

STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

Report No. 2022-095
January 2022

FLORIDA STATE UNIVERSITY



Sherrill F. Norman, CPA
Auditor General

Board of Trustees and President

During the period January through December 2020, Mr. John Thrasher served as President of Florida State University and the following individuals served as Members of the Board of Trustees:

Edward E. Burr, Chair	Dr. Kristine Harper through 1-14-20 ^b
Mark Hillis, Vice Chair through 1-6-20 ^a	Jim W. Henderson
William A. Buzzett, Vice Chair from 2-12-20, through 11-23-20 ^a	Jonathan Levin from 4-15-20 ^c
Maximo Alvarez	Craig Mateer
Kathryn Ballard	Deborah A. Sargeant from 11-24-20
Dr. Eric Chicken from 1-15-20 ^b	Bob Sasser
Peter H. Collins from 11-24-20	Brent Sembler through 11-23-20
Emily Fleming Duda	Evan Steinberg through 4-14-20 ^c
Jorge Gonzalez	John Thiel from 1-7-20

^a Vice Chair position vacant from 1-7-20, through 2-11-20, and from 11-24-20, through 12-31-20.

^b Faculty Senate President (equivalent to faculty senate chair referred to in Section 1001.71(1), Florida Statutes).

^c Student Body President.

The team leader was Shirley Dong, CPA, and the audit was supervised by Maria G. Loar, CPA.

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

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FLORIDA STATE UNIVERSITY

SUMMARY

This operational audit of Florida State University (University) focused on selected University processes and administrative activities and included a follow-up on findings noted in our report No. 2019-083. Our operational audit disclosed the following:

Finding 1: The University did not always promote governmental transparency and accountability by identifying within the University's general ledger the resources that finance University internal debt activities.

BACKGROUND

Florida State University (University) is part of the State university system of public universities, which is under the general direction and control of the Florida Board of Governors (BOG). The University is directly governed by a Board of Trustees (Trustees) consisting of 13 members. The Governor appoints 6 citizen members and the BOG appoints 5 citizen members. These members are confirmed by the Florida Senate and serve staggered 5-year terms. The Faculty Senate President and Student Body President also are members.

The BOG establishes the powers and duties of the Trustees. The Trustees are responsible for setting University policies, which provide governance in accordance with State law and BOG Regulations. The University President is selected by the Trustees and confirmed by the BOG. The University President serves as the Executive Officer and the Corporate Secretary of the Trustees and is responsible for administering the policies prescribed by the Trustees for the University.

FINDING AND RECOMMENDATION

Finding 1: Internal Debt

State law¹ requires the financial records and accounts of each university to be prepared and maintained as prescribed by laws and rules of the Board of Governors, which shall incorporate the requirements of accounting principles generally accepted in the United States (GAAP) and include a uniform classification of accounts. GAAP require the University's accounting system to be organized on a fund² basis. To appropriately account for internal financing activities by fund based on the particular funding source, the *Interinstitutional Committee on Finance and Accounting Financial Statement Guide for Fiscal Year 2021 (ICOFA Financial Statement Guide)* established the use of funds, such as the Current Fund - Unrestricted and Current Fund - Restricted, and specific asset and liability accounts, such as Due from Other Funds receivables and Due to Other Funds payables. Such accountability promotes

¹ Section 1010.01(1)(b) and (2), Florida Statutes.

² A fund is a fiscal and accounting entity with a self-balancing set of accounts that a government establishes for accountability purposes in accordance with statutes, laws, regulations, restrictions, or specific purposes.

government transparency and helps ensure restricted resources are used in accordance with applicable funding restrictions.

Our examination of University records and discussions with University personnel disclosed that the University President approved internal debt to finance various University activities. To support these debt transactions, University Division of Finance and Administration personnel maintained records that identified the debt amount, origination date, repayment period, interest rate, funding source to repay the debt, and the financing purpose for the debt. According to University personnel, the repayment periods were determined based on the revenue streams that would pay back the internal debt, and interest rates were established based on market conditions when the debt was incurred and consultation with external financial advisors. Table 1 summarizes the internal debt balances funding seven University activities as of June 13, 2021.³

Table 1
Internal Debt
As of June 13, 2021

Financing Purpose	Debt Origination	Repayment Period (in years)	Interest Rate (percent)	Debt Balance
1 On-Campus Dining Facility	12/07/2015	10	4.0	\$ 116,652
2 Partially Fund the Jim Moran Institute for Global Entrepreneurship Renovation	1/23/2017	10	4.0	4,242,873
3 Partially Fund Intercollegiate Athletic Programs	7/01/2018	N/A	Variable ^a	20,000,000
4 Construct and Install the Doak Campbell Stadium Scoreboard	7/15/2018	10	4.0	9,600,000
5 Renovate the Technology Services Building	9/07/2018	5	4.0	3,147,997
6 Renovate and Improve the Donald Tucker Civic Center	11/14/2020	10	2.0	3,245,668
7 Refinance Debt Relating to Purchase of the Technology Services Building	12/01/2020	10	2.0	2,393,610
Total				<u>\$42,746,800</u>

^a The internal debt variable interest rate was based on the State Treasury Special Purpose Investment Account investment pool return rate, which averaged 1.7327 percent for the 2020-21 fiscal year.

Source: University records.

According to University personnel, internal debt in the Current Funds – Unrestricted is accounted for by recording a positive Due from Other Funds balance in an “internal bank fund” and a negative Cash in Bank balance in that fund. The respective funds that received financing from the internal bank fund recorded a positive Cash in Bank balance and a negative Due to Other Funds balance for the debt. University personnel also indicated that the “internal bank” balance consists of the internal bank fund negative cash account, along with separate general ledger positive cash accounts from various other

³ On September 22, 2020, the University established a debt of \$45,700,000 to partially fund the Student Union Construction Project; however, as of June 13, 2021, no withdrawals had been made.

funds to finance internal debt activities. Table 2 summarizes, as of June 13, 2021, the internal bank balance resources used to finance the internal debt.

Table 2
Internal Bank Resources and Balance

As of June 13, 2021

Fund Classification	Resource Type	Resource Description	Resource Uses	Available Balance
Current Fund - Unrestricted	Unrestricted	General collections ^a	Unrestricted use.	\$219,945,425
	Restricted	Other Designated Student Fees ^b	To be expended for the statutorily authorized purposes for which the fees were established and to support activities from which the fees were generated or to recover the costs of goods and services provided.	42,180,240
	Restricted	Auxiliary Fund – Wellness Center and Health Fees ^c	To fund debt service of healthcare facilities and services and programs that promote student health.	13,385,583
	Unknown	Internal Bank Fund	See Table 1 for details.	(42,746,800)
Current Fund - Restricted	Restricted	Sponsored Research and Development Distribution and Sponsored Research Program Overhead ^d	To be used for the cost of operating the Division of Sponsored Research and any surplus moneys will be used to support other research or sponsored training programs in any area of the University.	136,384,943
Renewal and Replacement Plant Fund	Restricted	Required Reserve for Auxiliary Housing and Parking	Restricted use for required bond covenant reserve for the housing and parking capital improvement debt.	6,852,313
Total Internal Bank Balance				<u>\$376,001,704</u>

^a Primarily represents housing, parking, and international program fees; food service collections, receipts from direct support organizations, auxiliary contract commission revenue, market rate tuitions, insurance recoveries, and interdepartmental charges for maintenance and equipment replacement pursuant to Sections 1004.28(1) and 1011.47(1), Florida Statutes.

^b Student activity, materials and supplies, facilities use, and distance learning fees collected pursuant to Sections 1009.24(9), 1009.24(10), 1009.24(14)(i) and (p), and 1009.24(17), Florida Statutes.

^c Fees collected pursuant to Sections 1009.24(9), 1009.24(11), and 1009.24(14)(h), Florida Statutes.

^d Moneys collected pursuant to Section 1004.22(5), Florida Statutes.

Source: University manually prepared internal bank balance worksheets.

University personnel indicated that the University invested available moneys until needed for required purposes, all moneys invested in the internal bank are excess amounts from non-appropriated resources, and the auxiliary funds unrestricted resources were used to subsidize the outstanding internal debt. Notwithstanding, as noted in Table 2, restricted resources such as designated student fees and auxiliary wellness center and health fees are also included in the internal bank balance to subsidize outstanding internal debt, although such resources have statutory restrictions that do not authorize such subsidies.

According to University personnel, monthly investment income allocation worksheets are maintained that identify the specific auxiliary funds used to finance internal debt. Our examination of the January through May 2021 worksheets disclosed that Auxiliary Fund - Wellness Center and Health fees funded internal debt balances each of those months with balances totaling \$3.2 million in January 2021 and decreasing

to balances totaling \$2.6 million in May 2021. In response to our inquiries for the authority to use those fees to finance internal debt, University personnel indicated that Auxiliary Fund - Wellness Center and Health fees resources are auxiliary resources reported as unrestricted net position on the University's financial statements and that the cash was invested in the internal bank as an investment option for the available pooled cash. However, the authority to use those fees to finance internal debt is not readily apparent as none of the debt identified in Table 1 appears to relate to student health services. Subsequent to our inquiries, the June 2021 investment income allocation worksheet was revised to indicate that all remaining debt was financed with unrestricted resources in the Auxiliary Enterprises Fund.

Without appropriate accountability in the general ledger consistently identifying the resources that financed the internal debt, transparency in financial reporting is limited and there is an increased risk that resources with restrictions may be used for unallowable purposes or that resources may be used to finance projects or programs that the Board intended to use for other educational activities.

Recommendation: To promote government transparency, demonstrate accountability consistent with the *ICOFA Financial Statement Guide*, and specifically identify the resources that finance University activities, the University should establish procedures for recording internal debt activities, including debt financed, repayments, and balances, in the University general ledger by fund based on the particular funding source. Procedures should also ensure that the funding for internal debt is from an allowable resource.

Follow-Up to Management's Response

Management's response states that "the ICOFA Financial Statement Guide is applicable only to the preparation of the University's comprehensive annual financial statements and does not apply to how universities account for items on a daily basis." However, the ICOFA Financial Statement Guide requires the use of standard general ledger codes and Appendix A of that Guide correlates the respective accounts that apply to those codes to drive the logic to prepare the financial statements. Consequently, the ICOFA Financial Statement Guide requires universities to use specific general ledger accounts to support amounts presented on the financial statements.

In addition, management's response mentions that "...support for transactions related to the internal debt was available in the University's accounting system (which) specifies the resources that financed this debt" and "all funding sources invested by the University in internal debt are non-appropriated funds and unrestricted in nature." However, the University accounting system (general ledger) did not identify the respective fund and related resources that financed the debt. In addition, the University income allocation worksheets indicate that student health fees, which are restricted in nature, were used to partially finance the debt even though the debt was unrelated to health services. Consequently, the finding stands as presented.

PRIOR AUDIT FOLLOW-UP

The University had taken corrective actions for findings included in our report No. 2019-083.

OBJECTIVES, SCOPE, AND METHODOLOGY

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

We conducted this operational audit from March 2021 through July 2021 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 focused on information technology resources and related controls; carryforward balances; intercollegiate athletic programs, direct support organizations; student fees; decentralized cash collections; construction contracting and funding; contractual services expenses; internal loans; and other processes and administrative activities.

For those areas, our audit objectives were to:

- Evaluate management's performance in establishing and maintaining internal controls, including controls designed to prevent and detect fraud, waste, and abuse, and in administering assigned responsibilities in accordance with applicable laws, rules, regulations, contracts, grant agreements, and other guidelines.
- Examine internal controls designed and placed in operation to promote and encourage the achievement of management's control objectives in the categories of compliance, economic and efficient operations, reliability of records and reports, and safeguarding of assets, and identify weaknesses in those controls.
- Determine whether management had taken corrective actions for findings included in our report No. 2019-083.
- 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 areas included within the scope of the audit, weaknesses in management's internal controls significant to our audit objectives; 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; identifying and evaluating internal controls significant to our audit objectives; 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 January 2020 through December 2020 and selected University actions taken prior and subsequent thereto. Unless otherwise indicated in this report, these records and transactions were not selected with the intent of statistically projecting the results, although we have presented for perspective, where practicable, information concerning relevant population value or size and quantifications relative to the items selected for examination.

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

In conducting our audit, we:

- Reviewed applicable laws, rules, University policies and procedures, and other guidelines, and interviewed University personnel to obtain an understanding of applicable processes and administrative activities.
- Reviewed University information technology (IT) policies and procedures to determine whether the policies and procedures addressed certain important IT control functions, such as security access, systems development and maintenance, user authentication, and disaster recovery.
- Evaluated University procedures for maintaining and reviewing employee access to IT data and resources. Specifically, we examined access privileges to the database and to selected critical functions within the finance and human resources applications in January 2021 for 27 of the 225 employees with the respective access to determine the appropriateness and necessity of the access privileges based on the employees' job duties and user account functions and whether the access prevented the performance of incompatible duties.
- Evaluated University procedures for protecting the sensitive personal information of students, such as social security numbers. From the population of 226 employees who had access privileges to the sensitive personal information of students in May 2021, we examined University records supporting the access privileges granted to 24 employees to evaluate the appropriateness of and necessity for the access privileges based on the employees' assigned job responsibilities.
- Evaluated the appropriateness of the University's comprehensive IT disaster recovery plan during the audit period and determined whether it had been recently tested.
- Reviewed operating system, database, network, and application security settings to determine whether authentication controls were configured and enforced in accordance with IT best practices.
- Determined whether a comprehensive IT risk assessment had been established for the audit period to document the University risk management and assessment processes and security controls intended to protect the confidentiality, integrity, and availability of data and IT resources.
- Examined University records to determine whether the University had established a policy prohibiting employees from soliciting or accepting gifts from vendors in connection with any decision, approval, disapproval, or recommendation, affecting the institution's purchasing or contracting decisions.

- From the population of payments totaling \$14.4 million made during the audit period from the University to its direct-support organizations (DSOs), examined University records supporting payments totaling \$7.4 million to determine whether the transactions were as described in Section 1004.28(1)(a)2. and (2), Florida Statutes.
- Examined University records to determine whether the Trustees had prescribed by regulation, pursuant to Section 1004.28(2)(b), Florida Statutes, the conditions with which the DSOs must comply in order to use University property, facilities, and personal services and whether the Trustees documented consideration and approval of anticipated property, facilities, and personal services provided to the DSOs and the related costs.
- Examined University student fee schedules to determine whether the University had the authority to assess such fees, the University separately accounted for the fees, and the fees did not exceed the limits established in Section 1009.24, Florida Statutes, and Board of Governors Regulations 7.001 and 7.003.
- From the population of 694 distance learning courses with fee revenue totaling \$20.6 million during the audit period, examined University records supporting 30 selected distance learning courses with fee revenue totaling \$6.1 million to determine whether distance learning fees were assessed, collected, and separately accounted for in accordance with Section 1009.24(17), Florida Statutes.
- From the population of 68 decentralized cash collection locations with collections totaling \$80.4 million during the audit period, selected 3 locations with collections totaling \$114,697 and examined University records supporting those collections to determine the effectiveness of University collection procedures and whether the locations were timely reauthorized as cash collection points.
- From the population of contracted services expenses totaling \$43.4 million for the audit period, examined University records supporting 30 selected expenses totaling \$4.4 million to determine whether selected expenses were reasonable; correctly recorded; adequately documented; for a valid University purpose; properly authorized and approved; in compliance with applicable laws, rules, contract terms, and University policies; and whether applicable vendors were properly selected.
- Examined University records related to 72 continuing contract construction projects with total construction cost budgets of \$33.7 million ongoing during the audit period to determine whether the grouping of any minor and substantially similar projects would exceed the statutorily established competitive selection process threshold as prescribed in Sections 255.103(4) and 287.055(2)(g), Florida Statutes.
- Reviewed documentation related to the selection of continuing contract construction management entities to determine whether the selection process was in accordance with Section 287.055, Florida Statutes, and Board of Governors Regulation 18.002.
- Examined University records to evaluate the propriety of the funding source for the Student Union Expansion Construction Project totaling \$142.1 million.
- From the population of \$108.8 million of student financial aid fees, activity and service fees, health fees, and athletic fees expended during the audit period, examined documentation supporting expenses totaling \$207,154 to determine whether the University expended the collected fees as required by Section 1009.24, Florida Statutes.
- Determined whether the University maintained a minimum carryforward balance of at least 7 percent of its State operating budget and prepared a spending plan for balances in excess of the 7 percent minimum balance as required by Section 1011.45, Florida Statutes.
- Determined whether Education and General carryforward funds were budgeted and used in accordance with Board of Governors Regulation 9.007. Additionally, we determined whether any

investment income was properly allocated to the Education and General current year and carryforward funds that generated the investment income.

- Evaluated efficiency of University laboratory animal disposal and related public safety processes.
- Examined University records to evaluate the financial condition of the intercollegiate athletic programs and to determine whether the programs were self-supporting in accordance with Board of Governors Regulation 9.013.
- Examined University records to determine whether the internal loans and lines of credit were allowable and whether the operation of University controls over restricted resources adhered to good business practices.
- Communicated on an interim basis with applicable officials to ensure the timely resolution of issues involving controls and noncompliance.
- Performed various other auditing procedures, including analytical procedures, as necessary, to accomplish the objectives of the audit.
- Prepared and submitted for management response the findings and recommendations that are included in this report and which describe the matters requiring corrective actions. Management's response is included in this report under the heading **MANAGEMENT'S RESPONSE**.

AUTHORITY

Section 11.45, Florida Statutes, requires that the Auditor General conduct an operational audit of each University on a periodic basis. Pursuant to the provisions of Section 11.45, Florida Statutes, I have directed that this report be prepared to present the results of our operational audit.

A handwritten signature in blue ink that reads "Sherrill F. Norman". The signature is fluid and cursive, with a large initial "S" and "N".

Sherrill F. Norman, CPA
Auditor General

MANAGEMENT'S RESPONSE



FLORIDA STATE UNIVERSITY
OFFICE OF THE PRESIDENT

January 6, 2022

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

Dear Ms. Norman:

Attached is the response for Florida State University to the Auditor General's preliminary and tentative operational audit recommendation, dated December 8, 2021.

If you should require additional information, please contact Sam McCall at 850-644-0651 or smmccall@fsu.edu

Sincerely,



Richard D. McCullough, Ph.D.
President

cc: Sam McCall
Kyle Clark

211 Westcott Building, P.O. Box 3061470, Tallahassee, FL 32306-1470
850.644.1085 • Fax 850.644.9936 • www.president.fsu.edu

Florida State University
Response to Auditor General Operational Audit

Finding 1: The University did not always promote governmental transparency and accountability by identifying within the University's general ledger the resources that finance University internal debt activities.

Recommendation: *To promote government transparency, demonstrate accountability consistent with the ICOFA Financial Statement Guide, and specifically identify the resources that finance University activities, the University should establish procedures for recording internal debt activities, including debt financed, repayments, and balances, in the University general ledger by fund based on the particular funding source. Procedures should also ensure that the funding for internal debt is from an allowable resource.*

Response: Florida State University promotes and provides for transparency and accountability. The *ICOFA Financial Statement Guide* is applicable only to the preparation of the University's comprehensive annual financial statements and does not apply to how universities account for items on a daily basis. The University did have established procedures for recording internal debt activities, which are considered as an investment vehicle from the perspective of the resources used to fund this debt. Further, support for transactions related to the internal debt was available in the University's accounting system, and this documentation specifies the resources that financed this debt.

University investments are made in accordance with the Florida State University Investment Policy adopted by the Board of Trustees in accordance with Section 1011.42(5) and 218.415, Florida Statutes. All funding sources invested by the University in internal debt are non-appropriated funds and unrestricted in nature. These funds generate interest income on a monthly basis and are available to the department, when needed for their intended purposes.

Finally, it should be noted that investment allocation methodology remained consistent throughout the audit period, including in June 2021. Throughout the audit period Auxiliary Enterprise Funds were first and primarily invested in the internal debt, and it was only when the total amount of outstanding debt exceeded available Auxiliary funds that other unrestricted funding sources were utilized. Between May and June 2021, the total internal debt principal amount decreased to the point where only Auxiliary funds were needed to cover internal debt in June.