

STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

Report No. 2022-089
January 2022

FLORIDA ATLANTIC UNIVERSITY



Sherrill F. Norman, CPA
Auditor General

Board of Trustees and President

During the period January through December 2020, Dr. John W. Kelly served as President of Florida Atlantic University and the following individuals served as Members of the Board of Trustees:

| | |
|---|---|
| Abdol Moabery, Chair from 1-7-20, Vice Chair through 1-6-20 ^a | Dr. Jeffrey P. Feingold Brad M. Levine |
| Brent D. Burns, Vice Chair from 10-6-20 ^a | Mary Beth McDonald |
| Anthony K.G. Barbar, Chair through 1-6-20 | Elycia Morris from 1-7-20 |
| Shaun M. Davis, Vice Chair from 2-11-20, through 10-2-20 ^a | Celine Persaud from 5-11-20 ^b |
| Kevin Buchanan through 5-10-20 ^b | Robert S. Rubin |
| Dr. Michael T.B. Dennis through 5-3-20 ^c | Robert J. Stilley |
| Dr. Malcolm J. Dorman | Dr. Kevin Wagner ^d |

^a Vice Chair position vacant from 1-7-20, through 2-10-20, and 10-3-20, through 10-5-20.

^b Student Body President.

^c Trustee position vacant 5-4-20, through 12-31-20.

^d Faculty Senate President.

The team leader was Simone V. Oladejo, and the audit was supervised by Diana G. Garza, 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 ATLANTIC UNIVERSITY

SUMMARY

This operational audit of Florida Atlantic University (University) focused on selected University processes and administrative activities and included a follow-up on findings noted in our report No. 2019-206. Our operational audit disclosed the following:

Finding 1: From Fall 2012 through Spring 2021, the University assessed a \$7.50 service charge per student loan, instead of the Trustee-approved \$5 service charge per student loan, resulting in service charges totaling \$149,575 more than the amount authorized by the Trustees.

BACKGROUND

The Florida Atlantic 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: Service Charges

The Board of Trustees, pursuant to State law¹ and University regulations,² established a \$5 service charge for University loans in lieu of interest and administrative handling charges. According to University records, in Fall 2012 University management increased the maximum loan amount to \$750 per student with a corresponding service charge increase to \$7.50.

In response to our inquiry, University personnel indicated that in Fall 2012 the service charge was increased to 1 percent of the loan amount so when the loan amount was increased, the service charge increased proportionately. University personnel also indicated that University records were not maintained to demonstrate Trustee approval for the increase. Absent such records, the legal authority for the increased service costs was not readily apparent.

¹ Section 1009.24(14)(l), Florida Statutes.

² Florida Atlantic University Regulation 8.003(37), *Special Fees, Fines and Penalties*.

From Fall 2012 through Spring 2021, the University assessed students a \$7.50 service charge per loan for 59,830 loans, resulting in service charges totaling \$448,725 or \$149,575 more than the amount authorized by the Trustees. Subsequent to our inquiry, the University credited a total of \$39,832 for the excess service charges to students enrolled in the Spring 2021 term and other students with outstanding account balances. University personnel also indicated that, until the Trustees amend the University regulations, all future loans will be assessed the \$5 service charge in accordance with University regulations.

Recommendation: The University should ensure that student loan service charges are limited to amounts approved by the Board and specified in University regulations.

PRIOR AUDIT FOLLOW-UP

The University had taken corrective actions for findings included in our report No. 2019-206.

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 November 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; direct-support organizations; student fees; textbook affordability; compensation, construction, and other expenses; 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. 2019-206.
- 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 by examining University records supporting access privileges to selected critical functions. Specifically, to determine the appropriateness and necessity of the access privileges based on the selected employees' job duties and user account functions and whether the access prevented the performance of incompatible duties, we examined University records for 12 selected employees with 9 roles from the 17 employees with access to the finance application. We also examined University records for 5 selected employees with 25 roles from the 1,575 employees with access to the human resources application, including time sheet update access. In addition, for three administrators, we examined the account access privileges granted and procedures for oversight of administrator accounts for the finance and human resources

applications to determine whether these accounts had been appropriately assigned, managed, and monitored.

- Evaluated University procedures for protecting the sensitive personal information of students, such as social security numbers (SSNs). From the population of 52 employees who had access privileges to student SSNs as of May 2021, we evaluated the appropriateness of and necessity for the access privileges for 18 selected employees based on the employees' assigned job responsibilities. We also evaluated whether University procedures for maintaining the SSNs of prospective students who did not enroll in the University were reasonable and appropriate.
- Examined University records to determine whether the University had developed an anti-fraud policy and procedures for the audit period to provide guidance to employees for communicating known or suspected fraud to appropriate individuals. Also, we examined University records to determine whether the University had implemented appropriate and sufficient procedures to comply with its anti-fraud policy.
- From the population of payments totaling \$1,153,845 made during the audit period, from the University to its direct-support organizations (DSOs), examined University records supporting payments totaling \$1,105,579, to determine whether the transactions complied with 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 records and performed analytical procedures to determine whether the University's auxiliary intercollegiate athletics program was self-supporting as required by Board of Governors (BOG) regulations.
- From the population of 5,546 course sections offered during the audit period, examined University records supporting textbook adoptions offered during the audit period to determine whether the University textbook affordability procedures complied with Section 1004.085, Florida Statutes.
- Examined University records to determine whether time worked by employees was reviewed and certified by managers. From the population of 10,939 employees during the audit period, we examined records for 30 selected employees to determine whether supervisory personnel reviewed and approved employee reports of time worked.
- Evaluated University compliance with Section 215.425(4)(a), Florida Statutes, and applicable University policies by examining University records supporting severance pay totaling \$18,544 to 2 employees and settlement pay totaling \$25,000 to 1 employee.
- Examined University records for merit program payments made during the audit period to determine whether payments complied with University merit program policies and procedures. Specifically, from the population of 1,770 employees who received merit bonus program payments, we examined University records supporting selected merit bonus program payments to 30 employees to determine whether the employees who received these payments met the applicable eligibility requirements and whether the payments were in compliance with Section 215.425(3), Florida Statutes.
- From the population of contractual service expenses totaling \$2,181,913 for the audit period, examined University records supporting 30 selected payments for contractual services totaling \$464,805 to determine whether:
 - If applicable, the University complied with competitive selection requirements.

- The contractor was an employee or other individual that may represent a violation of Section 112.313, Florida Statutes.
- The University established agreements or otherwise preauthorized services and related payments.
- Reviewed University policies and procedures related to identifying potential conflicts of interest. We also reviewed Department of State, Division of Corporations, records; statements of financial interest; and University records for the population of 25 University officials (including Board members, President, purchasing department staff, and other key personnel) to identify any potential relationships that represented a conflict of interest with vendors used by the University.
- From the population of 11 major construction projects with expenses totaling \$67 million and in progress during the audit period, selected 19 payments totaling \$20,650,696 related to 2 major construction projects and examined University records to determine whether the payments were made in accordance with contract terms and conditions, University policies and procedures, and provisions of applicable State laws and rules.
- Reviewed documentation related to 2 major construction projects with total construction costs of \$38,978,640 during the audit period to determine whether the University's process for selecting design professionals and construction managers was in accordance with State law; the selection process of subcontractors was adequately monitored; the Trustees had adopted a policy establishing minimum insurance coverage requirements for design professionals; design professionals provided evidence of required insurance; and construction funding sources were appropriate.
- Examined documentation relating to the two energy saving projects that were in progress with total expenditures of \$13,988,122 during the audit period to evaluate compliance with Section 1013.23(3), Florida Statutes.
- Reviewed University records to evaluate whether amounts reported to the Florida Department of Education as expended or encumbered in the audit period for various Public Education Capital Outlay (PECO) allocations agreed with University accounting records and that the President certified that PECO funds complied with applicable State laws.
- From the population during the audit period of PECO expenses totaling \$4,164,556 and Education and General (E&G) carryforward fund expenses totaling \$786,609, examined records supporting 15 selected PECO expenses totaling \$100,801 and 15 selected E&G expenses totaling \$137,952 to evaluate compliance with the restrictions imposed on the use of these resources. Also, we determined whether E&G carryforward funds were budgeted and used in accordance with BOG Regulation 9.007.
- Evaluated University procedures for selecting collection agencies for appropriateness.
- Examined University records supporting the 10 user fees generating revenues totaling \$48 million during 2019-20 fiscal year and \$41 million during the period January 1 through June 30, 2021, to determine whether the fees were properly authorized in compliance with Section 1009.24, Florida Statutes, University policies, and BOG regulations.
- 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.
- Evaluated University policies to determine whether an ethics policy prohibiting gifts from vendors had been approved.
- 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 written in a cursive style with a large initial 'S'.

Sherrill F. Norman, CPA
Auditor General

MANAGEMENT'S RESPONSE



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January 10, 2022

Ms. Sherrill F. Norman, CPA
Auditor General's Office
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Delray Beach, FL 33445

We agree with the Auditor General's finding, and the following corrective actions have been implemented as of April 2021:

1. FAU is applying the \$5.00 service charge for short-term advances until appropriate amendments are made to Regulation 8.003 by the Board of Trustees.
2. Credits have been issued to students enrolled in Spring 2021 Term as well as students who attended FAU since the Fall 2012, who were charged the additional \$2.50 on one or more short-term advances and who still had an account balance with the University.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Desislava Angelova', written over a light blue horizontal line.

Desislava Angelova, CPA
Assistant Vice President for Financial Affairs and University Controller