AUDIT AND FINANCE COMMITTEE
Wednesday, May 26, 2010

SUBJECT: ROLL CALL AND APPROVAL OF MINUTES OF THE APRIL 21, 2010 AUDIT AND FINANCE COMMITTEE MEETING.

PROPOSED COMMITTEE ACTION

Initiate roll call to document member participation to ensure appropriate quorum numbers are achieved and to approve the minutes of the April 21, 2010 Audit and Finance Committee meeting.

COMMITTEE MEMBERS

Mr. Robert Stilley, Chair
Mr. Thomas Workman, Jr., Vice Chair
Ms. Nancy Blosser (ex-officio)
Dr. William Bryant
Mr. David Feder
Mr. Armand Grossman
Dr. Tim Lenz
Mr. Ayden Maher
Mr. Robert Rubin

BOT MEMBERS

Mr. Anthony Barbar
Dr. Jeffrey Feingold
Dr. Rajendra Gupta
Ms. Sherry Plymale
AF: A-M. Roll Call and Approval of Minutes of the February 17, 2010 Board of Trustees Audit and Finance Committee meeting.

Mr. Robert Stilley, Chair of the Audit and Finance Committee (AFC), convened this meeting at 10:12 a.m. Roll call commenced with the following Committee members, in addition to Mr. Stilley, participating: Mr. Thomas Workman, Jr., Mrs. Nancy Blosser, Dr. William Bryant (via teleconference), Mr. Armand Grossman, Dr. Timothy Lenz, Mr. Robert Rubin, and, Ms. Tiffany Weimer.

Other Trustees attending the meeting included: Mr. Anthony Barbar, Dr. Jeffrey Feingold and Ms. Sherry Plymale.

The following University officials participated: Dr. John Pritchett, Interim President; Mr. Dennis Crudele, Interim Senior Vice President for Financial Affairs; Dr. Norman Kaufman, Associate Provost; Dr. Edward Pratt, Dean of Undergraduate Studies; Mr. Morley Barnett, Inspector General; Dr. Charles Brown, Senior Vice President for Student Affairs; and, Mr. David Kian, Senior Vice President for Strategic Relations and General Counsel.

Upon call for approval of the minutes of the February 17, 2010 Audit and Finance Committee meeting, a motion was made and seconded to approve the minutes without change or correction. No discussion or further commentary followed. The motion passed unanimously.

AF: A-1. Request for Approval of a Supplemental Instruction Fee.

Dr. Kaufman addressed the Committee to introduce the Supplemental Instruction (SI) program as a nationwide-initiative developed to provide academic assistant to students enrolled in specific, historically difficult courses. It is a peer facilitated initiative, with the leaders being prior A-grade earning students, which provides regularly scheduled study sessions to enhance students’ study skills and curriculum understanding and knowledge to successful course completion.

The intent of the proposed fee is to provide firm financial backing to ensure service to all undergraduate students that could benefit from SI. This proposal requests authorization to apply a flat fee of $15, beginning in Fall 2010, to every student enrolled in approximately 26 courses offering SI. The revenue generated will pay for the program including expected increase in demand and the ability to expand program options. With budgetary reductions and resultant departmental limitations, the lack of a dedicated funding source will considerably reduced the reach of this program.
Upon introduction, Dr. Pratt, Dean of Undergraduate Studies, began a PowerPoint presentation on the program’s history, highlights and statistical accomplishments. SI began about 35 years ago the University of Missouri-Kansas City; FAU initiated a pilot program in Fall 2007 and with success has expanded program offerings. He explained that rather than traditional one-on-one tutoring, this program relies on former successful students to provide mentoring designed to enhance study skills and introduce effective strategies in learning course materials.

Mathematics courses are among the historically difficult courses at FAU and a review followed of D-F-W rates in the courses currently utilizing SI. Notable SI successes include College Algebra, Liberal Arts I and II math and Introductory Statistics courses. Other comparable data of students enrolling in SI sessions to those not participating was provided showing regular participants achieving 20 percent higher pass rates. Other benefits have included increases in first- to second-year retention rates of First Time in College (FTIC) students. Dr. Pratt concluded the presentation asserting the importance of building a culture of success among students; the understanding that failing a course is unacceptable. The University should carry its share of responsibility to this ideal and this program fulfills a portion of that obligation.

Conversations followed on issues relating to measures taken in promoting the program to faculty and students; confirmation that faculty remain availability to students; the distribution of funding at approximately $8-10 per hour to the student leaders, with the balance held in reserve for program expansion; and, the nation-wide problem of insufficient high school level training to prepare students in mastering higher education requirements. FAU instituted required mathematics placement examinations to deal with this issue.

Members were reminded that this program is targeted to undergraduates enrolled in the most difficult entry level and high enrollment courses. Additionally, students unable to attend sessions in person are also benefiting from the program through the distribution of session handouts, “office hours,” and email support.

A motion was made and seconded to recommend to the Board of Trustees approval of the request to initiate the Supplemental Instruction Fee as presented. The motion passed unanimously.

Introducing the audit portion of this meeting, Chair Stilley advised members of his request for detailed presentations providing information on all audit findings, recommendations and corrective actions initiated.

**AF: I-1a. Review of Audits: Report No. FAU 09/10-2, Employee Time Cards for the period June 27 through December 11, 2009.**

Mr. Barnett reported to members that the objective of this first-time audit was to evaluate the strength of departmental recording of non-exempt personnel payroll records including appropriate overtime documentation as subscribed by the Fair Labor Standards Act and University policies and procedures.

He explained that non-exempt personnel are hourly paid employees who are required to document actual hours worked daily, including hours worked in excess of regularly scheduled work hours, on approved university forms; supervisory approval is required and in overtime cases, pre-approval is
required.

Two recommendations for improvement were made. The first relates to timekeeping processes at the Harbor Branch Oceanographic Institute (HBOI). This entity is a recent acquisition to the University which needs and plans to convert its timekeeping processes to match those of University.

Discussion followed on the availability of more proficient means of certification, specifically, fingerprint scan technology. Mr. Barnett acknowledged familiarity with such systems but informed the Committee that implementation such systems are beyond the authorities of his office and would require feasibility studies initiated at the discretion of higher management.

The second next recommendation concerns excessive balances (over 120 hours) of compensatory overtime leave, an issue isolated to the University Police Services. Personnel turn-over and medical issues, exceptional circumstances, were the cause of this finding. With a shortfall of personnel to provide legally required numbers of law enforcement presence, available active personnel must be fill in. Police Services management continues to monitor the situation and as staffing becomes available those with excess compensatory overtime leave are required to use it.

Discussion followed where members were assured that the Police Services overtime compensatory is an isolated matter and is not a fiscal liability to the university as compensatory overtime leave is not paid time but compensatory time off.


Mr. Crudele advised members that this audit is an annual audit on the financial status of the University for the fiscal year ending June 2009. The audit revealed that basic financial reporting, including those of FAU’s component units (FAU Research Corporation/FAU Foundation) remain in compliance with prescribed reporting standards. No findings or irregular internal controls were documented.

Financial highlights include increased net assets of $79.1 million with $55.5 million of that relating to restricted Capital projects including those of HBOI. Operating revenues increased $25.1 million mainly due receipts of hurricane repair and Florida Energy System Consortium monies. Operating expenses increased $6.7 million.

No questions or commentary followed the conclusion of this presentation.


Mr. Crudele explained to members that this audit reviews compliance and controls over the state’s financial reporting and federal awards in compliance with OMB Circular A-133. Florida Atlantic University had three findings recorded.
The first related to enhancing access controls to Information Technology (IT) databases to ensure unauthorized and/or inappropriate data change capabilities are not available to any employee without demonstrated need to perform these functions. The finding dealt specifically with a ‘super’ user within the student enrollment area. In response, not only has IRM hired an Information Security Officer dedicated reviewing and updating procedures to safeguard information, but has mimicked other areas by developing a report to identify concerns/issues with Banner/Oracle access controls. This report is reviewed weekly by the Associate Provost and provides the documentation of control reviews which enable the identification of, and action on, any issues deemed necessary. This report satisfies the Auditor General’s concerns.

The second deals with Cost Accounting Standards (CAS) exemptions. CAS exemptions are used to charge indirect (institutional) costs as direct (grant costs). Background data of comparable financial exemptions claimed was provided for the period 2005-06 through 2008-09 documenting the decrease in indirect costs being charged to grants. The decrease is indicative of significant improvements to compliance with the implementation of several new procedures to better control exemptions being claimed. Principle Investigators are required to complete forms clarifying costs being charged to grants and a weekly review of those charges is performed by the Director of Research Accounting. The finding here questioned costs relating to offices supplies, postage, phone usage, etc. Some of the questioned costs remain subjective, for instance, a charge relating to the shipment of samples being sent back to the laboratory; a direct cost correlating to the grant. An inappropriately exempted membership dues charge was reversed.

The last finding is associated with after-the-fact time-and-effort payroll certification; a repeat finding. Actual time spent working on specific grant related activities must be document and then certified by the PI or another knowledgeable individual. A Time-and-Effort module has been added to the Banner System providing appropriate certifications; with system testing complete the module went ‘live’ on April 2, 2010 and delivered its first certification on April 16, 2010; satisfying this audit recommendation.

No questions or commentary followed the conclusion of this presentation.

**AF: I-1d. Review of Audits: Report No. 2010-131, FAU Operational Audit for the Fiscal Year ended June 30, 2009.**

Mr. Crudele introduced this item as a bi-annual audit of University operational functions for the fiscal year ended June 30, 2009. He then began an individual review of each of the 15 audit findings and recommendations:

**Revenues and Cash Collections:** The four repeat findings and recommendations in this category related to the * BOT adoption of a formal policy related to exemption to a statute requiring students repeating a course to pay the full course cost; the need to improve controls over collections received outside the Central Cashier’s office; the need to further enhance controls relating the OWL CARD program; and the need to improve controls over issuance and accountability of complimentary tickets for athletic events.

* Mr. Crudele explained that upon devolution from the Board of Regents (BOR) in 2003 and the BOG’s adopted the existing BOR policy, it was erroneously believed no further a direct
action was required related to this police. A regulation is currently being crafted for presentation and approval of the BOT Committee on Academic and Student Affairs in the near future.

Procurement of Goods and Services. The three findings in this category relate to the lack of timely approval of expenses by Student Government; the failure to provide timely approval and payment of Purchasing Card charges and lack of adequate monitoring of credit limits and timely cancellation of former employee cards; and the need to enhance controls over cellular telephone usage.

Risk Management. This partial repeat finding advises the need to improve procedures for determining insurable values for buildings.

Independent real estate appraisers have completed appraisals on all buildings on all campuses to determine actual cash value (ACV). Updated Certificates of Insurance have been submitted to the Division of Risk Management using the ACV to determine insurable values of building reported on the certifications reported to the state.

Personnel and Payroll Administration. The University needs to ensure that annual employee performance appraisals are prepared in a timely manner.

Record Systems and Reports. One repeat finding relates to the * failure of FAU BOT members to timely file statements of financial interests with the Florida Commission on Ethics. A new finding addresses the need to enhance policies and procedures to ensure statutory requirement to the timely posting of a complete textbook listings on the University’s Web site.

* The requirements of the FL Commission on Ethics are now included within new Trustee Orientation.

Pharmaceutical Operations. This repeat finding recommends further improvements to records and control procedures relating to pharmaceutical inventory.

Student Affairs continues to refine procedures and new key staff will soon be employed designed to render more proficient managerial control. Other options under consideration include are out-sourcing pharmacy functions, which is unpopular with students. In addition, low interest has been received while researching outsourcing options as a result of the low volume; a physical relocation could eliminate that issue. Dr. Brown has advised staff of the goal of improved operations within 2-3 years or the pharmacy would be closed.

Upon query, confirmation was provided to the presence on-campus of Schedule 2 narcotics which are stored in a controlled, secure location.

Tangible Personal Property. This category had two repeat findings related to the need for improvement of procedures relating to investigating missing tangible personal property and to procedures relating to ensuring prompt reporting of property dispositions.

Acknowledging the considerable value of university property, query was posed on what property controls and inventory procedures are used. Members were informed that for all
items with a value over $1,000 an inventory number is produced, inscribed on a tag and affixed each piece of property. An annual inventory is initiated with each piece being physically located and scanned as formal inventory control documentation. Each department purchasing property is responsible for maintaining accountability over the property.

Concern was expressed on the lack of control on items under $1,000. In response, members were informed that the Chief Financial Officer of the State of Florida sets the standards to property and inventory tracking requirements; FAU conforms to those standards.

**Information Technology.** A repeat finding on the need for improving the security controls within the financial application and supporting information technology environment.

For each of the findings and recommendations presented (with exceptions noted previously), Mr. Crudele explained the actions initiated that in most cases required administrators to refine policies and procedures, initiate new and corrective employee training programs, and the reassignment of supervisory duties to ensure troublesome issues relating to certification requirements, timely responses, and separation of duties are better handled.

Chair Stilley expressed deep concern on the number of repeat recommendations being made and the lack of consequence to continuing compliance failure; management was directed to take action to ensure future compliance.

**AF: I-2. Update on the Status of the FAU Stadium Project.**

Mr. Kian began review of the stadium project progress advising that it remains on track and moving forward to build this 30,000 seat open-air facility on the Boca Raton campus.

A review followed on the Invitation to Negotiate (ITN) processes implemented to retain the services of an architect/engineer, construction manager, financial advisor, and a feasibility consultant. Mr. Kian noted the significant progress made these past years on the conceptual design and plan development. Additionally, FAU directly retained the services of a developer which meets the BOT mandate of University control over the stadium project; a key difference to the processes utilized in development of the Innovation Village Housing (IVH) project. With these key elements and functions on tract, upon approval of financing plan this summer FAU will be ready and construction can begin in July 2010 enabling use of the stadium in September 2011.

This project proposes a $62 million construction budget and $74 million project budget. The financing plan will contain two principle funding sources with $12 million coming from the revenues of IVH ground lease. Members were informed that approximately one-half of the $12 million IVH revenues are covering the cost of shared infrastructure elements of all the physical components of the Innovation Village Project including housing, the stadium, and retail space. These elements include site clearance, electric ducts, water, sewer, roadways, etc. Use of the other one-half must meet a BOG-established requirement, known as the functional relationship test, for the use of funds from one auxiliary entity (Housing) to financially support another auxiliary entity (Stadium). University staff has been working with BOG staff in developing a functional relationship
plan to satisfy this requirement and is confident of acquiring approval. A workshop for the university-system is being held in May relative to functional relationship requirements.

Concurrent to the development of the functional relationship plan, has been development of a financial plan to address the $62 million balance needed for the construction of the stadium. An ITN was released by the University to financial institutions covering all components of the $62 million. A selection committee reviewed the proposals received and this week made a recommendation to choose one of the banking institutions. Mr. Kian noted that because this ITN is in a period referred to as Notice of Intent, which is a period in which challenges to the selection can be submitted, more specific information regarding details within the selected proposal cannot be disseminated currently.

Mr. Kian did allow that FAU’s financial advisor was active in all session relative to proposal review and analysis and was comfortable that the terms are reasonable as provided by the ‘noticed’ institution. Additionally, common elements all the proposals received provided financing as a direct bank loan being issued by a syndicate of financial institutions. A lead institution will be responsible for working with FAU to identify multiple other components into the financing stream. In the end, financing the stadium will require this syndicate of financial institutions, donor commitments and possible support from the Florida Atlantic University Foundation, Inc.

Once past the challenge period with a lead bank identified, the next month will be used to refine negotiations, assemble the syndicate, and prepare a package for review and approval by this committee at its May meeting.

No questions or commentary followed the conclusion of this presentation.

**AF: I-3: Review of the Revised 2010 Work Plan for the Audit and Finance Committee.**

Mr. Crudele explained that since the initial review of the 2010 AFC Work Plan in February, it has become necessary to revise the plan to add an additional Committee meeting prior to the regularly scheduled Board meeting on May 26, 2010. This addition is necessary to satisfy the BOG requirement of BOT approval, and submission, of FAU’s proposed 2010-11 Differential Tuition to the BOG on May 27, 2010. At the directive of this Committee, and in keeping with past practice, it becomes prudent to put forth proposed 2010-11 tuition and other fee increase requests concurrently.

General approval of this addition to the Work Plan was provided.

**AF: I-4. Update on 2010-11 Legislative Appropriations and FAU Budget Construction Process.**

Mr. Crudele spoke of the on-going Legislative appropriation discussions. Earlier this month the Senate and House released their proposed appropriations bills which have now gone to Committee. University administration continues to analyze tentative appropriations as they are received. To date it appears a slight decrease in appropriations will come to pass; current hope is the Senate plan prevails. Mr. Crudele discussed the effect of legislative language on tuition, differential tuition, Bright Futures and implications therein. It is believed the Legislature will authorize an eight percent
increase to tuition, allowing University BOT to increase differential tuition by seven percent (with 30 percent of that mandated to financial aid).

This year budget construction is difficult without appropriation figures; unlike this time last year appropriations were known. Regardless, state educational institutions must initiate the 2010-11 budget construction processes now and are using educated estimates to do so. Both academic and non-academic units are developing four percent reduction scenarios for possible new year reductions and/or to address the future loss of the non-recurring stimulus funding.

The President has initiated a Budget Forum to keep the University community apprised of budget issues and planning continues to identify means of reducing FAU’s operating budget. Many options are being explored including possibilities of voluntary separations, voluntary reduced summer hours, restructuring, etc.

General discussion followed the conclusion of this update focusing on SUS-wide plans to address coming reductions. System-wide planning initiatives have been shared with each response varying to reflect prior actions initiated institutionally. FAU’s priority has been to maintain and/or increase credit hour production. Other university priorities differed and each is planning appropriately to their individual institutional needs. Some had initiated more use of carry forward funding, some had significant lay-offs, others voluntary separations, etc. Each initiative has generated differing future reduction/planning requirements.

Other initiatives under investigation are in increasing revenues; not just cutting. A Task Force is exploring growth areas including distance learning and increasing out-of-state recruiting efforts.

With no other discussion items put forth, a motion was made and seconded to adjourn this meeting. **The motion passed unanimously.** The meeting was adjourned at 11:48 a.m.