

Item: AF: I-2c

AUDIT AND FINANCE COMMITTEE

Wednesday, October 20, 2010

SUBJECT: REVIEW OF AUDITS: FAU 09/10-5 AUDIT OF INSTITUTES AND CENTERS FOR THE FISCAL YEAR 2008/09.

PROPOSED COMMITTEE ACTION

Information Only.

BACKGROUND INFORMATION

This audit centered primarily on evaluating policies and procedures established for required annual reporting of expenditures and staffing of institutes and centers to the Florida Board of Governors.

Based on a review of 2008/09 data, two recommendations were made to address ways to better ensure accuracy of reported data and document dissolution of institutes and centers.

IMPLEMENTATION PLAN/DATE

August 31, 2010

FISCAL IMPLICATIONS

Not Applicable.

Supporting Documentation: Audit Report FAU 09/10-5

Presented by: Mr. Morley Barnett, Inspector General Phone: 561-297-3682

Report No. <u>FAU 09/10-5</u> Report Issue Date: June 29, 2010

FLORIDA ATLANTIC UNIVERSITY*

Office of Inspector General

Audit Report: <u>Institutes and Centers</u> For Fiscal Year 2008/09

Use of Report

We are employed by Florida Atlantic University. This report is intended solely for the internal use of the State University System and is not intended to be used for any other purpose. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

REPORT ON THE AUDIT OF

INSTITUTES AND CENTERS

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MEMORANDUM

TO:

Dr. Mary Jane Saunders

President

FROM:

Morley Barnett

Inspector General

DATE:

June 29, 2010

SUBJ:

AUDIT OF INSTITUTES & CENTERS

In accordance with the University's Internal Audit Plan for fiscal year 2009-10, we have conducted an audit of institutes and centers at Florida Atlantic University. The report contained herein presents our scope and objectives and provides comments and conclusions resulting from procedures performed.

We have made two recommendations to address our findings. We concur with the responses of the auditee which have been incorporated into the report. In accordance with our established procedures, follow-up will be performed subsequent to the issuance of this report to determine effective implementation of our recommendations by management.

Please call me if you have any questions.

CC:

University Provost Senior Vice Presidents

Vice Presidents College Deans

Auditee

FAU BOT Audit and Finance Committee Inspector General, Florida Board of Governors

Florida Auditor General

EXECUTIVE SUMMARY

In accordance with the University's Internal Audit Plan for fiscal year 2009-10, we have conducted an audit of institutes and centers (I & C) at Florida Atlantic University for the 2008/09 fiscal year.

The University was required to report 2008/09 fiscal year information to the Florida Board of Governors (BOG) for 46 institutes and centers by September 30, 2009. We judgmentally selected a sample of two institutes and three centers for review of reported data. Our sample represented 39.5% or \$7.2 million of total actual expenditures reported, and 36.9% or \$5.6 million of total estimated expenditures reported for all 46 institutes and centers.

In an operational audit for the fiscal year ended June 30, 2007 (report # 2008-048), the Florida Auditor General (AG) had commented on several issues of I & C data accuracy reported to the BOG. Management responded to the AG's recommendations by holding a training session for I & C representatives in August 2009, based on BOG regulations and guidelines.

The objectives of this audit were to determine whether:

- University guidelines for establishing, operating, evaluating, reviewing, and disbanding University institutes and centers had been developed and published in accordance with BOG Regulation 10.015;
- Initial reporting for any newly-established institutes and centers was performed in accordance with BOG requirements and University procedures;
- Annual reporting of institutes and centers was completed timely and in accordance with BOG guidelines;
- Formal evaluations and reviews of institutes and centers were conducted periodically as required by University guidelines and BOG regulations; and,
- Dissolution of institutes and centers included notifying the university provost, proper notification to the BOG Office of Academic and Student Affairs, and completion of appropriate closeout procedures.

Audit procedures included, but were not limited to, the evaluation of internal controls as those controls relate to the accomplishment of the foregoing audit objectives, as well as reviewing documentation in support of data reported to the BOG for the sampled institutes and centers. Coupled with our detailed review of select institutes and centers, we conducted a survey of methodologies and actual types of records used by non-sampled I & Cs for compilation of annual data to be reported. Procedures used to document official dissolution of institutes and centers during our audit period were evaluated for compliance with BOG and University regulations. We noted that during our audit period there had not been any newly-established institutes and centers or formal I & C evaluations to review.

Based on our audit, we noted that the University had published guidelines essential for its institutes and centers to comply with BOG Regulation 10.015, *Institutes and Centers*. However, based on our tests of sampled data, we believe there is a continuing need for additional training, identification of common data sources, and other refinements to consistently report the most accurate annual information. In addition, documentation for activities undertaken during the dissolution process could be improved. We identified two findings relating to accurate reporting of expenditure and full-time-equivalent (FTE) data using consistent methods for annual BOG report filings, and summarizing close-out activities and the use of checklists for disbanded institutes and centers. The details of these findings, as well as the suggestions for corrective action, can be found in the Comments and Recommendations section of this report.

Florida Atlantic University

Dr. Mary Jane Saunders President Florida Atlantic University Boca Raton, Florida

June 29, 2010

Dear President Saunders:

SCOPE AND OBJECTIVES

In accordance with the University's Internal Audit Plan for fiscal year 2009-10, we have conducted an audit of institutes and centers at Florida Atlantic University for the 2008/09 fiscal year.

The University was required to report 2008/09 fiscal year information to the Florida Board of Governors (BOG) for 46 institutes and centers by September 30, 2009. We judgmentally selected a sample of two institutes and three centers for review of reported data. Our sample represented 39.5% or \$7.2 million of total actual expenditures reported, and 36.9% or \$5.6 million of total estimated expenditures reported for all 46 institutes and centers. Institutes and centers selected for review were:

- Institute for Ocean & Systems Engineering Sea Tech (includes combined reporting for related entities: Center for Acoustics and Vibrations, Center for Hydrodynamics and Physical Oceanography, and Center for Marine Materials.)
- Community Justice Institute
- Center for Economic Education
- Center for Molecular Biology and Biotechnology
- The Center for Study of Values and Violence after Auschwitz

The objectives of this audit were to determine whether:

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- Initial reporting for any newly-established institutes and centers was performed in accordance with BOG requirements and University procedures;
- Annual reporting of institutes and centers was completed timely and in accordance with BOG guidelines;
- Formal evaluations and reviews of institutes and centers were conducted periodically as required by University guidelines and BOG regulations; and,
- Dissolution of institutes and centers included notifying the university provost, proper notification to the BOG Office of Academic and Student Affairs, and completion of appropriate closeout procedures.

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We obtained an understanding of the annual BOG reporting process for institutes and centers by reviewing BOG Regulation 10.015, University Regulation 2.006, *Institutes and Centers*, and written policies and procedures, interviewing key personnel, and evaluating key internal controls.

Our assessment of compliance with applicable laws, rules and regulations, and established policies and procedures was based on reviews of documentation supporting annual data reported to the BOG for a sample of institutes and centers, dissolved institutes and centers, and survey results for institutes and centers not specifically selected for testing. Populations, sample sizes, and selection methods were determined based on our evaluation of internal controls, our assessment of audit risk, the availability of pertinent University records, and other factors, including auditor judgment.

We conducted our audit in accordance with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.

BACKGROUND

Institutes and centers are established to coordinate intra/inter-institutional research, service, or educational and training activities that supplement and extend existing instruction, research, and services. A State of Florida institute or center is an entity with a state-wide mission which may include two or more State universities, has been approved by the BOG, and has an advisory board with membership. FAU's University centers and institutes follow the same protocols as state centers but do not necessarily carry out a state-wide mission, and are self-supporting. BOG Regulation 10.015 sets forth the criteria and guidelines for both State of Florida and University institutes and centers. It requires each state university to develop and publish clearly defined guidelines, consistent with BOG criteria, for establishing, operating, evaluating, reviewing, and disbanding institutes and centers. Approved in July 2009, FAU Regulation 2.006, *Institutes and Centers*, provides for compliance with the BOG regulation as well as certain detailed internal procedures.

BOG Regulation 10.015 requires each university to annually report estimated expenditures and full-time-equivalent positions (FTE - in person years) for the current fiscal year and actual corresponding data of the prior fiscal year for the following categories: *SUS Appropriated Funds, Contracts and Grants, Fees for Services, and Private and Other.* Each institute and center has a representative responsible for gathering the required information for entry into the *SUS Institutes and Centers Online Reporting System* in order to meet the filing deadline of September 30th. The Division of Research is responsible for the final submission of data to the BOG, upon receipt of a *Dean's Acknowledgement Memo* attesting to accuracy of information for individual institutes and centers. In an effort to assist each I & C representative with compiling and reporting accurate data, and in response to a 2007 operational audit recommendation by the Florida Auditor General, the Division of Research held its first I & C training session in August 2009.

COMMENTS AND RECOMMENDATIONS

Improvement Needed in Accuracy and Compilation Methods of Reported Data

As a result of our audit, we noted that for the fiscal year ended June 30, 2009, the University had timely submitted the required data for its 46 active institutes and centers to the BOG. However, compliance testing of information reported for the 2008/09 fiscal year for two institutes and three centers, judgmentally selected, revealed the following discrepancies:

<u>Actual</u> expenditures were not accurately reported for one of the centers and one of the institutes, as follows:

- *SUS Appropriated Funds* expenditures totaling \$15,350 for one center was based on budget data; and,
- The actual expenditures reported in the *Fees for Services* category for one institute was overreported by approximately \$4,100 because estimated data was used.

Documentation was lacking and/or inconsistent methods were used to estimate expenditures for two centers and one institute as follows:

- One center's attempt to base its 2009-10 estimated expenditures for *Contracts and Grants* on the actual expenses for 2008/09 was flawed with an inconsistency. Estimated expenditures for the center's *Contracts and Grants* category included three Banner Finance accounts while the method used to report actual expenses included only two of these accounts. As a result, estimated expenditures were overstated by \$2,297, as acknowledged by management;
- One center's director asserted that estimated *Contracts & Grants* and *Private & Other* expenditures for the center would equal its anticipated 2009-10 revenues. Our review revealed that supporting documentation was not available for a major portion of budgeted revenues; and,
- One institute could not provide documentation supporting estimated expenditures of \$30,162 and \$4,000 respectively for the *Fees for Services* and *Private & Other* categories.

For two centers and one institute, the number of FTE positions reported was inaccurate, as follows:

- One center reported an estimated .50 FTE position for an employee whereas payroll reports reflected the employee as 1.0 FTE. In addition, the center reported actual FTE positions based on projected payroll expenditures (i.e. *Projected Payroll Encumbrance Detail Reports*) instead of actual payroll paid; and,
- One institute reported actual FTE positions based on each employee's research time expended percentage applied to the applicable employee's assignment (i.e. *Personnel Action Form*) instead of actual payroll paid. In addition, the estimated FTE positions reported were based on the erroneous calculations of the actual FTE positions reported.

We conducted a brief survey of 31 active institutes and centers, excluding the two institutes and three centers selected for compliance testing. For the most part, results of the surveys tended to corroborate the existence of similar issues noted in the review of the sampled institutes and centers. Specifically, we made the following observations from our surveys:

The basis and logic of methodologies used by the institutes and centers to estimate expenditures
were not always clearly documented. Some centers and institutes used prior actual expenditures
reported adjusted for anticipated changes to determine estimated future expenditures reported.
On the other hand, some institutes and centers used an estimate of unspent funds or the following
year's expected funding;

- No common payroll report was used by the surveyed institutes and centers to determine actual
 FTE positions. The information primarily used reflected estimated payroll to be paid (Personnel
 Action Forms, Notice of Appointment, Faculty/Staff Assignment Contracts, Banner reports such
 as the Payroll Encumbrance Detail, NBAJOBS, NHIDIST, etc.) instead of actual payroll pay
 records; and,
- Determination of estimated FTE positions was sometimes based on expected funding, and/or estimates of funds remaining to be spent by the institute or center instead of a common payroll report listing estimated FTE positions to be paid.

Recommendation No. 1

Although the Division of Research conducted a training session in August 2009 for all representatives of institutes and centers responsible for annual reporting of expenditure and FTE information to the BOG, we believe additional training and clarification regarding such required information would be beneficial. Specifically, we recommend the Division of Research provide additional guidance to I & C representatives on common sources of information and consistent methods needed to more accurately report actual and estimated FTEs. Also, additional emphasis should be placed on documenting any assumptions that are made in determining the reported information.

Management's Response

Action Plan:

The Division of Research will email all I/C Directors and Financial Managers to guide them with common sources of information and consistent methods to report actual and estimated expenditures and FTE. Emphasis will be placed on documentation of assumptions made in determining the reported information.

Implementation Date:

August 31, 2010

Responsible Auditee:

Dr. Edwin Bemmel, Director - Research Accounting, Division of Research

<u>Documenting the Dissolution Process</u>

During the audit period, three University centers were disbanded and one institute became inactive. With respect to dissolutions, University Regulation 2.006(3) (D) states the following: "Disbanding a University institute or center involves closing out the budget for the unit, transferring budget lines within the unit to the appropriate place(s), and disbursing equipment and facilities as appropriate. These tasks will be the responsibility of the Department Chair or Dean, as appropriate for the organization in question. The college or other unit within which the institute or center is located must notify the Provost of the dissolution. The requirements in BOG Regulation 10.015(6) shall be followed, including notifying the Office of Academic and Student Affairs in the BOG Office."

BOG guidelines for disbanding legislature-funded institutes and centers also require the University to provide documentation that Legislative intent has been achieved and that the institute or center is no longer required.

Our review of the three University centers disbanded during the 2008/09 fiscal year indicated the following:

- Although the Vice President for Research was notified of the disbandment of the three centers by the Dean of the college within which each center was located, the Provost, as required by University Regulation 2.006 (3)(D), was not formally notified of each center's dissolution by the applicable college Dean or Vice President for Research;
- Required notifications of disbandment to the Office of Academic and Student Affairs at the BOG
 Office for the three dissolved centers were not made in a timely manner in our opinion. For the
 reported center closures, the BOG was notified between 170 559 days after the center was
 disbanded. It should be noted that both regulations do not specify the timeframe for reporting
 dissolutions; and,
- Although we were generally satisfied that procedural aspects of the dissolution steps were completed, we noted a lack of centralized documentation to support the process. There was no single file or summary document for any of the three dissolved centers which clearly evidenced completion of steps required by University regulations.

Management of the Division of Research explained that the process of notifying the BOG of any dissolved institute or center is initiated by the college dean. The dean notifies the Division of Research in writing of any dissolution and is responsible for the formal closeout of the institute or center. For example, I & C non-grant accounts must be deactivated, tangible property researched and properly accounted for, and any contracts and grants timely adjusted and closed. The Division depends on the respective colleges for timely notification of I & C closures. Historically such notifications have not been timely.

Recommendation No. 2

We recommend the Division of Research develop and implement procedures to better account for the closure of University institutes and centers. Such procedures should require the formal summarization or recap of all pertinent steps taken by University personnel such as transferring budget lines within the institute or center to the appropriate place(s), and disbursing equipment and facilities, as appropriate. Consideration should be given to developing a checklist which would clearly document that all pertinent requirements outlined in University and BOG regulations have been met. In addition, the timeframe for reporting dissolutions should be established and shared with responsible employees.

Management's Response

Action Plan:

FAU typically does not transfer budget lines on closed accounts, but inactivates the budgetary account. Once the account has been inactivated, no additional expenditures can be posted to the account.

When an I/C is closed, the Chair or Dean notifies the VP of Research of the dissolution. In the future, the Division of Research will forward a copy of the notification to the Provost. Any equipment or facility that needs to be disbursed or otherwise transferred should be processed by the Chair or Dean. In addition, any documentation indicating whether legislative intent was met, and that the center is no longer needed, should be provided by the Chair or Dean to the Division. The Division of Research will remind the Chairs and Deans of the responsibilities stated above. The Division of Research will also remind the Chairs and Deans to submit these notifications in a more timely manner. Finally, the Division of Research will develop an appropriate closeout checklist to summarize the steps to be taken to close out any I/C, as well as provide evidence that those steps had been taken at the conclusion of the dissolution process.

Implementation Date:

August 31, 2010

Responsible Auditee:

Dr. Edwin Bemmel, Director - Research Accounting, Division of Research

Prior Audit Recommendations

Our examination generally includes a follow-up on findings and recommendations of prior internal audits, where the subjects of such findings are applicable to the scope of the current audit being performed.

Within the past three fiscal years, our office has not conducted any audits related to institutes and centers. Accordingly, a follow-up on prior audit findings is not applicable.

CONCLUSION

Based on our audit, we confirmed that the University had developed and published proper guidelines for establishing, operating, evaluating, reviewing, and disbanding institutes and centers consistent with BOG Regulation 10.015. We were satisfied that all institutes and centers had timely reported required information to the Board of Governors for our audit period. However, we believe that additional emphasis on the use of accurate data, and further guidance from the Division of Research regarding the use of common sources of supporting documentation and methodologies by each institute and center to substantiate expenditure and FTE information is warranted. Further, we noted that activities undertaken to dissolve an institute or center could be improved, and believe the two resulting recommendations made in this report can be readily and cost-effectively implemented.

We wish to take this opportunity to thank personnel at the colleges and the Division of Research for their cooperation and assistance which contributed to the successful completion of this audit.

Morley Barnett, CPA, CFE

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Inspector General

Audit Performed By: Ben Robbins, CPA