laws provided that three additional members of the College Board may serve as ex-officio directors, the by-laws did not require, as specified in the *Articles*, the President of the College Alumni Association and three additional members of the College Board to be ex-officio directors.
- During the period April 2017 through May 2018, the College President and the College Provost were the only ex-officio directors, leaving 5 ex-officio director vacancies. Foundation personnel indicated that the College Board did not select the additional ex-officio directors to serve on the Board prior to May 2018. In June 2018, the Board appointed the College Board Chair as an ex-officio director.

<sup>28</sup> Fourth amended and restated Articles of Incorporation of Miami Dade College Foundation, Inc., Article V, Section 1, dated January 16, 2001.

<sup>29</sup> The Governance Committee is to evaluate matters of corporate governance, such as Board membership and director qualifications, and proposes modifications to the *Articles* and by-laws.

<sup>30</sup> Foundation Policy I-2, *Responsibilities of Board Members*.

- During the period April 2017 through August 2017 and December 2017 through September 2018, the Board composition averaged 13 elected directors, or 2 directors less than the 15 directors required by the *Articles* in effect during those periods. In response to our inquiry, Foundation personnel indicated that the elected director vacancies were not immediately filled to provide sufficient time for the Board to recruit new qualified candidates.
- Directors did not always attend at least 50 percent of the Board and committee meetings. For example, 2 directors did not attend any of the four Board meetings and another director did not attend three of the meetings. In addition, 4 directors on the Development Committee did not attend any of the four committee meetings and 4 other directors did not attend three of the meetings.

Inconsistencies between the *Articles* and by-laws resulted in a lack of clarity as to the appropriate composition of the Board. Subsequent to our inquiries, the Foundation amended the by-laws and the *Articles* in June 2018 and April 2019, respectively, to no longer require the President of the College Alumni Association to serve as an ex-officio director. In addition, the amended *Articles* reduced the number of ex-officio directors by providing that one additional member of the College Board, instead of three College Board members, may be selected by the College Board Chair. The amended *Articles* also reduced the number of required elected directors from 15 to 10.

Without the appropriate number of Foundation directors and attendees at Board and Board committee meetings, the directors are not in compliance with Foundation *Articles* and policies, and the Foundation's ability to accomplish established goals may be limited.

**Recommendation:** The Foundation should ensure that the *Articles*, by-laws, and Foundation policies are consistent and provide for the appropriate number of directors and membership composition for the Board. The Board should ensure that Board members attend meetings in accordance with Foundation policies and consider replacing directors who do not fulfill meeting attendance requirements.

## Finding 12: Budgets

The Foundation's process for adopting and amending the budget should afford the Foundation with a mechanism to plan a level of expenses to meet its goals and obligations within available financial resources. While planning expenses, it is important to document consideration of all available resources, including temporary, as well as permanently restricted, funds to provide Foundation management and other stakeholders sufficient information to evaluate the Foundation's financial status. Foundation policies<sup>31</sup> provide that the Foundation Executive Director, with the assistance of the Director of Finance and the Budget and Finance Committee, is responsible for preparing and submitting for Board, College President, and College Board approval an annual budget of the Foundation's income and expenses.

Our examination of Foundation records disclosed that revenues and expenses for the 2017-18 fiscal year totaled \$23 million and \$12.4 million, respectively. The Foundation established unrestricted,<sup>32</sup> temporarily

<sup>31</sup> Foundation Policy IV-7, *Annual Budget Preparation*.

<sup>32</sup> The unrestricted fund accounts for all revenues, expenses, gains, and losses that are free from donor restrictions and do not represent permanently or temporarily restricted activities.

restricted,<sup>33</sup> and permanently restricted<sup>34</sup> funds to account for Foundation activities and Table 1 shows the revenues, expenses, and changes in net assets by fund type for the 2017-18 fiscal year.

**Table 1**  
**Condensed Statement of Activities**  
**Fiscal Year Ended March 31, 2018**

Accounts	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues and Support</b>				
Contributions, Contributed Services, Investments, and Other Revenues	\$ 354,189	\$ 22,472,486	\$ 195,995	\$ 23,022,670
Transfers, Net Assets Released from Restrictions, and Adjustments	12,086,507	(12,278,507)	192,000	-
<b>Total Revenue and Support</b>	<b>12,440,696</b>	<b>10,193,979</b>	<b>387,995</b>	<b>23,022,670</b>
<b>Total Expenses</b>	<b>12,424,088</b>	<b>-</b>	<b>-</b>	<b>12,424,088</b>
<b>Change in Net Assets</b>	<b><u>\$ 16,608</u></b>	<b><u>\$ 10,193,979</u></b>	<b><u>\$ 387,995</u></b>	<b><u>\$ 10,598,582</u></b>

Source: Financial statements audit report for the fiscal year ended March 31, 2018.

Our audit procedures found that, on March 15, 2017, the Board approved the Foundation’s annual operating budget for the unrestricted fund for the 2017-18 fiscal year. Notwithstanding, the Board did not approve the expected revenues and expenses of the temporarily restricted and permanently restricted funds and Foundation procedures did not provide alternative methods to effectively monitor these funds. Without effective monitoring methods, the exclusion of the anticipated restricted fund activities from the budget increases the risk that the directors may be misinformed as to the financial condition of the Foundation and may result in the Foundation authorizing expenses when funds are not available, or denying expenses when funds are available.

We also noted that the Board did not amend the approved budget for the unrestricted fund to include additional revenues and transfers received from the temporarily restricted funds and uses of those additional revenues and transfers during the 2017-18 fiscal year. Table 2 below shows the approved budgeted revenues and expenses compared to the actual revenues and expenses for the unrestricted fund during the 2017-18 fiscal year.

<sup>33</sup> Temporarily restricted funds account for net assets with donor-imposed restrictions that either expire by passage of time or can be fulfilled or removed by actions of the Foundation.

<sup>34</sup> The permanently restricted fund accounts for net assets with donor-imposed restrictions that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of the Foundation.

**Table 2**  
**Unrestricted Fund Budgetary Comparison**  
**Fiscal Year Ended March 31, 2018**

Accounts	Budget	Actual	Variance
<b>Revenues and Support</b>			
Contributions	\$ 55,000	\$ 142,271	\$ 87,271
Contributed Services	111,000	110,536	(464)
Investments	172,000	73,233	(98,767)
Special Events and Other Income	-	28,149	28,149
Administration Fee	2,315,000	2,372,174	57,174
Fund Balance Transfers	401,388	-	(401,388)
Net Assets Released from Restrictions (Transfer from temporarily restricted funds)	-	9,714,333	9,714,333
<b>Total Revenue and Support</b>	<b>3,054,388</b>	<b>12,440,696</b>	<b>9,386,308</b>
<b>Total Expenses</b>	<b>3,054,224</b>	<b>12,424,088</b>	<b>(9,369,864)</b>
<b>Operating Surplus / Changes in Net Assets</b>	<b><u>\$ 164</u></b>	<b><u>\$ 16,608</u></b>	<b><u>\$ 16,444</u></b>

Source: Approved Budget and Financial Statements Audit Report for the fiscal year ended March 31, 2018.

As shown in Table 2, while most individual account variances were less than \$100,000, the Foundation did not originally budget or amend the approved unrestricted fund budget for \$9.7 million that represents temporarily restricted amounts released from restrictions and transferred to the unrestricted fund during the 2017-18 fiscal year. In addition, the Foundation did not amend the approved unrestricted fund budget for the anticipated uses of the transferred funds during the 2017-18 fiscal year. Our examination of Foundation records disclosed that the planned uses of the transferred funds consisted primarily of approximately \$5 million in scholarship and student financial aid, \$2 million of direct program support, \$825,000 of non-fundraising activities and events, \$617,000 of contracted services, \$269,000 of rental expenses, and \$230,000 of travel expenses.

In response to our inquiries, Foundation personnel indicated that the Foundation did not prepare budgets for the temporarily restricted and permanently restricted funds since the fund resources were expended in accordance with donor restrictions and, as such, were not required to be included in the annual operating budget. Similarly, Foundation personnel indicated that the unrestricted fund budget was not amended to account for the transfers from temporarily restricted funds or the subsequent uses of those funds since those resources were released only after applicable donor requirements were met. Accordingly, the Foundation considered budget amendments unnecessary. Notwithstanding these explanations, the lack of budgeting for the temporarily restricted and permanently restricted funds, and not updating, through budget amendments, the budget for the unrestricted fund, precludes the Board from formally establishing financial goals in a format that allows an efficient comparison of actual financial activity to the financial goals.

According to Foundation personnel, while a budget for the temporarily restricted and permanently restricted funds and unrestricted fund budget amendments were not prepared and presented for Board approval, the Board was provided quarterly statement of activities reports that included actual revenues and expenses for all funds. These reports reflect updated revenues, expenses, and transfer activity for

all Foundation funds grouped by fund type. While the reports do allow the Board to review and monitor financial activity by fund type, the reports do not allow for an efficient comparison of actual activity to planned (budgeted) activity, which would better assist the Board in assessing the Foundation's financial performance.

Absent an annual budget that includes all funds, and amendments to the adopted budget for additional revenues received and expenses incurred, the Board lacks an efficient method to obtain and maintain an appropriate understanding of the Foundation's financial status on an ongoing basis.

**Recommendation: The Foundation should ensure that the budget process incorporates all Foundation funds and provides for subsequent amendments to provide directors an efficient method to maintain an appropriate understanding of the Foundation's financial status.**

### **Finding 13: Information Technology Security Incident Response Plan**

Information Technology (IT) security incident response plans are established to ensure an appropriate, effective, and timely response to security incidents. These plans typically detail responsibilities and procedures for identifying, logging, and analyzing security violations and include a centralized reporting structure and provisions for a team trained in incident response, notification to affected parties, and incident analysis and assessment of additional actions needed.

State law<sup>35</sup> requires any person who conducts business in Florida and maintains computerized data in a system that includes personal information to provide notice of any breach of security of the system, following determination of the breach, to any Florida resident whose unencrypted personal information was, or is reasonably believed to have been, acquired by an unauthorized person. The notification is to be made no later than 30 days following determination of the breach, unless otherwise provided by law.

The Foundation maintains information considered confidential and Foundation policies<sup>36</sup> provide that such information should be protected and maintained only by the Foundation. In addition, Foundation policies prohibit other College departments from maintaining Foundation confidential information. The Foundation has also implemented policies<sup>37</sup> to prevent the release of donor confidential information and donor confidential records are coded "do not release" indicating that the person has requested no College or Foundation contact and that the information remain confidential.

Notwithstanding these policies, as of July 2019, the Foundation had not established an IT security incident response plan. In response to our inquiry, Foundation personnel indicated that they were unaware of any security breaches of Foundation information and that the Foundation relies on the College IT security incident response plan in the event of a breach. Our examination of the College IT security incident response plan disclosed that the plan contained a centralized reporting structure and provisions for a team trained in incident response, notification to affected parties, and incident analysis and assessment of additional actions needed. However, the plan did not detail responsibilities and procedures for identifying, logging, and analyzing security violations in the event of a security breach of

<sup>35</sup> Section 501.171, Florida Statutes.

<sup>36</sup> Foundation Policy IX-1, *Database Management*.

<sup>37</sup> Foundation Policy IX-2, *Privacy and Release of Information*.

the Foundation enterprise resource planning system and acquisition of confidential information by an unauthorized person.

In the event of a security incident, the lack of an established written IT security incident response plan may result in the Foundation's failure to take appropriate, effective, and timely actions to prevent further loss or damage to Foundation data and IT resources and to timely notify the affected individuals. Timely notifying affected individuals about security incidents allow the individuals to take prompt action to protect their identities and personal information and limit the extent of losses caused by the incidents.

**Recommendation:** The Foundation should establish an IT security incident response plan to provide reasonable assurance that the Foundation will respond in an appropriate and timely manner to events that may jeopardize the confidentiality, integrity, or availability of Foundation data and IT resources.

#### **Finding 14: Information Technology Disaster Recovery Plan**

An important element of an effective internal control system over IT operations is a disaster recovery plan to help minimize data and asset loss and provide for continuing critical operations in the event of a major hardware or software failure. Among other things, a well-designed disaster recovery plan:

- Identifies key personnel and responsibilities and includes a communication strategy.
- Identifies critical data, processes, and applications for restoration in priority order. For example, Foundation management may identify critical applications such as finance and other necessary applications for priority restoration.
- Provides detailed backup procedures that address, for example, identification of an alternative processing site, frequency of backups, storage locations, and how data will be accessed in the event of a disaster.
- Requires at least annual testing of the plan and evaluation of the ability to access and run critical applications and processes from an alternate processing site.

In response to our inquiry, Foundation personnel indicated that the College IT Department supports the Foundation IT network, and, in November 2018, the College IT disaster recovery plan was updated to indicate that the College would periodically backup data stored in Foundation servers. However, as of July 2019, the Foundation had not established an IT disaster recovery plan and the College IT disaster recovery plan lacked identification of the Foundation's critical data, processes, and applications and did not detail the process for recovering and restoring Foundation data. Without a Foundation IT disaster recovery plan and annual testing of the plan elements, there is an increased risk that the Foundation may be unable to continue critical IT operations, or maintain availability of information systems data and resources, in the event of a disruption of IT operations.

**Recommendation:** The Foundation should establish an IT disaster recovery plan and annually test and evaluate the plan.

## ***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 May 2018 through January 2020 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.
- 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 2017 through March 2018, and selected Foundation 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:

- Evaluated whether the information technology (IT) policies and procedures of the Foundation or the Miami Dade College (College) sufficiently addressed certain important Foundation IT control functions, such as security, systems development and maintenance, disaster recovery, and incident response and reporting.
- Reviewed Foundation procedures for maintaining, reviewing, and deactivating employee access privileges to IT resources. Specifically, we examined records for 20 current and former employees with access privileges to the Foundation database and finance applications to determine the appropriateness and necessity of the access privileges based on the employees' job duties and user account functions and to determine whether the former employees' access privileges had been timely deactivated upon the employees' separation from Foundation employment.
- Reviewed applicable laws, contracts, grant agreements, and Foundation by-laws, policies, and procedures, and interviewed Foundation personnel to gain an understanding of the Foundation's processes and to evaluate whether the Foundation had established effective policies and procedures for major Foundation functions, such as procurement, finance, and human resource management.
- Examined Board of Directors (Board) and committee meeting records to determine whether Board approval was obtained for policies and procedures in effect during the audit period and for evidence of compliance with Sunshine Law requirements (i.e., proper notice of meetings, meetings readily accessible to the public, and properly maintained meeting minutes).
- Evaluated the adequacy of Foundation policies and procedures related to identifying potential conflicts of interest. We reviewed State of Florida Department of State, Division of Corporations, records; statements of financial interests; and Foundation records to identify any potential relationships that represented a conflict of interest with Foundation vendors.
- Examined meeting minutes for the audit period and the minutes of selected meetings prior and subsequent to the audit period to determine the propriety and sufficiency of actions taken related to the Foundation programs, activities, and functions included in the scope of this audit.
- Examined Foundation records supporting the composition and size of the Board to evaluate whether the Board included the minimum required number of elected and ex-officio directors. Also, we examined Foundation records to determine whether elected directors' term limits complied with Foundation by-law requirements.
- Examined Foundation records to determine whether directors complied with Foundation required Board member responsibilities (i.e., served on standing committees, attended at least 50 percent of Board and committee meetings, actively participated in fundraising processes, and made personal or affiliate business donations).
- Examined Foundation records related to the Board-adopted budgets and quarterly budget-to-actual comparison reports for the 2017-18 fiscal year to determine whether appropriate budgets and reports were prepared containing relevant and useful information and were timely presented to the Board.
- Examined Foundation records to determine whether the Foundation had developed an anti-fraud policy to provide guidance to directors, employees, and volunteers for communicating known or suspected fraud to appropriate individuals. Also, we examined Foundation records to determine

whether the Foundation had implemented appropriate and sufficient procedures to comply with its anti-fraud policy.

- Examined Foundation records to determine whether the Foundation had developed appropriate financial policies to ensure that the Foundation could sustain fiscal responsibilities in the event of unforeseen financial shortages. We also analyzed the Foundation unrestricted fund balance to determine whether an adequate level of fund balance was maintained to mitigate current and future risks.
- Examined Foundation records to determine, for all cash and investment accounts maintained during the audit period, whether reconciliations were timely prepared by employees who were independent of the cash handling, investment of funds, and recording functions and appropriately approved.
- Evaluated Foundation investment policies and procedures during the audit period to determine whether such policies and procedures complied with Section 617.2104, Florida Statutes, adhered to good business practices, and investments complied with these policies and procedures.
- Examined Foundation records to determine whether fidelity bonds were obtained for persons handling or responsible for cash and investments or responsible for expending Foundation funds.
- Examined Foundation records to determine whether the Foundation had established adequate, comprehensive electronic funds transfer (EFT) policies and procedures and evaluated the adequacy of EFT controls. From the population of 28 EFTs totaling \$142,684 for external payments during the audit period, we evaluated Foundation records supporting 18 selected EFTs totaling \$132,948 to determine whether the EFTs were adequately supported and properly authorized.
- Evaluated Foundation policies, procedures, and records to determine whether the Foundation implemented internal controls to ensure that purchased or donated property was properly recorded, inventoried, and accurately reported in the financial statements.
- Examined Foundation records supporting 15 multi-year pledges totaling \$22,961,603 to determine whether the pledges were documented on forms or agreements that were appropriately signed and approved by Foundation personnel, and timely recorded.
- From the population of donor contributions totaling \$13.3 million, examined Foundation records supporting 34 contributions totaling \$3 million to determine whether the contributions complied with applicable Foundation policies and procedures.
- Examined severance pay provisions in 16 employee contracts to determine whether the provisions complied with Section 215.425(4)(a), Florida Statutes.
- From the population of compensation payments totaling \$1.6 million made to 23 employees during the audit period, selected compensation payments totaling \$65,275 made to the 23 employees and examined related payroll and personnel records to determine the accuracy of the rate of pay, whether supervisory personnel reviewed and approved employee reports of time worked, the validity of employment contracts, whether the employees met the required qualifications, whether performance evaluations were completed, and the accuracy of leave records.
- From the population of 741 journal entries during the audit period, identified 111 journal entries that were prepared and approved in the accounting system by the same employee. From the 111 journal entries we selected for examination documentation supporting 30 journal entries totaling \$5.9 million to determine whether the journal entries were correctly classified, for a valid purpose, properly authorized, and complied with applicable laws, and Board policies.
- Examined Foundation records to determine whether selected expenses were reasonable, correctly recorded, and adequately documented; for a valid purpose; properly authorized and

approved; and in compliance with applicable laws, contract terms, and Board policies. Specifically, from the population of expenses totaling \$2.2 million for the audit period, we examined Foundation records supporting:

- 30 selected payments for expenses totaling \$1.6 million, excluding payroll expenses and contractual services.
- 36 selected payments for contractual services totaling \$321,919.
- From the population of 52 purchasing card (P-card) transactions totaling \$64,613 during the audit period, examined Foundation records supporting 20 selected P-card transactions totaling \$25,313 to determine whether the P-card program was administered in accordance with Foundation policies and procedures and transactions were not of a personal nature. We also reviewed the reasonableness of the credit limits assigned to the P-cards and determined whether the Foundation promptly canceled the P-cards of cardholders who separated from Foundation employment during the audit period.
- From the population of 150 travel expenses totaling \$240,759 during the audit period, examined 35 selected travel expenses totaling \$170,761 to determine whether the travel expenses were reasonable, adequately supported, for valid Foundation purposes, and reimbursed by the College when appropriate.
- Examined Foundation policies, procedures, and other records to assess the reasonableness of the 2017-18 fiscal year endowment allocation of \$5.9 million and determine whether the Foundation had implemented internal controls to monitor unspent endowment allocations and maximize support for students and faculty.
- Examined Foundation policies, procedures, and records to determine whether the Foundation had implemented internal controls to effectively monitor and limit the extent that fair values of the 589 endowment funds with corpus fair values totaling \$51.6 million may decline below the original gift amount or amount required to be maintained by the donor.
- From expenses totaling \$9.7 million that were funded from donor-restricted contributions during the 2017-18 fiscal year, examined Foundation records supporting 29 selected expenses totaling \$1.3 million during the audit period to determine whether restricted sources were properly accounted for, the funds were distributed for authorized purposes and complied with the applicable restrictions, and that all other significant requirements imposed by the donor agreements were met. Additionally, we requested that the Foundation obtain from the College student records to determine whether 26 selected students who received scholarship awards totaling \$28,669 from Foundation endowed and non-endowed funds were eligible for the awards.
- 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.

A handwritten signature in blue ink that reads "Sherrill F. Norman". The signature is written in a cursive style with a large, stylized initial 'S'.

Sherrill F. Norman, CPA  
Auditor General

# MANAGEMENT'S RESPONSE

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March 2, 2020

Sherrill F. Norman, CPA  
Auditor General  
State of Florida  
Claude Denson Pepper Building, Suite G74  
111 West Madison Street  
Tallahassee, FL 32399-1450

Dear Ms. Norman:

These responses are being submitted in response to the preliminary and tentative findings of the state operational audit of Miami Dade College Foundation.

Please call me if you have any questions

Sincerely,

A handwritten signature in blue ink that reads 'Mark Cole'.

Mark Cole  
VP for Advancement and Executive Director  
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1. Acknowledged. As noted in the audit report, the Foundation has already reduced the EFT authorization limits for the two employees noted. Also, even though the report found no EFTs for unauthorized purposes, the Foundation is taking steps to enhance controls by (i) further separating ETF responsibilities as suggested; (ii) ensuring transactions are timely recorded in the Foundation's accounting system; and (iii) hiring of a new Chief Financial Officer for the Foundation, whose responsibilities will include ensuring that effective controls are implemented and followed.
2. Acknowledged. The Foundation is updating its accounting system to separate access privileges of the five employees who prepare journal entries from those who approve the entries. Also, even though the report found the journal entries examined were for authorized purposes, the Foundation is developing a process to ensure records evidencing the appropriate approval of journal entries are maintained.
3. The Foundation respectfully disagrees with the recommendation. The Foundation follows the College's standard procedures for time records for exempt employees, which are based on requirements of the Federal Fair Labor Standards Act (FLSA). Employees are required to submit electronic leave requests for any time taken and those requests are approved by the immediate supervisor. The FLSA states that employers cannot deduct partial days in pay from individuals who are classified as exempt. If an employer does so consistently, the employer could lose the exemption for that whole class of employees. Therefore, the College uses payroll by exception, which does not require certification of time worked. Should we change this procedure, we could be liable under FLSA for overtime for a significant number of positions at the Foundation. Based on the risks involved with the recommendation made in the audit report, the Foundation plans to continue to follow the College's current procedures.
4. Acknowledged. The Foundation is enhancing procedures with the College to ensure that College decisions on student scholarship awards are documented to show recipients have met the donor-established eligibility requirements prior to award and disbursement.
5. Acknowledged. The Foundation will enhance current communication efforts to students and endowment monitoring activities.
6. Acknowledged. The Foundation is developing policies and procedures that will monitor endowment fund(s) balances and will give guidance as to spend rates if/when a fund is determined to be underwater.

7. Acknowledged. A review of all Foundation FY 2017-2018 gift records indicated that the \$2.2M gift noted in the report was the only gift during the audit period for which there was no separate, executed agreement with the donor before that particular gift was accepted. However, the report fails to note that this gift was simply part of an on-going contribution provided annually to the Foundation over many years and that the Foundation maintained documentation via email communication which indicated the purpose of the gift and the acceptance of the gift, all of which was provided to the Auditor General. In the view of the Foundation and the donor, this correspondence constituted sufficient requisite agreement. Nonetheless, the Foundation has already executed another separate written agreement with the donor as requested by the Auditor General, which agreement is fully consistent with the correspondence and schedule of contributions previously provided to the Auditor General.
8. Acknowledged. The Foundation policy is being revised to specify that the Foundation will pay for the full-cost of business class for official trips by the College President where the flight time is four or more hours, without the need for College reimbursement. This proposed revision will be considered by the full Board at the March 10, 2020 Board meeting.
9. Acknowledged. Foundation bylaws are being revised to remove the requirement for bonding, and this revision will be presented for approval at the Foundation Board's March 10, 2020 meeting. In addition, the Foundation is working with the College to ensure that all personnel, directors and others described in the finding who handle moneys or are involved in investment decisions, are covered under the College's insurance umbrella which protects the Foundation from any fraudulent activity by such persons.
10. The Foundation respectfully disagrees. The Foundation is a private, nonprofit organization dedicated to the purpose of supporting MDC and its students. It is self-supporting, legally distinct from the College, and receives no public funds. As set forth in the Conditions of Operation established by the College, the Foundation's role is supportive and advisory; the Miami Dade College Board has not delegated any of its public responsibilities and/or authority to the Foundation. The Foundation has a long history of transparency and openness, and has not denied public access to its Board meetings. Nonetheless, the Foundation has already started posting notice of its meetings on the Foundation web page.
11. Acknowledged. The Foundation will review its Articles, by-laws and policies in light of the recommendations made by the Auditor General. Any revisions, however, must be consistent with the Operating Conditions set by the College Board of Trustees for the Foundation; furthermore, any amendments to the Articles or Bylaws by the Foundation must be approved by the College Board of Trustees. As to attendance at meetings, the Foundation Board will continue to encourage attendance at Board and committee meetings, and will continue to consider such attendance records in their recommendations for Director.
12. Acknowledged. The Foundation has just hired a new Chief Financial Officer, who will work to provide the necessary guidance and oversight to accomplish the Foundation's goal of enhanced reporting in accordance with governing policies. The Foundation has already taken steps to incorporate the recommendations made by the Auditor General in the development of its next annual budget.
13. Acknowledged and remedied. The Foundation's information technology platforms are now cloud based.
14. Acknowledged. Miami Dade College will identify the Foundation in its Disaster Recovery plan..