

**STATE OF FLORIDA AUDITOR GENERAL**

**Operational Audit**

Report No. 2019-206  
April 2019

**FLORIDA ATLANTIC UNIVERSITY**



Sherrill F. Norman, CPA  
Auditor General

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During the period January 2017 through December 2017, Dr. John W. Kelly served as President of Florida Atlantic University and the following individuals served as Members of the Board of Trustees:

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<sup>a</sup> Faculty Senate President.

<sup>b</sup> Student Body President.

The team leader was Qianxin Liang, CPA, and the audit was supervised by Diana G. Garza, CPA.

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# FLORIDA ATLANTIC UNIVERSITY

## **SUMMARY**

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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. 2016-134. Our operational audit disclosed the following:

**Finding 1:** University textbook affordability procedures continue to need improvement.

**Finding 2:** The University did not have a mechanism for exempt employees to report time worked and needs to implement procedures requiring supervisors to document the review and approval of such time.

**Finding 3:** University rules and records supporting University property, facilities, and personal services provided to University direct-support organizations could be improved.

## **BACKGROUND**

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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.

## **FINDINGS AND RECOMMENDATIONS**

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### **Finding 1: Textbook Affordability**

State law<sup>1</sup> requires universities to post prominently in the course registration system and on its Web site, as early as feasible, but not less than 45 days before the first day of class for each term, a hyperlink to lists of required and recommended textbooks and instructional materials for at least 95 percent of all courses and course sections offered at the university during the upcoming term. According to University personnel, the University contracted with a vendor to manage and operate the University Bookstore. Textbook and instructional material information is simultaneously updated on the University course registration system and University Web site once faculty members submit their course materials through the University's online course adoption system.

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<sup>1</sup> Section 1004.085(6), Florida Statutes.

Our examination disclosed that the textbook and instructional materials for 750 (26 percent) of the 2,909 course and course sections for the Fall 2017 Semester were posted an average of 20 days late. As the University only timely posted the textbooks and instructional materials for 2,159 (74 percent) of the 2,909 course and course sections for the Fall 2017 Semester, the University did not comply with the State law requiring such information be timely posted for at least 95 percent of the courses.

In response to our audit inquiry, University personnel indicated that the information was untimely adopted because it was changed or added after the deadline due to extenuating circumstances such as medical emergencies or curricular modifications or because the University Bookstore did not timely record the adoptions. The timely posting of required textbook and instructional materials information on the University course registration system and University Web site is necessary for students to understand course textbook requirements, have sufficient time to consider textbook purchase options, and potentially limit their textbook costs. A similar finding was noted in our report No. 2016-134.

**Recommendation: The University should ensure that a hyperlink to lists of required and recommended textbooks and instructional materials for at least 95 percent of all courses and course sections offered at the University during the upcoming term is prominently posted in the course registration system and on its Web site, as early as feasible, but at least 45 days before the first day of class for each term.**

## **Finding 2: Payroll Processing – Time Records**

Effective internal controls require that time records document the time worked and leave used by employees and also require supervisory approval of such time to ensure that compensation payments are appropriate and leave balances are accurate. The University pays exempt employees (e.g., full-time faculty and administrative personnel) on a payroll-by-exception basis whereby employees are paid a fixed authorized amount for each payroll cycle unless the amount is altered. A payroll-by-exception methodology assumes, absent any payroll action to the contrary, that an employee worked or used available accumulated leave for the required number of hours in the pay period.

During the 2017 calendar year, the University reported salary costs of \$237.4 million for exempt employees (excluding the President). According to University personnel, exempt employees record their leave requests in the University information technology (IT) system and submit the requests to supervisory personnel for documented review and approval. On the last day of the bi-weekly pay period, a time report listing the exempt employees and a detail of their defaulted contracted and leave hours is sent to the managers to evaluate. Any required edits as a result of the evaluation are provided to the Human Resources or Payroll Department. However, according to University personnel, supervisors are not required to certify on the time reports or other University records their review and approval of exempt employee time worked.

University personnel indicated that the payroll process has been an accepted method since May 2015. Notwithstanding, absent records documenting supervisory review and approval of exempt employees' time worked, there is limited assurance that exempt employee services were provided consistent with the Board's expectations. In addition, there is an increased risk that exempt employees may be incorrectly compensated and have inaccurate leave balances, and University records may not be sufficiently detailed in the event of a salary or leave dispute.

**Recommendation: The University should implement procedures requiring supervisors to document the review and approval of exempt employee time worked.**

**Follow-Up to Management’s Response**

Management’s response states that “it is the University’s position that the reports and the business processes within the ERP system provide the highest and necessary safeguards and controls to ensure employees, based on their work hours and approved leave hours, are properly paid.” Notwithstanding this response, given the University’s responsibility to monitor exempt employee services and the significant costs totaling \$237.4 million associated with these services for the 2017 calendar year, records of attendance and time worked by these employees, reviewed and approved by applicable supervisors, provide additional assurances that the services provided by the employees and compensated by the University were consistent with the Board’s expectations.

**Finding 3: Direct-Support Organizations**

To promote accountability over University property, facility, and personal services use, it is important that public records prescribe the conditions for such use, document appropriate approval before the use occurs, and demonstrate appropriate use. Such records help document authorization for the use, demonstrate the reasonableness of the value associated with that use, and enhance government transparency.

State law<sup>2</sup> provides that a direct-support organization (DSO) is organized and operated exclusively to receive, hold, invest, and administer property and to make expenditures to, or for the benefit of the University. Additionally, State law<sup>3</sup> authorizes the Board of Trustees (Trustees) to permit the use of University property, facilities, and personal services by a DSO, and requires the Trustees to prescribe by regulation any condition with which a DSO must comply for such use.

The Trustees approved the Florida Atlantic University Foundation, Inc. (FAUF), the Florida Atlantic University Research Corporation, Inc. (FAURC), the Harbor Branch Oceanographic Institute Foundation, Inc. (HBOIF), and the Florida Atlantic University Finance Corporation (FAUFC) as DSOs and these organizations routinely provide supplemental resources and education support services to the University. Trustees regulations<sup>4</sup> and the memorandum of understanding (MOU) between each DSO and the University establish certain annual requirements for each DSO. According to University personnel, the HBOIF did not use any University property, facilities, or personal services during the 2017 calendar year; however, the University provided personal services with related costs totaling \$4.5 million to the three other DSOs and two of those DSOs reimbursed \$188,426 to the University for these costs. Table 1 details the University expenses related to the personal services provided to the DSOs and the related DSO reimbursements for the 2017 calendar year.

<sup>2</sup> Section 1004.28(1)(a), Florida Statutes.

<sup>3</sup> Section 1004.28(2)(b), Florida Statutes.

<sup>4</sup> Regulation 6.013, *University Direct Support Organizations*.

**Table 1**  
**University Expenses Related to Personal Services Provided to DSOs**  
**For the Calendar Year Ended December 31, 2017**

	FAUF	FAURC	FAUFC	Totals
<b>DSO Fiscal Year Ended December 31, 2017:</b>				
Number of University Employees Providing DSO Services	107	4	5	<b>116</b>
Personal Services Expenses	\$4,311,309	\$53,621	\$ 149,571	<b>\$4,514,501</b>
Personal Services Expenses Reimbursed by DSO	(76,501)	-	(111,925)	<b>(188,426)</b>
Net Personal Services Expenses	<u>\$4,234,808</u>	<u>\$53,621</u>	<u>\$ 37,646</u>	<u><b>\$4,326,075</b></u>

Source: University records.

University personnel indicated that certain University employees provided 5 to 100 percent of their time and effort on FAUF, FAURC, and FAUFC activities. However, although we requested, University records, such as personnel activity reports, were not provided to demonstrate that personal services costs related to the work effort of University employees who worked less than 100 percent on DSO activities were appropriately distributed among specific University and DSO activities. In addition, the University did not execute Trustees-approved agreements or maintain other University records to evidence the basis for the DSO reimbursements.

In response to our inquiries, University personnel indicated that the benefits, including the scholarships, grants, gifts, and pledges received by the University from the DSOs totaled over \$80 million during the 2017 calendar year, which far exceeded the costs of the University personal services provided. However, without records to account for the work effort of University employees who worked less than 100 percent on DSO activities and records to evidence the basis for DSO reimbursements, accountability for University personal services costs are limited and there is an increased risk for misunderstandings between the Trustees and DSOs and for over or under reimbursements to occur.

In addition, University personnel indicated that the University provided to the FAUF equipment with an estimated value of \$8,941 and 9,893 square feet of facilities space with an estimated value of \$70,931 during the 2017 calendar year and that the FAUF has been utilizing University space since its inception in 1960. University personnel also indicated that, based on the MOU between the HBOIF and the University, the University provided to the HBOIF 888 square feet of facilities space with an estimated value of \$8,187 during the 2017 calendar year and the University agreed to provide the HBOIF with mutually agreeable temporary facilities space until such time as the HBOIF obtains a permanent home. However, University records did not evidence that the Trustees preapproved the value of facilities space use before the DSO use occurred.

Although the University regulations and MOU between each DSO and the University establish certain requirements of DSOs, University records associated with DSO use of University personal services, property, and facilities could be improved by obtaining:

- The Trustees' approval of the anticipated DSO use and the estimated value of the associated University resources before the use occurs.
- Confirmations and other documentation from DSO management affirming that University resources were used only for purposes approved by the Trustees.

Approvals by the Board of Trustees and documentation affirming the actual use of University resources would provide additional assurance that DSO use of University resources is consistent with the Trustees' intent and enhance transparency for such use.

**Recommendation: We recommend that:**

- **The University document University employee actual time and effort provided to the DSOs to support the purpose for and value of such services and the distribution of applicable personal service costs among specific University and DSO activities for employees who work on more than one activity.**
- **The Trustees enter into agreements with DSOs to establish the basis for any DSO reimbursements.**
- **The University document the Trustees' consideration and approval of DSO anticipated use of University resources, at least on an annual basis, before the use occurs. To enhance government transparency, Trustees-approved documentation should identify the positions of the employees who will provide personal services, the square footage of the office space and related buildings that will be used by the respective DSOs, and the value of such use.**
- **The University obtain confirmations and other documentation from DSO management affirming that University resources were used only for purposes approved by the Trustees.**

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

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Except for Finding 1, which was also noted in report No. 2016-134 as Finding 1, the University had taken corrective actions for findings included in that report. Deficiencies similar to those noted in Finding 1 were also noted in prior audit report No. 2014-045 as Finding 1.

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

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

We conducted this operational audit from February 2018 through September 2018 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.

- Determine whether management had taken corrective actions for findings included in our report No. 2016-134.
- 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 January 2017 through December 2017 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 University information technology (IT) policies and procedures to determine whether the policies and procedures addressed certain important IT control functions, such as security, systems development and maintenance, and disaster recovery.
- Evaluated University procedures for protecting student social security numbers (SSNs). From the population of 152 employees who had access to student SSNs during the audit period, we selected 30 employees and examined University records supporting the access privileges granted to determine the appropriateness and necessity of the access privileges based on the individuals' assigned job responsibilities.

- Evaluated University security policies and procedures effective during the audit period governing the classification, management, and protection of sensitive and confidential information.
- 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 written, comprehensive IT risk assessment had been developed for the audit period to document University risk management and assessment processes and security controls intended to protect the confidentiality, integrity, and availability of data and IT resources.
- Examined Board of Trustees (Trustees) and committee board meeting minutes and other records to determine whether the Trustees approval was obtained for the University 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).
- Examined University records for the audit period to determine whether the University informed students and employees at orientation and on its Web site of the existence of the Florida Department of Law Enforcement sexual predator and sexual offender registry Web site and the toll-free telephone number that gives access to sexual predator and sexual offender public information as required by Section 1006.695, Florida Statutes.
- Reviewed the internal audit function to determine whether the University followed professional requirements and provided for peer review of reports issued. We also determined whether audit reports were properly completed and submitted to the Trustees.
- Examined University records to determine whether the University had developed an anti-fraud policy 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.
- Reviewed University records supporting 63 payments and transfers, totaling \$37.9 million made during the audit period from the University to its direct-support organization, to determine whether the payments and transfers were as described in by Section 1004.28(1)(a)2. and (2), Florida Statutes.
- Examined University records to determine whether the Trustees had prescribed by rule, 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 and related costs provided to the DSOs.
- Reviewed the 14 bank account reconciliations for the audit period to determine whether the reconciliations were accurate, timely, and evidenced supervisory approval.
- Reviewed the University's Public Depositor Annual Report to the State's Chief Financial Official for the period ended September 30, 2017, to determine whether the University complied with the requirements of Section 280.17, Florida Statutes.
- From the population of contracts and grants receivables totaling \$12.9 million at June 30, 2018, examined University records supporting 40 selected receivables recorded at June 30, 2018 totaling \$5.1 million to determine the validity of the receivables and the accuracy of the receivable amounts.
- Evaluated whether the University had adequate procedures during the audit period to award the Latin American and Caribbean Scholarship in compliance with the Florida Board of Governors Regulation 7.007.

- Evaluated University policies and procedures to ensure student refunds were properly processed and adequately supported.
- From the population of 1,585 distance learning courses which generated fee revenues totaling \$4.2 million during the 2017-18 fiscal year, examined University records for 30 selected courses to determine whether distance learning fees were assessed, collected, and separately accounted for and retained by the University in accordance with Section 1009.24(17), Florida Statutes.
- From the population of 10,690 textbooks adopted for 5,970 course sections offered during the audit period, examined University records to determine whether the University's textbook affordability procedures complied with Section 1004.085, Florida Statutes.
- Examined University policies, procedures, and related records for the audit period to determine whether the records documented the supervisory review and approval of time worked and leave used by exempt employees.
- From the population of compensation payments totaling \$275.7 million during the audit period, selected payments totaling \$66,177 made to 30 employees and examined University records to determine the accuracy of the rate of pay, the validity of employment contracts, whether performance evaluations were completed, and accuracy of leave records.
- Evaluated University policies and procedures for payments of accumulated annual and sick leave (terminal leave pay) to determine whether the policies and procedures promoted compliance with State law and University policies. Specifically, from the population of 312 employees who were paid \$2.2 million for terminal leave during the audit period, we selected 30 employees with terminal leave payments totaling \$888,775 and examined the supporting records to determine compliance with Section 110.122, Florida Statutes, and University Policy 7.5.
- From the population of 23 employment contracts, examined severance pay provisions in 14 employee contracts to determine whether the provisions complied with Section 215.425(4)(a), Florida Statutes.
- Examined University records for 15 administrative employees (including the President) who received compensation totaling \$5.4 million during the audit period, to determine whether the amounts paid did not exceed the limits established in Sections 1012.975(3) and 1012.976(2), Florida Statutes.
- Through inquiry with University personnel and examination of University records, determined whether the University had procedures for reconciling health insurance costs to employee and Trustees-approved contributions.
- Examined University records to determine whether selected expenses were reasonable, correctly recorded, adequately documented, for a valid University purpose, properly authorized and approved, and in compliance with applicable laws, rules, contract terms, and University policies. Specifically, from the population of expenses other than salaries and related benefits totaling \$185.6 million for the audit period, we examined University records supporting:
  - 36 selected payments for general expenses totaling \$258,662.
  - 31 selected payments for contractual services totaling \$1.8 million.
- From the population of 46,229 purchasing card (P-card) transactions totaling \$12.1 million during the audit period, examined University records supporting 30 selected P-card transactions totaling \$64,057 to determine whether the P-card program was administered in accordance with Trustees policies and University procedures and transactions were not of a personal nature.
- From the population of 100 employees whose P-cards were canceled during the audit period, examined University records for 28 selected employees, including 23 employees who separated from University employment during the audit period, to determine whether the University timely canceled the cardholders' P-cards.

- From the population of President and Trustees travel expenses totaling \$28,425 during the audit period, examined 21 selected travel reimbursements totaling \$14,251 to determine whether the travel expenses were reasonable, adequately supported, for valid University purposes, and limited to amounts allowed by Section 112.061, Florida Statutes.
- Reviewed documentation related to three construction projects with contract amounts totaling \$4.9 million and in progress during the audit period to determine whether the University process for selecting design professionals and construction managers was in compliance with State law and adequately monitored the selection process of subcontractors; the Trustees had adopted a policy establishing minimum insurance coverage requirements for design professionals; and design professionals provided evidence of required insurance.
- From the population of 279 payments totaling \$100,896 during the audit period to employees for other than travel and compensation, examined 30 selected payments totaling \$47,975 to determine whether such payments were reasonable, adequately supported, for valid University purposes, and whether such payments were related to employees doing business with the University, contrary to Section 112.313(3), Florida Statutes.
- 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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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.



Sherrill F. Norman, CPA  
Auditor General

# MANAGEMENT'S RESPONSE

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April 5, 2019

To: Diana Garza

From: Stacey Bell, CPA

Re: 2017 Operational Audit Management Response

## Textbook Affordability

**Management's Response:** The University has implemented multiple measures to ensure compliance with state law. On November 16, 2016 the university amended FAU regulation 3.004 *Textbook Instructional Materials Affordability* to align with FL Board of Governors Regulation 8.003 and Florida Statute 1004.085. The university regulation stipulates that textbooks and instructional materials shall be adopted and submitted to the university bookstore no later than 60 days prior to the first day of classes.

In addition to the implementation of FAU regulation 3.004, in fall 2017 the University formed the Textbook Adoption Compliance Committee which is led by the Provost's Office and comprised of faculty members, administrators, and university bookstore management. The committee's charge is to ensure compliance with the 60 day posting deadline and also works to increase communication between faculty members and the university bookstore.

In response to the audit finding regarding adoptions for fall 2017, the university has directly addressed textbook adoption changes and adoptions that have been submitted to the bookstore after the posting deadline since that time. This issue affected 202 course sections in fall 2017 who were initially compliant with state law but had 1 or more changes to existing adoptions or late adoptions that caused the course sections to be non-compliant. In fall 2018, the University implemented a new electronic system to track all adoptions that are submitted to the university bookstore after the posting deadline. Adoptions that are submitted after the deadline are required to receive departmental and college approval before the adoption can be processed by the university bookstore. This new procedure seeks to minimize the number of course sections that have late textbook adoptions and invites faculty members to consider other alternatives such as Open Educational Resources (OER) that will be provided to students at no-cost.

The University is working closely with our new bookstore vendor to ensure textbook adoptions are properly recorded. The university is working in step with faculty members and our bookstore vendor to ensure that adoptions are submitted in timely fashion by the 45-day threshold and that students have the most accurate textbook and instructional materials information available to them on the university website.

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### **Payroll Processes**

Management disagrees this is an audit finding. The university has not violated any statutes, regulations or policies concerning its payroll process. The university maintains the highest internal controls with regard to payroll. In 2015, the University implemented a new ERP system, Workday. As technology has advanced, there is less of a need for paper. It is the University's position that the reports and the business processes within the ERP system provide the highest and necessary safeguards and controls to ensure employees, based on their work hours and approved leave hours, are properly paid. This best practice recommends that the University step back in technology and go back to a paper process. One of the key members of the implementation, committee was the Inspector General. He ensured that each process in the new ERP system adhered to internal controls. Finance worked closely with the Inspector General on the timekeeping approval process. The process, utilizing the concept of negative assurance, was fully reviewed and approved by FAU's Inspector General as documented by his approval via email on May 8, 2015.

### **DSO**

The University will obtain Board of Trustee approval for the anticipated use of University resources, space and personnel by our Direct Support Organizations (DSO's). The University will revise current policy to require DSO's to annual certify resources consistent with the mission, vision and values of the University. In addition, the University will annual obtain Trustee approval of actual resources provided to the DSO's.