



Item: AF: A-M

## **AUDIT AND FINANCE COMMITTEE**

**Wednesday, June 10, 2009**

**SUBJECT: ROLL CALL AND APPROVAL OF MINUTES FOR THE APRIL 15, 2009 BOT  
AUDIT AND FINANCE COMMITTEE MEETING.**

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### **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 15, 2009 Audit and Finance Committee meeting.

### **COMMITTEE MEMBERS**

Mr. Robert Stilley, Chair	_____
Mr. Thomas Workman, Jr., Vice Chair	_____
Mr. Scott Adams (ex-officio)	_____
Ms. Nancy Blosser (ex-officio)	_____
Dr. William Bryant	_____
Mr. David Feder	_____
Mr. Armand Grossman	_____
Mrs. Lalita Janke	_____
Dr. Tim Lenz	_____
Ms. Tiffany Weimer	_____

### **BOT MEMBERS**

Mr. Anthony Barbar	_____
Dr. Rajendra Gupta	_____
Mrs. Sherry Plymale	_____



**DRAFT MINUTES**  
**AUDIT AND FINANCE COMMITTEE**  
**Wednesday, April 15, 2009**

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**AF: I-M. Roll Call and Approval of the Minutes of the February 25, 2009 BOT Audit and Finance Committee meeting.**

Mr. Bob Stilley, Chair of the Audit and Finance Committee, convened this meeting at 11:45 a.m. Roll call commenced with the following Committee members participating: Mr. Thomas Workman, Jr., Mr. Scott Adams (ex-officio), Ms. Nancy Blosser (ex-officio), Dr. William Bryant, Mr. Abraham Cohen, Mr. David Feder, Mr. Armand Grossman, Ms. Lalita Janke (via teleconference), and Dr. Eric Shaw.

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

The following University officials participated: Mr. Frank T. Brogan, President; Dr. Kenneth A. Jessell, Senior Vice President for Financial Affairs; Ms. Jill Eckardt, Director-University Housing and Residential Life; Mr. Morley Barnett, Inspector General; Mr. Craig Angelos, Director of Athletics; Mr. Glenn Thomas, Assistant Dean, PK-12 Schools and Programs; and Mr. David Kian, Senior Vice President for Strategic Relations and General Counsel.

Upon call for approval of the February 25, 2009 minutes, a motion was made and seconded to approve the minutes without change. No discussion or comment followed. **The motion passed unanimously.**

Chair Stilley then advised the Committee that since this meeting had convened later than intended the agenda would be reviewed out of sequence to accommodate presenter schedules. Additionally, a recess would be required to accommodate the noon lunch workshop with Broward College Board of Trustees. The minutes reflect this change in sequence.

**AF: I-1c. Review of Audits: Report No. 2009-121, FAU Financial Audit for the Fiscal Year Ended June 30, 2008.**

Dr. Jessell advised that the scope of this audit was an examination and understanding of the University's basic financial statements for the fiscal year ended June 30, 2008 and noted the unqualified opinion of the state auditor. Result comparisons between 2007 and 2008 are difficult with the inclusion for the first time of the acquisition of Harbor Branch Oceanographic Institute (HBOI). The changes in assets and operating revenues and expenditures match with the acquisition of the assets of HBOI.

The university is required to operate within budget, so with state appropriations fluctuating Florida Atlantic University's operating budget is adjusted accordingly. The university remains financially healthy, although not robust. Upon noting the financial highlights provided in the back-up materials and requesting questions, Dr. Jessell concluded his presentation.

**AF: I-1d. Review of Audits: Report No. 2009-144, State of Florida Compliance and Internal Controls Over Financial Reporting and Federal Awards In Accordance With OMB Circular A-133 for the Fiscal Year Ended June 30, 2008.**

As a condition of receiving Federal funds, the U.S. Office of Management and Budget (OMB) requires an audit of the State of Florida's financial statements and Federal awards programs. Dr. Jessell emphasized the statewide nature of this audit and noted positively the exclusion of Florida Atlantic University (FAU) from the executive summary portion where significant issues are recognized. Nevertheless three findings were documented and noted as:

- Return of Title IV Higher Education Act Funds--Unofficial Withdrawals: Associated with documenting and reporting student attendance to ensure timely and appropriate return of aid funds upon student withdrawal.
- Student Status Changes--National Student Loan Data System Roster Files: Related to the late reporting of students' minimally required half-time enrollment status which is essential to receipt of student loans.
- Allowable Cost/Cost Principles--Time and Effort Reporting: Connected to required documentation of time that faculty 'actually work', not estimated time worked, on various federal contracts and grants.

Dr. Jessell explained the details of the findings, the completion of the student status changes, the difficulties in addressing the other two findings, and the steps the university has or will be implementing to improve and/or correct these issues for compliance.

Discussion followed on the use of the Faculty Academic Information Reporting (FAIR) system for time and effort reporting. Dr. Jessell clarified that the FAIR system is associated with state funding requirements rather than federal grant funding although the concept is the same. To comply with this requirement, faculty would need time clocks available to record every minute spent dedicated to contract/grant objectives. In this case, because absolute time is not accounted for, the audit refers to the reporting as questionable costs, not that the costs are invalid. This is a recurring finding and compliance review continues. Assurance was provided that should a granting agency request further information, the university believes sufficient documentation is available to support the costs reported.

**AF: I-2. Review of the Florida Atlantic University Research Corporation, Report of Audit of Financial Statements for the Year Ended June 30, 2008.**

Dr. Jessell reminded Members that the Research Corporation is one of two component units of FAU. It was established in 1990 as a not-for-profit for the development, protection and commercialization of defined intellectual property at the university. The operating revenue is approximately the same as prior year with total income at \$1.5 million. It was an unqualified audit with no significant findings or adjustments.

Upon query, confirmation was provided to Members that in the future, the financial statement audits of the newly established HBOI Foundation will be presented to them as they are prepared.

### **Budget Update (Unscheduled)**

In an effort to keep the Committee as informed as possible, Dr. Jessell advised that currently the Senate and House are finalizing their deliberations and are expected to vote Friday on their respective budgets. He provided two documents to Board members (**See ATTACHMENT A**). The first reflected the original BOT approved 2008-2009 FAU Operating Budget with changes/reductions to the budget which forms the base for FAU's 2009-2010 FAU Operating Budget. This document also provides comparative information of the projected reductions and new funding in the Senate and House budgets as well as summaries of how each would affect FAU's 2009-2010 Operating Budget.

These budgets are not good. In addition to the \$7 million already taken during fiscal year 2008-2009, the Senate and House include an additional \$1.7 million reduction to offset the Lottery funding received last year. These two reductions total almost \$9 million to the 2008-2009 FAU's General Revenue budget.

Fiscal year 2009-2010 is a major concern. The Senate has a reduction of \$19.6 million in General Revenue, or 12 percent of FAU's remaining General Revenue budget. Dr. Jessell noted this as the better budget since the House has FAU's reduction at \$37 million or 25 percent. He emphasized that some of the funding being received, i.e. health insurance and Plant Operation and Maintenance, are flow-through dollars. We receive exactly what we will pay which equates to no new or additional dollars.

Dr. Jessell then reviewed the second document providing a straight summary of the projected total reductions and increases including stimulus, lottery, gaming, tuition increases, and tuition differential funding. He noted the approximate \$12 million federal stimulus funding both the Senate and House are relying on to offset education reductions. These are *non-recurring* funds being used to offset *recurring* expenses. Additionally, the Senate includes \$5.7 million in new revenue from the Indian Gaming Program; this is a funding source that has not been well received by the House.

Some offsets exist in university reserves set aside during the 2008-09 fiscal year. Even with these offsets, additional reductions of at least \$11.5 million in the Senate or \$33.3 million in the House will occur to FAU's General Revenue budget. This includes the stimulus funding.

Going forward long-term, this budget reflects a \$23 million *recurring* reductions in the Senate and \$45 million *recurring* reductions in the House.

Dr. Jessell then reviewed estimated revenues to the base associated with a tuition increase to undergraduate in-state students and the implementation of tuition differential increase. The amounts estimated by the Legislature are based on the tuition differential being applicable to all students. It is known, however, that students in continuous attendance since July 1, 2007 and those on the Florida Pre-paid Programs purchased prior to that date are exempt from the tuition differential increase. For the purpose of illustration the calculations on the attachment provided use a 13 percent differential increase, minus an anticipated 30 percent of that increase mandated to need-

based aid. FAU is still subject to net 2009-10 General Revenue reductions of \$6.2 million per the Senate budget and \$25.6 million per the House budget.

Dr. Jessell reiterated that while discussion of an up to 15 percent tuition increase sounds promising, the reality of the actual funding to be received is minimal and therefore will not counteract the General Revenue reductions. In addition, stimulus funding is also promising, but it is *non-recurring* funding. Under the best case scenario of the Senate budget, Florida Atlantic University would still see an approximate \$12 million as the long-term recurring reductions. Assuming results of the Legislative Conference split the difference between the Senate and House budgets, FAU would realize a reduction of \$17 million recurring funds plus the \$12 million in stimulus funds to total an almost \$30 million recurring reduction to the General Revenue budget. This is the largest reduction ever faced by the University in a one year period.

Dr. Jessell concluded this update assuring Members that the administration is being proactive in addressing these issues. Updated Legislative budget development would be forwarded as it is received.

Chair Stilley called for a motion to recess the meeting for lunch. A motion was made and seconded. **The motion passed unanimously. The meeting was recessed at 12:15 p.m.**

Chair Stilley reconvened the meeting at 2:11 p.m. Note: Agenda items were again taken out of sequence to accommodate presenter schedules. The minutes reflect this change in sequence.

#### **AF: I-4. Review Proposal to Increase Housing Rental Rates.**

Ms. Jill Eckardt began the presentation noting the passage of two years since an increase in housing rental rates had been requested. Reviewing a PowerPoint presentation, Members were informed of the significant increase in demand for residential housing and of the waiting lists that currently exist. Additional information was provided on recently completed improvements including a \$2.3 million renovation to the University Village Apartments, and of the \$1 million in projects planned for 2009-10 to implement energy conservation measures, chiller replacements and continuing technology upgrades.

The budget development process began in November and was based on a 95 percent occupancy level. In January, the proposed increases were reviewed with the Boca Raton and Jupiter Residence Hall Associations who provided their support for the increases. The requested rate increases range from two percent for double rooms to five percent for single rooms for the 2009-10 academic year. Ms. Eckardt presented a detailed schedule of rates for the various unit types available. Housing and Residential Life is an auxiliary entity that must maintain positive cash flow and meet minimum debt service coverage as required under bond covenants. The projected income of \$496,414 provided by this increase will support salaries, benefits and the continually increasing costs of utilities, especially natural gas. An expense new to the Housing budget is the inclusion of meal plans for residential assistants.

The presentation concluded and discussion followed acknowledging restraint in considering these increases to ensure the funding request was kept as reasonable as possible but that it would also meet operating needs and debt service requirements. Additional discussion centered on the employment of student workers during summer periods.

**AF: I-1a. Review of Audits: Summary of Follow-up on Audit Recommendation Scheduled to be Implemented During the Period of 07/01/08 – 12/31/08.**

Mr. Morley Barnett addressed this audit noting the routine nature of following up on incomplete audit recommendations. For the quarter ending December 31, 2008, approximately two-thirds of the 37 recommendations were deemed fully implemented, 14 partially implemented and one no longer applicable. Members were reminded these audits are posted to the BOT web site to ensure Member awareness of all outstanding audit issues.

No questions or discussion followed the conclusion of this presentation.

**AF: I-1b. Review of Audits: Report No. FAU 08/09-2, Audit of NCAA Eligibility Compliance.**

Mr. Barnett advised the Committee that this audit completes a cycle of four audits whose objectives were to ensure compliance with NCAA regulations. The audits began with the addition of football to the FAU Athletics Program in 2001.

Four recommendations were made to assist the Athletics Department to more formally and effectively monitor documentation deficiencies to remain in compliance with NCAA eligibility regulations. Athletics has indicated that these recommendations will be implemented by August 2009.

Mr. Craig Angelos addressed the Committee noting the heavy regulatory processes of the NCAA and his appreciation of the assistance that FAU and NCAA audit reviews bring to Athletics. While the recommendations did not reflect violations of NCAA eligibility regulations, he is cognizant of the necessity of implementing effective procedures to negate program and institutional violations. He noted some of the recommendations as a reflection of limited personnel resources and of the continuing work being done to improve.

Additional discussion followed on ensuring that the Athletics Department asks for help if it becomes necessary. Compliance to these regulations must be accomplished.

Concluding the audit presentations, Mr. Barnett reminded Members to please complete and return the Annual Risk Assessment recently forwarded to them.

**AF: I-3. Review Proposal to Modify Fees for the Karen A. Slattery Education Research Center for Child Development.**

Mr. Glenn Thomas began his summary presentation by introducing Ms. Lyndia Barcham, the new Director of the Karen A. Slattery Education Research Center for Child Development (ERCCD). He reminded the Members that the ERCCD serves approximately 100 children ages six months to five years old, providing pre-school services to FAU students and employees and that it is a terrific lab resource for the Colleges of Education, Nursing and Science. Maintaining quality programming is important and a major point of pride for FAU is the accreditation received from the National Association for the Education of Young Children which has promoted the ERCCD as a model program for others to emulate.

Mr. Thomas noted this request had been vetted through the budgetary review process of the Advisory Board and included collaborative discussions with students and parents who realize this slight increase is necessary to maintain program integrity. Three main issues channel the increase request, i.e., the continuing underpayment to staff salaries, the contingency funds needed for emergency situations, and spiraling utility costs. The increase being requested is \$10 per month.

The presentation concluded with a call for questions. Discussion followed on any parental issues caused by the increase and it was noted that a revision to the PowerPoint slide was the only objection in that an average had been used in the market study; with only two centers on programming level with ERCCD, no real average could be calculated. While no increases are welcome, the parents were grateful the request wasn't more given the current economic situation. Confirmation was also provided that ERCCD services are provided all year long.

With no further discussion topics, Chair Stilley adjourned the meeting at 2:40 p.m.

FAU 2009-10 OPERATING BUDGET		4/14/2009		+		SPLIT THE	+	
						DIFFERENCE		
SENATE AND HOUSE BUDGET PLAN FOR FAU		SENATE		HOUSE				
FAU BOT APPROVED EXPENDITURE BUDGET		\$	249,374,143	\$	249,374,143	+	\$	249,374,143
PLUS ADD'L BUDGET AUTHORITY IN RESERVE		\$	5,401,984	\$	5,401,984	+	\$	5,401,984
PLUS BOT TUITION INC. (GRAD In-State, UG Out-of-State)		\$	1,400,000	\$	1,400,000	+	\$	1,400,000
PLUS INTEREST EARN. (NO FREE CREDIT CARD)		\$	500,000	\$	500,000	+	\$	500,000
FAU APPROVED TOTAL REVENUE BUDGET AUTHORITY		\$	256,676,127	\$	256,676,127	+	\$	256,676,127
JANUARY SESSION RECURRING REDUCTIONS		\$	(7,008,235)	\$	(7,008,235)	+	\$	(7,008,235)
JANUARY SESSION NON-RECURRING REDUCTIONS		\$	(68,718)	\$	(68,718)	+	\$	(68,718)
SPRING REDUCTIONS--RECURRING COMPONENT		\$	-	\$	-	+	\$	-
NON-RECURRING LOTTERY		\$	(1,717,941)	\$	(1,717,941)	+	\$	(1,717,941)
NON-RECURRING LOTTERY--ADDBACK		\$	68,718	\$	68,718	+	\$	68,718
PLANT OPERATIONS/MAINTENANCE 2008-09 ANNUALIZED		\$	956,056	\$	956,056	+	\$	956,056
HEALTH INSURANCE INCREASE--2008-09 ADJUSTMENT		\$	458,543	\$	458,543	+	\$	458,543
LIFE INSURANCE INCREASE--2008-09 ADJUSTMENT		\$	(69,577)	\$	(69,577)	+	\$	(69,577)
ANNUALIZATION OF 2008-09 BOT TUITION INC.		\$	317,097	\$	317,097	+	\$	317,097
HEALTH INSURANCE INCREASE ANNUALIZATION		\$	2,292,715	\$	2,292,715	+	\$	2,292,715
LIFE INSURANCE INCREASE ANNUALIZATION		\$	(69,577)	\$	(69,577)	+	\$	(69,577)
REDUCTION TO STUDENT FINANCIAL AID GR		\$	(94,711)	\$	(94,711)	+	\$	(94,711)
INCREASE TO RISK MANAGEMENT INSURANCE GR		\$	41,722	\$	41,722	+	\$	41,722
2009-10 BEGINNING RECURRING BASE BUDGET		\$	251,782,219	\$	251,782,219	+	\$	251,782,219
BUDGET REDUCTION--GENERAL REVENUE 2009-10		\$	(19,655,829)	\$	(37,248,632)	+	\$	(28,452,231)
TUITION INCREASE 2000-10 "BASE INCREASE		\$	4,797,333	\$	4,197,685	+	\$	4,497,509
DIFFERENTIAL TUITION		\$	2,304,000	\$	2,633,000	+	\$	2,468,500
CHANGE IN MIX OF STUDENTS--LOSS OF OUT OF STATE		\$	(1,387,106)	\$	(1,387,106)	+	\$	(1,387,106)
BUDGET STABILIZATION FUNDS		\$	11,774,677	\$	11,829,950	+	\$	11,802,314
BALANCE TO LOTTERY FUNDING		\$	(1,461,859)	\$	-	+	\$	(730,930)
INDIAN GAMING FUNDING		\$	5,763,595	\$	-	+	\$	2,881,798
PLANT OPERATIONS/MAINTENANCE--NEW SPACE		\$	3,332,975	\$	-	+	\$	1,666,488
TOTAL		\$	257,250,005	\$	231,807,116	+	\$	244,528,561



SUMMARY OF REDUCTIONS/NEW FUNDS		4/14/2009		+		+		
2009-10 BUDGET SUMMARY		SENATE	HOUSE	+	SPLIT THE DIFFERENCE	+		
JANUARY REDUCTION--GR	\$	7,008,235	\$	7,008,235	+	\$	7,008,235	+
JULY 1 REDUCTION--LOTTERY	\$	1,717,941	\$	1,717,941	+	\$	1,717,941	+
JULY 1 REDUCTION--GR	\$	19,655,829	\$	37,248,632	+	\$	28,452,231	+
JULY 1 REDUCTION--CHANGE IN MIX	\$	1,387,106	\$	1,387,106	+	\$	1,387,106	+
TOTAL REDUCTION		\$	29,769,111	\$	47,361,914	+	\$	38,565,513
STABILIZATION FUNDS OFFSET		\$	11,774,677	\$	11,829,950	+	\$	11,802,314
BALANCE TO LOTTERY FUNDING		\$	(1,461,859)	\$	-	+	\$	(730,930)
NEW REVENUE FROM GAMING		\$	5,763,595	\$	-	+	\$	2,881,798
REDUCTION BEFORE OFFSET		\$	13,692,698	\$	35,531,964	+	\$	24,612,331
LESS SET ASIDE RESERVES						+		+
2008-09 BOT TUITION INC. FALL/SPRING	\$	1,400,000	\$	1,400,000	+	\$	1,400,000	+
2008-09 BOT TUITION INC. SUMMER	\$	317,097	\$	317,097	+	\$	317,097	+
INTEREST EARNINGS	\$	500,000	\$	500,000	+	\$	500,000	+
ADDITIONAL REDUCTION NEEDED		\$	11,475,601	\$	33,314,867	+	\$	22,395,234
NEW TUITION FUNDING						+		+
TUITION INCREASE--BASE	\$	4,794,333	\$	4,197,796	+	\$	4,496,065	+
TUITION INCREASE--DIFFERENTIAL*	\$	2,304,000	\$	2,483,293	+	\$	2,393,647	+
TOTAL NET REDUCTIONS AFTER TUITION		\$	4,377,268	\$	26,633,778	+	\$	15,505,523
TUITION INCREASE--DIFFERENTIAL FAU**	\$	640,000	\$	768,000	+	\$	704,000	+
LESS 30 PERCENT NEED BASED AID	\$	192,000	\$	230,400	+	\$	211,200	+
NET TUITION INCREASE DIFFERENTIAL		\$	448,000	\$	537,600	+	\$	492,800
TOTAL NET REDUCTIONS AFTER TUITION		\$	6,233,268	\$	28,579,471	+	\$	17,406,370

\*HOUSE AND SENATE ESTIMATES

\*\*FAU ESTIIMATE TO 13 PERCENT TOTAL

file: FAU 2009-10 Summary for April 15 BOT meeting