



Item: AF: I-1

AUDIT AND FINANCE COMMITTEE

Wednesday, December 12, 2007

SUBJECT: REVIEW OF MANAGEMENT RESPONSES TO THE PRELIMINARY AND TENTATIVE FINDINGS ON FLORIDA ATLANTIC UNIVERSITY'S OPERATIONAL AUDIT FOR THE FISCAL YEAR ENDED JUNE 30, 2006.

PROPOSED COMMITTEE ACTION

Information Only.

BACKGROUND INFORMATION

An Operational Audit of Florida Atlantic University is completed by the State of Florida Auditor General bi-annually. On November 2, 2007, the Preliminary and Tentative Audit findings and recommendations were provided to the University. The University's responses to the findings and recommendations were submitted to the Auditor General on December 3, 2007.

IMPLEMENTATION PLAN/DATE

Implementation dates are provided with each audit response.

FISCAL IMPLICATIONS

We anticipate the fiscal implications associated with implementing FAU's responses to be nominal.

Supporting Documentation: Management Responses and the Preliminary Audit Findings.

Presented by: Dr. Kenneth A. Jessell, VP Financial Affairs

Phone: 561-297-3266

**Florida Atlantic University
Operational Audit
For the Fiscal Year Ended June 30, 2007**

**Preliminary and Tentative Audit Findings,
Recommendations and Responses**

REVENUES AND CASH COLLECTIONS

Finding No. 1: The Board had not adopted a formal policy for granting exemptions to the requirement in Section 1009.285, Florida Statutes, that students pay the full cost of instruction when enrolled in the same undergraduate credit course more than twice.

Recommendation: The Board should adopt a policy establishing documentation requirements and approval procedures for determining whether a student is entitled to an exception from paying the full cost of tuition for repeated course enrollment in accordance with law.

Response: Florida Atlantic University approves exceptions to the application of the repeat course surcharge in accordance with a formal policy adopted by the former Board of Regents of the State University System of Florida and subsumed by the Board of Trustees of Florida Atlantic University upon devolution of governance authority from the Board of Regents to the Board of Trustees.

To fulfill the recommendation, the following language will be added to the University Catalog to notify students of this policy as suggested in the finding:

“In accordance with Section 1009.285, Florida Statutes, a student may be granted an exception to the repeat course surcharge upon approval by the Office of the University Provost based upon a review of the individual circumstances presented by the student to document exceptional circumstance. Review will be initiated by student petition which must provide all appropriate documentation to support the claim of exceptional circumstance. Petition forms are available for this purpose from the University Registrar.”

This language will be inserted before December 31, 2007 on page 57 of the catalog following the description of the Repeat Course Surcharge.

Implementation Date: December 31, 2007.

Finding No. 2: The University needed to improve controls over collections received outside of the Central Cashier's Office.

Recommendation: The University should ensure that collections are timely remitted to the Central Cashier's Office, mail receipt logs are used for all collections received in the mail, and

transfer documents are used to evidence the transfer of collections between employees. The University should also provide for independent supervisory review of voided transactions, ensure that access to collections prior to deposit is limited to one employee, and provide for accountability over pre-numbered membership cards, tickets, and receipts.

Response: Florida Atlantic University will continue to develop clear policies that institute controls in identified units to ensure that collections are timely, receipt logs are used for all collections, and that transfer documents are used to evidence the transfer of collections between employees. The University will ensure that pre-numbered membership cards, tickets and receipts are used appropriately.

The University agrees that supervisory review of collections is critical and will institute measures to assure compliance. However, separation of duties in some units is not always feasible due to single employee staffing in areas where collections are small and risk is low. In those instances, exceptional oversight and monitoring will be employed daily to ensure accurate and timely collections in order to mitigate opportunity for misuse of funds.

Implementation Date: December 31, 2007.

Finding No. 3: The University needed to further enhance controls relating to the OWL CARD program.

Recommendation: The University should continue to enhance controls over OWL CARDS by ensuring that duties are adequately separated and procedures are established to provide for an accounting for OWL CARDS issued, voided, and unused (on-hand).

Response: The University will look for opportunities to enhance controls in the OWL Card program. Due to the nature of the OWL Card program, there is limited opportunity for complete separation of duties. The center is a one person operation and all functions cannot have complete separation of duties without a considerable increase in staffing costs. All deposits are double checked. OWL Card inventory is maintained in the Business Services Administrative offices and is signed out as needed. The blank cards have no value and therefore the need to maintain an accounting of them, other than the inventory accounts maintained, does not appear to be an issue. Our procedures are consistent with all other institutions in the Florida State University System.

Implementation Date: March 31, 2008.

Finding No. 4: The University needed to improve its controls over complimentary tickets for athletic events.

Recommendation: The University should revise its written policies and procedures to establish specific guidelines for the distribution of complimentary tickets for the various types of events and programs, require an adequate separation of duties, and provide accountability for complimentary tickets.

Response: The University concurs that written policies and procedures be established as they relate to the distribution of complimentary tickets and as of August 2007, the Athletic Department updated its ticket policies. Guidelines for the distribution of complimentary tickets are now noted in the updated policy. There is a separation of duties for football and for both men's and women's basketball where the attendance warrants multiple staff members. The ticket stock is now pre-numbered and is used in order of lowest number to highest.

Implementation Date: November 30, 2007.

PERSONNEL AND PAYROLL ADMINISTRATION

Finding No. 5: The University had not adequately documented why a severance arrangement was provided to a former employee, which was more beneficial than allowed by the former employee's employment contract. Also, the Board needed to revise its policies and procedures relating to severance clauses and payments. In addition, severance payments to the former employee resulted in budget overexpenditures for the Concession Funds.

Recommendation: The University should ensure that documentation is retained to support management decisions that obligate University resources and evidence that the actions taken are in the best interest of the University. In addition, the Board should consider revising its Operations Policies and Procedures to require Board approval for any severance provisions included in employment contracts or severance agreements. Also, University procedures should be enhanced to ensure that expenditures do not exceed budgetary authority.

Response: The University believes that obtaining the comprehensive general release from the former employee in exchange for the terms of the severance agreement was in the best interests of the University. The University will continue to ensure that documentation is retained to support management decisions that obligate resources and that such actions are in the best interest of the University.

On May 16, 2007, the Board of Trustees implemented an action to revise its Board Operations, Policies and Procedures to require Board consultation for certain types of severance provisions. At an upcoming meeting, the Board of Trustees will consider revising this policy.

By December 31, 2007, the University will enhance its efforts to ensure that expenditures do not exceed budgetary authority by documenting budget amendments.

Implementation Date: December 31, 2007.

PROCUREMENT OF GOODS AND SERVICES

Finding No. 6: Contrary to University policies, Student Government expenses were not always approved timely. Also, a \$6,000 payment was made to a contractor prior to the receipt of services.

Recommendation: The University should ensure that purchase orders or contracts are used to document the approval of purchases of goods or services prior to incurring an obligation for payment, and ensure that services have been rendered prior to issuing payment.

Response: The University concurs and the Purchasing Department will monitor purchase orders and contracts to ensure compliance with the University's policies and procedures, including timely approvals of goods and services purchases prior to incurring an obligation for payment. The department will continue to ensure that services have been rendered prior to issuing payment.

In addition, the Purchasing Department will meet with the Division of Student Affairs to provide education to Student Government groups with regard to the importance of timely notification of performance agreement requirements.

Implementation Date: January 31, 2008.

Finding No. 7: Purchasing card system controls did not always provide for timely approval and payment of charges, and adequate monitoring of credit limits. Also, the University did not maintain records of cards issued, lost or stolen, or cancelled, necessary to ensure accountability for purchasing cards.

Recommendation: The University should enhance controls over monitoring the purchasing card program to ensure compliance with the University's purchasing card manual, including timely approval and payment of charges, and monitoring of credit limits. The University should also maintain records of cards issued, lost or stolen, and cancelled, and use such records to ensure accountability for purchasing cards.

Response: The University currently maintains detailed records of cards issued, cards lost or stolen, and cancelled cards. All of these actions are recorded in individual cardholder profiles even though they are not kept in list format. This format provides the most meaningful feedback and control to the Program Administrator as sometimes corrective action must be taken as a result of the cardholder's overall history. A cardholder's overall transaction history often transcends specific audit periods. Additionally, as of November 2007, the University can now produce "lists" of newly issued or cancelled cards through the Works software, which only existed for a portion of the prior audit period.

The University understands the desire to mitigate risk by monitoring and adjusting credit limits based on actual use, but also recognizes the value of contingency planning. We believe the existence of VISA's fair dispute resolution process for fraudulent transactions reduces the actual risk of misuse associated with typical credit limits. We do not consider them to be excessive based on the cardholders' function. Furthermore, credit limits are reviewed and approved by Deans/Directors and are commensurate with duties assigned to that position. Additionally, many of Florida Atlantic University's Principal Investigators have been issued p-Cards. They often have large budgets and often do not incur significant expenditures until the latter part of the grant's life. Preparing for contingencies in these particular cases, and a variety of other

circumstances, there is little meaningful correlation between the average monthly spend and a cardholder's credit limit.

Purchasing and the Controller's Office will continue to educate user departments on the importance of the timely receipt approval and vendor payment.

By March 2008, the University will offer several programmatic training opportunities to all new and existing staff members on cardholder roles and responsibilities. This will be done as part of an overall emphasis and review on topics such as internal controls, separation of duties and general best practices for those responsible for handling fiscal matters at the University.

Implementation Date: March 31, 2008.

Finding No. 8: The University's competitive procurement threshold exceeded the limit established by the Board of Governors.

Recommendation: The University should ensure that its procurement policies are consistent with BOG Regulations.

Response: The University concurs with this recommendation to ensure consistency with the Board of Governors regulations. The Inter-institutional Committee on Purchasing (ICOP) has met with BOG staff to assist in the preparation of a revision to the BOG policy including a \$50,000 bid limit threshold to ensure their regulations and those of the University's are consistent.

Implementation Date: March 31, 2008.

Finding No. 9: University records did not evidence the contractor's compliance with the terms of an energy performance based-agreement and Section 1013.23(4), Florida Statutes.

Recommendation: The University should ensure compliance with the energy performance-based contract provisions of Section 1013.23(4), Florida Statutes, and the escrow account provisions established in the agreement.

Response: The University did comply with the substantive requirements as set forth in Section 1013.23 of the Florida statutes; however, an annual reconciliation was not performed. All future Energy Service Company contracts will follow this Statute. The approval for the final escrow distribution was sent to the Fifth Third Bank in a document dated May 2, 2007.

Implementation Date: December 31, 2007.

Finding No. 10: The University did not adequately monitor cellular telephone (cell phone) usage, and did not report to the Internal Revenue Service the value of cell phone services as income for employees who did not make an adequate accounting of the business use of their

assigned cell phones. In addition, the University paid certain taxes and fees for which it was exempt.

Recommendation: The University should establish formal comprehensive written policies and procedures relating to cell phone assignment and usage that require employees to state the business purpose of calls and independent review of cell phone bills to determine personal calls made and any needed reimbursements. In the absence of such procedures, the University should report appropriate amounts in income to the IRS in accordance with Federal requirements. The University should also ensure the timely cancellation or reassignment of cell phones upon the assigned employee's termination. In addition, the University should request that cellular telephone service providers remove exempt taxes and fees from the University's bills, continue its effort to seek credit for exempt State sales taxes previously paid, and also seek credit for exempt wireless E911 fees previously paid.

Response: U.S. Treasury Regulations have been reviewed and a new cellular telephone/BlackBerry policy is being developed that will be in full compliance with IRS regulations. The University started this process several months ago; procedures are being finalized and will be in effect by June 30, 2008.

Implementation Date: June 30, 2008

Finding No. 11: Travel expenses were not always adequately supported to demonstrate compliance with Section 112.061, Florida Statutes. Also, the University paid certain taxes on travel expenses for which it was exempt.

Recommendation: The University should ensure that travel expenses are adequately supported to demonstrate compliance with Section 112.061, Florida Statutes, and that travel advance requests are accurately prepared. The University should also ensure that payments made directly to vendors do not include sales tax.

Response: The University concurs with this recommendation to ensure that travel expenses are adequately supported in compliance with Section 112.061. The University will ensure all travel advances are accurately prepared, supported, and recorded in accordance to Section 112.061 of the Florida Statutes. During the payment and audit review of invoices we will ensure that payments made directly to Florida vendors do not include sales tax.

In addition, in September 2007, the unit began working with the mentioned service provider to receive a refund/credit for exempt taxes and fees previously paid.

Implementation Date: December 31, 2007.

RISK MANAGEMENT

Finding No. 12: The University needed to improve its procedures for determining insurable values for buildings, and the University had no written policies and procedures addressing

the level of insurance coverage to be maintained or the method to be used to determine insurable values.

Recommendation: The University should develop written policies and procedures addressing the level of insurance coverage to be maintained for the University's buildings and other property, and clarifying whether the Division's method, or an alternative method, is to be used to determine insurable values. The University should also implement procedures to ensure that insurable values included on the certificate of coverage do not exceed the ACV. In addition, the University should ensure that current cost data is used to calculate insurance values, and that adequate documentation is retained to support such cost data.

Response: The University concurs with this recommendation. In July 2007, within the Division of Facilities, Florida Atlantic University hired a full time University Risk Manager. The main goal of this position is to develop policies and procedures for the insurance process. Since being hired the FAU Risk Manager has visited with various departments to understand the process of obtaining insurance for the variety of risks the University faces.

One of the key determinations to be made annually for the property insurance is how to arrive at a proper insurance value for building values. The insurance provided through the Division of Risk Management only provides coverage for the actual cash value of a building. The Division provides a formula for computing this value. However the Division also states that it may not be appropriate to use this for valuation of university buildings. The Division suggests: "For the Universities we have always advocated the use of commercial appraisers to provide this calculation."

The current FAU Risk Manager is in the process of selecting an appropriate appraiser to provide this service. This will be accomplished prior to the property renewal date of June 30, 2008.

Implementation Date: June 30, 2008.

RECORD SYSTEMS AND REPORTS

Finding No. 13: Contrary to law, several University Board members did not file, or did not timely file, their 2005 or 2006 calendar year statements of financial interests with the Florida Commission on Ethics.

Recommendation: The University should ensure that Board of Trustee members are advised of the statement of financial interests filing requirements, and ensure that they timely file the statements with the Commission on Ethics.

Response: By December 31, 2007, follow up meetings between the University's Chief of Staff Liaison and the Chair of the Board of Trustees will occur to ensure that board members are advised of these requirements helping to ensure complete compliance.

Implementation Date: December 31, 2007.

Finding No. 14: The University needed to enhance its policies and procedures regarding the annual reporting of information for institutes and centers to the Board of Governors.

Recommendation: The University should ensure that expenditure and position information reported for each of its institutes and centers is accurate and complete, and ensure that corrected information for the institute and centers we reviewed is submitted to the BOG. The University should also develop a consistent method for determining estimated expenditures for all institutes and centers.

Response: The University concurs with the recommendation that reported expenditure and position information for each of its centers and institutes is accurate and complete. The current BOG policy for centers and institutes is based on a Chancellor's Memorandum dated July 27, 2004. That policy includes an annual reporting requirement implemented through a BOG web-site data-base into which center/institute directors enter information on budget and personnel.

Accurate and complete expenditure and position information for centers and institutes is something that Florida Atlantic University strives to provide. Effective December 31, 2007, a more thorough review of data provided by center/institute directors (relative to data from the accounting system) will be instituted.

Implementation Date: December 31, 2007.

PHARMACEUTICAL OPERATIONS

Finding No. 15: Records and control procedures relating to pharmaceutical inventory needed improvement.

Recommendation: The University should implement formal written policies and procedures relating to pharmacy operations, ensure that incompatible duties are properly separated, and ensure that perpetual inventory records are complete and accurate.

Response: The University concurs with the recommendation that formal written policies and procedures be implemented. Effective December 1, 2007, four new policies were implemented that ensure inventory procedures for both prescription and over-the-counter items have built-in perpetual checks, ensure internal audits of inventory accuracy, and ensure that inventory updates by a person independent of Pharmacy are performed.

Additionally, the Pharmacy & Therapeutics Committee will perform quarterly reviews of statistics covering ordering practices versus dispensing to gauge reasonableness.

Implementation Date: December 1, 2007.

TANGIBLE PERSONAL PROPERTY

Finding No. 16: Adequate controls over tangible personal property had not been implemented.

Recommendation: The University should maintain documentation evidencing that all phases of the inventory process have been completed timely for all property items, including investigation of items not initially located and referral of items still missing after investigation to the appropriate law enforcement agency. The University should also ensure that property is placed in service in a timely manner after being purchased, and that off-campus property accountability forms are properly and timely completed and signed by appropriate employees.

Response: The University concurs with this recommendation of maintaining documentation ensuring that all phases of the inventory process are completed in a timely manner.

By December 31, 2007, documentation will be maintained as each Phase of the inventory process is performed. This documentation reflects completion of a specific phase. Individual departments are responsible for filing the appropriate paper work to support disposition of items following Phases 3 and 4, placing purchased items into service, and filing off-campus forms for any items which are removed from campus.

Police Department laptops were replaced in May 2006 and therefore the issue of old vs. new laptops to be used as backups no longer exists. However, at this time the unused computers have been placed into service with two used ones put in reserve as backups. The integrity of the Police Department and University safety and security is of paramount importance and two backup laptop computers are reasonable components of ensuring a safe environment on campus.

Implementation Date: December 31, 2007.

Finding No. 17: Controls over property deletions needed improvement

Recommendation: The University should require an independent verification of the propriety of property record deletions made without Survey Board approval, require and document that an employee independent of the disposal process witnesses the disposal of property, and ensure that all property dispositions are promptly recorded in the property records.

Response: The responsible custodian's (or designee's) signature documents the approved removal of assets from the department. As an added control, by December 31, 2007, the Property Department will provide an additional staff member to witness the disposal of surplus property into various surplus containers. Property dispositions are promptly recorded in the property records upon the transactions becoming completed.

Implementation Date: December 31, 2007.

Finding No. 18: Property purchased through trade-in arrangements were not recorded at the proper value.

Recommendation: The University should further enhance procedures to ensure that property trade-ins are properly recorded at the correct value.

Response: By December 31, 2007, the University will have practices in place that ensure that property trade-ins are recorded at the correct value which includes the trade-in credit.

Implementation Date: December 31, 2007.

INFORMATION TECHNOLOGY

Finding No. 19: The University made payments to the Northwest Regional Data Center for information technology services without benefit of a written agreement.

Recommendation: The University should continue its efforts to ensure that services obtained from NWRDC are documented by a written agreement.

Response: Florida Atlantic University concurs with this recommendation. FAU is an active member of Northwest Regional Data Center (NWRDC) Policy Board. All costs and rates associated with the operations of NWRDC must be approved by the Policy Board. NWRDC operates by a shared governance model consisting of Policy Board. All actions involving changes to the rate structure, personnel and procurement must be voted and approved by the majority of participants. Board meetings are subject to full disclosure and subject to Florida Sunshine laws. Furthermore, NWRDC is also an auxiliary operation of Florida State University (FSU). As such, the Center is subject to FSU auxiliary and auditing guidelines.

As of December 1, 2007, Information Resource Management (IRM) signed a memorandum of understanding (MOU) with NWRDC to define the scope of both parties responsibilities related to FAU equipment placed at NWRDC for Banner business continuity purposes.

Implementation Date: December 1, 2007.

Finding No. 20: The University did not timely update its disaster recovery plan for procedural changes, and did not timely test the plan.

Recommendation: The University should timely update the formal disaster recovery plan to reflect changes in procedures, and should annually test the plan. The University should also work with the NWRDC to ensure that the NWRDC's disaster recovery plan is sufficiently comprehensive.

Response: The IRM continuity of operations plan (COOP) has already been updated. IRM has formally assigned this document to a staff member to ensure changes are included in a timely manner and that the information presented is relevant. This document will be completely

reviewed and major changes will be incorporated every June. Furthermore IRM, in conjunction with the Controller's Office, conducted a complete test of payroll system at NWRDC for pay period number 19. The IRM COOP includes a copy of the complete procedure related to this annual test. As part of the COOP annual testing, FAU will be conducting a test of Banner payroll, accounts receivable and accounts payable during pay period 6 or 7 (based on other pressing priorities).

Implementation Date: March 31, 2008.

Finding No. 21: The University needed to improve its physical controls over the computer room.

Recommendation: The University should continue its efforts to address the above-noted physical control deficiencies as part of the Computer Center renovations.

Response: Issues related to physical control and security of the FAU Data Center (such as raised flooring and the position of air conditioning, etc.) will be addressed as part of the Building 22 (Computer Center) renovation. This renovation is currently underway and it is scheduled for completion by May 2008.

Implementation Date: May 30, 2008.

Finding No. 22: Improvements could be made in the University's information technology security control structure. Also, improvements were needed in the University's information technology security procedures. Specific details of these improvements are not disclosed in this report to avoid any possibility of compromising University data and information technology resources.

Recommendation: The University should strengthen the security control structure by allowing an information security officer to have University-wide authority to develop and implement security policies and procedures and promote compliance therewith. Also, written policies and procedures should be developed for the above-mentioned areas. In addition, the University should implement the necessary control features to enhance the security of University data and information technology resources.

Response: FAU has adopted a "distributed" security model for the Banner system. Each user area is to designate one or two individuals to have responsibly for granting or revoking security access for their user community. Security Officers are provided with the SCT Banner Security Document. In addition, IRM has developed and distributed the Security Best Practices document. This document will be updated and redistributed during March of each year. Each security officer has signed a Position of Trust document. There are also quarterly meeting of security officers to discuss better strategies for access and control. This meeting is conducted by one of the qualified Banner security officers from IRM.

Implementation Date: March 31, 2008.



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November 2, 2007

Mr. Frank T. Brogan, President
Florida Atlantic University
ADM 334
777 Glades Road
Boca Raton, Florida 33431

Dear President Brogan:

Enclosed is a list of preliminary and tentative findings and recommendations that may be included in a report to be prepared on our operational audit of the:

Florida Atlantic University
For the Fiscal Year Ended June 30, 2007

Pursuant to Section 11.45(4)(d), Florida Statutes, you are required to submit to me within thirty (30) days after receipt of this list a written statement of explanation concerning all of the findings, including therein your actual or proposed corrective actions. If within the 30-day period you have questions or desire further discussion on any of the proposed findings and recommendations, please contact this Office.

Your written statement of explanation should be submitted electronically and include your digitized signature. If technical issues make an electronic response not possible, then a manually-transmitted response will be acceptable.

Please e-mail this Office at flaudgen_audrpt@aud.state.fl.us to indicate receipt of the preliminary and tentative findings. Absent such receipt, delivery of the enclosed list of findings is presumed, by law, to be made when it is delivered to your office.

Sincerely,

David W. Martin

DWM/gg

Enclosures

cc: Board Members

PRELIMINARY AND TENTATIVE FINDINGS

FLORIDA ATLANTIC UNIVERSITY

For the Fiscal Year Ended June 30, 2007

SUMMARY

Our operational audit disclosed the following:

REVENUES AND CASH COLLECTIONS

Finding No. 1: The Board had not adopted a formal policy for granting exemptions to the requirement in Section 1009.285, Florida Statutes, that students pay the full cost of instruction when enrolled in the same undergraduate credit course more than twice.

Finding No. 2: The University needed to improve controls over collections received outside of the Central Cashier's Office.

Finding No. 3: The University needed to further enhance controls relating to the OWL CARD program.

Finding No. 4: The University needed to improve its controls over complimentary tickets for athletic events.

PERSONNEL AND PAYROLL ADMINISTRATION

Finding No. 5: The University had not adequately documented why a severance arrangement was provided to a former employee, which was more beneficial than allowed by the former employee's employment contract. Also, the Board needed to revise its policies and procedures relating to severance clauses and payments. In addition, severance payments to the former employee resulted in budget overexpenditures for the Concession Funds.

PROCUREMENT OF GOODS AND SERVICES

Finding No. 6: Contrary to University policies, Student Government expenses were not always approved timely. Also, a \$6,000 payment was made to a contractor prior to the receipt of services.

Finding No. 7: Purchasing card system controls did not always provide for timely approval and payment of charges, and adequate monitoring of credit limits. Also, the University did not

maintain records of cards issued, lost or stolen, or cancelled, necessary to ensure accountability for purchasing cards.

Finding No. 8: The University's competitive procurement threshold exceeded the limit established by the Board of Governors.

Finding No. 9: University records did not evidence the contractor's compliance with the terms of an energy performance based-agreement and Section 1013.23(4), Florida Statutes.

Finding No. 10: The University did not adequately monitor cellular telephone (cell phone) usage, and did not report to the Internal Revenue Service the value of cell phone services as income for employees who did not make an adequate accounting of the business use of their assigned cell phones. In addition, the University paid certain taxes and fees for which it was exempt.

Finding No. 11: Travel expenses were not always adequately supported to demonstrate compliance with Section 112.061, Florida Statutes. Also, the University paid certain taxes on travel expenses for which it was exempt.

RISK MANAGEMENT

Finding No. 12: The University needed to improve its procedures for determining insurable values for buildings, and the University had no written policies and procedures addressing the level of insurance coverage to be maintained or the method to be used to determine insurable values.

RECORD SYSTEMS AND REPORTS

Finding No. 13: Contrary to law, several University Board members did not file, or did not timely file, their 2005 or 2006 calendar year statements of financial interests with the Florida Commission on Ethics.

Finding No. 14: The University needed to enhance its policies and procedures regarding the

PRELIMINARY AND TENTATIVE FINDINGS

annual reporting of information for institutes and centers to the Board of Governors.

PHARMACEUTICAL OPERATIONS

Finding No. 15: Records and control procedures relating to pharmaceutical inventory needed improvement.

TANGIBLE PERSONAL PROPERTY

Finding No. 16: Adequate controls over tangible personal property had not been implemented.

Finding No. 17: Controls over property deletions needed improvement

Finding No. 18: Property purchased through trade-in arrangements were not recorded at the proper value.

INFORMATION TECHNOLOGY

Finding No. 19: The University made payments to the Northwest Regional Data Center for information technology services without benefit of a written agreement.

Finding No. 20: The University did not timely update its disaster recovery plan for procedural changes, and did not timely test the plan.

Finding No. 21: The University needed to improve its physical controls over the computer room.

Finding No. 22: Improvements could be made in the University's information technology security control structure. Also, improvements were needed in the University's information technology security procedures. Specific details of these improvements are not disclosed in this report to avoid any possibility of compromising University data and information technology resources.

FINDINGS AND RECOMMENDATIONS

Revenues and Cash Collections

Finding No. 1: Student Fees – Repeated Enrollment

Section 1009.285, Florida Statutes, provides that a student enrolled in the same undergraduate credit class more than twice must pay 100 percent of the full cost of instruction and not be included in calculations of full-time equivalent enrollments for State funding purposes. This Section also provides that students

who withdraw or fail a class due to extenuating circumstances may be granted an exception only once for each class, provided that approval is granted according to policy established by the university board of trustees. Universities may also reduce fees paid by students due to continued enrollment in an undergraduate credit class on an individual basis contingent upon the student's financial hardship.

According to University records, during the 2006-07 fiscal year, a total of 1,005 students enrolled in the same undergraduate credit class more than twice. We selected 10 of these students and determined that all 10 students paid the required full cost of instruction. We also were provided a listing showing that 216 of the 1,005 students received exceptions from paying full instructional costs due to a financial hardship or other extenuating circumstances. However, the Board had not adopted a formal written policy for determining whether a student was entitled to such an exception, nor did the University provide guidance in its catalog. Without a written policy, the University cannot ensure that exceptions are properly authorized, consistently applied, and approved in accordance with law.

Recommendation: The Board should adopt a policy establishing documentation requirements and approval procedures for determining whether a student is entitled to an exception from paying the full cost of tuition for repeated course enrollment in accordance with law.

Finding No. 2: Decentralized Collections

University personnel collect moneys at various locations throughout campus. Moneys collected are generally remitted to the Central Cashier's Office for deposit in the bank. Effective controls over collections require documentation from receipt through deposit by the Central Cashier's Office, and timely deposit of collections in the bank.

For the 2006-07 fiscal year, collections at the Campus Recreation Department, OWL CARD Center,

PRELIMINARY AND TENTATIVE FINDINGS

Pharmacy, and Athletics Department were \$20,775, \$308,747, \$573,630, and \$1,112,632, respectively (total of approximately \$2 million). As similarly noted in our report Nos. 2006-044 and 2004-013, our review of collections at these locations, and our review of controls in the Registrar's Office, disclosed that the University needed to improve controls over collections received outside of the Central Cashier's Office. Specifically, we noted the following:

- Our test of 30 daily receipts at the Campus Recreation Department and Athletics Department disclosed that 15 receipts (totaling \$27,853) were not remitted to the Central Cashier's Office until 5 to 95 days after the date of collection. Untimely remittance of collections to the Central Cashier's Office increases the risk of loss or theft of collections.
- The Pharmacy and the Athletics Department did not have procedures requiring the use of mail receipt logs for collections received through the mail. Also, although recommended in our report No. 2006-044, the College of Business had not developed mail receipt log procedures. Mail receipt logs establish accountability of the receipt at the initial point of collection and provide a record from which University personnel could verify that collections were timely deposited. Without using and reconciling the log, there is an increased risk that a loss or theft of collections could occur without timely detection.
- The Campus Recreation Department and Athletics Department ticket office did not use transfer documents to evidence the transfer of collections between employees. Without transfer documents, responsibility for collections cannot be fixed to one individual should a loss occur.
- The Campus Recreation Department stores cash overnight in a safe, and the Pharmacy

stores cash overnight in a locked cash register drawer. However, several employees have access to the safe and cash register drawer. Also, more than one person worked out of the same cash register drawer during the day at the Pharmacy and OWL CARD Center. In addition, Pharmacy daily collections were commingled with the following day's collections until the deposit was prepared. Access to collections should be limited and fixed to one person at any point in time from the time of receipt to deposit to provide accountability should a loss occur.

- For the Campus Recreation Department, Pharmacy, and Athletics Department ticket office, voided sales transactions were not reviewed by a supervisor who was independent from the collection process. Without proper approval of voids at the time of the transaction, there is an increased risk that collections will not be properly recorded and deposited without timely detection.
- Duties relating to collections in the Campus Recreation Department, Pharmacy, and Athletics Department were not adequately separated. One employee in each of these areas was responsible for receiving or processing collections, voiding transactions, and preparing daily reconciliation reports (see additional discussion regarding an inadequate separation of duties for the Athletics Department ticket office and the Pharmacy in finding Nos. 4 and 15, respectively). Without an adequate separation of incompatible duties, there is an increased risk that collections will be misappropriated without timely detection.
- The Campus Recreation and Athletics departments did not have adequate procedures to maintain accountability over collections, as follows:

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- Campus Recreation Department membership passes and Athletics Department tickets were not prenumbered, and sign-in logs were not used to document the number of people using the recreation facilities.
- The Controller's Office provided prenumbered receipts to Campus Recreation Department personnel for use in documenting amounts collected; however, Campus Recreation Department personnel did not issue the receipts in consecutive order. In addition, there was no inventory record maintained of receipts that were issued, voided, and on hand to provide accountability for the receipts.
- Our test of 15 Campus Recreation Department collections as shown on daily deposit records disclosed 2 cash collections totaling \$35 that were not evidenced by a cash receipt.

Prenumbering of membership cards, tickets, and receipts, and accountability for these documents, would allow University personnel to perform an analysis of the documents sold, or patrons using the facilities, to ensure that all amounts collected were properly recorded and deposited intact.

Recommendation: The University should ensure that collections are timely remitted to the Central Cashier's Office, mail receipt logs are used for all collections received in the mail, and transfer documents are used to evidence the transfer of collections between employees. The University should also provide for independent supervisory review of voided transactions, ensure that access to collections prior to deposit is limited to one employee, and provide for accountability over prenumbered membership cards, tickets, and receipts.

Finding No. 3: OWL CARD Program

OWL CARDS are primarily issued to students for use as identification; as a debit, library, or meal plan card; and to gain access to some buildings on campus (OWL CARDS are also issued to University personnel and some campus vendors).

In our report No. 2006-044, we noted internal control deficiencies relating to the OWL CARD program. Our current audit disclosed that although the University had enhanced controls relating to the OWL CARD program, such controls could be further enhanced. Specifically, we noted the following:

- OWL CARD Center employees had access to blank cards and encoding machines. Inadequate separation of duties increases the risk that unauthorized OWL CARDS will be issued without timely detection.
- OWL CARDS were encoded with a random number when the cards were activated. The number was used to grant access to the various OWL CARD services. There were no procedures in place to account for the number of OWL CARDS issued, voided, and on-hand.

Recommendation: The University should continue to enhance controls over OWL CARDS by ensuring that duties are adequately separated and procedures are established to provide for an accounting for OWL CARDS issued, voided, and unused (on-hand).

Finding No. 4: Complimentary Tickets

During the 2006-07 fiscal year, the Athletics Department issued 6,160 complimentary football tickets and 1,658 complimentary men's basketball tickets. Our review of the University's controls over complimentary tickets disclosed that such controls could be improved, as follows:

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- In response to our request for formally established guidelines for the distribution of complimentary tickets, we were provided a memorandum and attachment dated January 31, 1991, to the State University System establishing the University's complimentary guest admission's policy related to basketball complimentary tickets, and a section of the Ticket Office Policy Manual covering all sporting event. However, neither of these documents provided specific guidelines for the distribution of complimentary tickets for the various types of events and programs.
- Some individuals responsible for issuing complimentary tickets were also responsible for collecting money for ticket sales. A separation of these duties is important because an accounting for complimentary tickets is not possible since tickets are not prenumbered (see discussion in finding No. 2).

In the absence of an adequate separation of the duties of issuing complimentary tickets from the collection process, and independent accountability for complimentary tickets, there is an increased risk that ticket collections may be misappropriated without timely detection.

Recommendation: The University should revise its written policies and procedures to establish specific guidelines for the distribution of complimentary tickets for the various types of events and programs, require an adequate separation of duties, and provide accountability for complimentary tickets.

Personnel and Payroll Administration

Finding No. 5: Severance Payment

Section 1001.75(3), Florida Statutes, provides the President the authority to establish and implement policies to appoint, compensate, and remove

personnel consistent with law, State Board of Education rules, and University Board of Trustees (Board) approved rules and policies. Board Operations Policies and Procedures, Section 4.6, grants the President the authority to execute all documents on behalf of the University and the Board consistent with law, Board policies, and in the best interests of the University. University Regulation 5.008(3)(c) states that the President may offer an employee a severance payout in lieu of continuing to work through the end of the notice period.

In August 2005, the University contracted with an executive recruiting firm to conduct a nationwide search for individuals that were qualified and willing to apply for the Executive Vice President for University Advancement and Executive Director of the Florida Atlantic University Foundation, Inc. (Executive) position. According to the President, six months into the search he was advised by the executive recruitment firm that they did not believe they would be able to find someone with sufficient experience and knowledge of Florida laws and regulations at the salary the University was offering to pay. As such, the search was terminated and the decision was made to make the individual who was temporarily filling the Executive position the permanent Executive. On January 5, 2006, the President executed a six-year employment contract with the Executive. The University's General Counsel, and the Foundation Board Chair, also signed the contract.

The employment contract included a termination without cause provision, which provided for the University, after 90 days following notice of termination, to pay the Executive an amount equal to his annual base salary, payable from nonappropriated sources in equal monthly installments, either until the end of the term of the contract or for a maximum period of 24 months after the effective date of termination, as long as the Executive remained unemployed. The employment contract further provided that if the Executive were to resign, the Executive would not be entitled to any further

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compensation or benefits after 90 days following notice of resignation. We were advised that prior to the execution of the employment contract, no other University employee other than the President and the football coach had an employment contract that included a severance clause such as that included in the Executive's contract. The President indicated that the Executive's contract was modeled after the President's contract because the Executive stated that he would only accept the position if he had a multiple year contract with a severance clause.

On March 19, 2007, the President met with the Executive and discussed options to end the Executive's employment relationship with the University. After various discussions with the University's General Counsel, the Executive, on March 31, 2007, signed a Severance Agreement and General Release (severance agreement), which was executed by the President on April 2, 2007. Under the terms of the severance agreement, the Executive agreed to resign and release any claims the Executive may have had against the University "under any federal, state, or local law or constitutional provisions, or any other statute, contract, tort, or other common law," and in return the Executive would be paid the total sum of \$495,661 over a 24-month period following the effective date of termination (i.e., following the 90-day notice period). We were advised that the decision to terminate the Executive's employment was due to the Executive taking a different approach to his position and conflicts with the new Florida Atlantic University Foundation, Inc. (Foundation), Board of Directors. However, University records provided for our review did not evidence any specific deficiencies in the Executive's performance.

The severance agreement included compensation provisions that were more beneficial to the Executive than those included in the employment contract, as follows:

- The employment contract did not provide for any severance pay beyond the 90-day notice

period for a resignation, whereas the severance agreement did provide for severance pay for a resignation. Under the employment contract, if the Executive resigned, the University was not obligated to pay the Executive anything following the 90-day notice period, whereas under the severance agreement, the University is obligated to pay him \$495,661 following the 90-day notice period.

- The employment contract, for termination without cause, provided for severance pay up to 24 months after termination, but only so long as the Executive remained unemployed. Under the severance agreement, the Executive is guaranteed severance pay for 24 months after termination even if employed elsewhere during that time period except for certain 12-month limitations regarding employment involving fundraising, solicitation, or donor-seeking activity.

Although it appears that the President had the authority to enter into the severance agreement with the Executive, we inquired of the President as to why the severance agreement included compensation provisions that were more beneficial to the Executive than those included in the employment contract. In response to this inquiry, the President indicated that, during the March 19, 2007, meeting with the Executive to discuss termination of the Executive's employment, and during later discussions with the University's General Counsel, the Executive asserted that he had claims against the University that he was prepared to pursue through the judicial process. Because of the threat of such claims being made against the University, and the possibility of adverse publicity relating to such claims, it was decided that the University should offer employment termination terms to the Executive that were more favorable than those included in the employment contract in return for obtaining a release of claims against the University. However, although requested, we were not provided

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documentation evidencing that the Executive had asserted claims against the University or indicating the nature of the claims. Consequently, it was not evident, of record, why the University needed to offer employment termination terms that were more beneficial to the Executive than those included in the employment contract.

Board of Trustees Policies

On May 16, 2007, the University Board of Trustees (Board) revised Section 4.6 of the Board Operations Policies and Procedures to include a statement that no contract for personal or employment services shall obligate the financial resources of the University for a period of more than twelve months beyond the delivery of a notice of termination, without consultation by the President with the Board Chair. However, we noted the following issues that the Board has not addressed through policy changes:

- The Board Operations Policies and Procedures did not require the President to consult with the Board Chair prior to including severance clauses in an employment contract. Given the significant financial impact that such clauses can have on the University, and the rarity of such clauses, the Board should be aware of any such clauses to be included in employment contracts.
- Although the above-noted policy change addressed payments that obligate the University for an extended period of time, it did not establish a dollar limit on severance payments. As such, the President could enter into a severance agreement that pays a large sum of money over a period within the time limits of the policy without consulting the Board Chair.

In addition, given the adverse publicity generated by the Executive's severance agreement, and the significant financial impact to the University that resulted from such agreement, in situations such as this, Board approval, as opposed to consultation with

only the Board Chair, would appear to be in the University's best interests.

Budget

Severance payments were paid from the University's Concession Funds, which consist of vending machine collections, and totaled \$118,116 as of June 30, 2007. Pursuant to Section 1011.40(2), Florida Statutes, the Board adopted an operating budget for the 2006-07 fiscal year. Section 1011.91(2) Florida Statutes, provides that all moneys received from vending machine collections by universities be expended only as set forth in detailed budgets, and the University's operating budget included \$329,575 of budgeted expenditures for Concession Funds. No budget amendments for the Concession Funds were made for the 2006-07 fiscal year and, as a result, actual Concession Funds expenditures for the 2006-07 fiscal year exceeded budgeted expenditures by \$68,274.

Recommendation: The University should ensure that documentation is retained to support management decisions that obligate University resources and evidence that the actions taken are in the best interest of the University. In addition, the Board should consider revising its Operations Policies and Procedures to require Board approval for any severance provisions included in employment contracts or severance agreements. Also, University procedures should be enhanced to ensure that expenditures do not exceed budgetary authority.

Procurement of Goods and Services
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Finding No. 6: Student Government Expenses

Section 6.0 of the University's Purchasing Manual requires a purchase requisition from a department documenting approval for the purchase, issuance of a purchase order to a vendor, and receipt and acceptance of the goods or services prior to making a payment to a vendor. In some instances involving contractual services, an executed written agreement with the contractor may take the place of the purchase

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order. Also, University Regulation 4.006(4) requires that all Student Government purchases, contracts, expenditures, and disbursements be made in accordance with University procedures.

Our test of 15 Student Government expense payments disclosed the following:

- For 5 Student Government expense payments, totaling \$23,450, purchase orders were dated between 8 and 115 days after the services were rendered and between 8 and 66 days after the invoice date, contrary to Section 6.0 of the University's Purchasing Manual and University Regulation 4.006(4).
- One Student Government expense payment of \$6,500 was made to a guest speaker 11 days prior to the event at which the individual was to speak. Advance payments by a governmental entity to a nongovernmental entity are contrary to Article VII, Section 10 of the State Constitution.

Without adequate controls in place to ensure that expenses are approved, and goods or services are received prior to payment, there is an increased risk of the University paying for unsubstantiated or improper expenses.

Recommendation: The University should ensure that purchase orders or contracts are used to document the approval of purchases of goods or services prior to incurring an obligation for payment, and ensure that services have been rendered prior to issuing payment.

Finding No. 7: Purchasing Cards

The University established a purchasing card program, which gives employees the convenience of purchasing items without using the standard purchase order process. The purchasing card was designed to handle and expedite small orders in an efficient manner with a significant reduction in overhead. The University issued purchasing cards to approximately 520

employees as of June 30, 2007. During the 2006-07 fiscal year, purchasing card charges totaled approximately \$6.4 million.

The University appointed a card administrator and developed a comprehensive purchasing card manual that addresses management controls over purchasing cards. As similarly noted in our report Nos. 2006-044 and 2004-013, our current testing of documents and transactions for ten cardholders disclosed that improvements in controls over the purchasing card system were needed, as follows:

- There were 20 instances in which purchasing card transactions were approved from 8 to 40 working days after the charge was incurred. This is contrary to the purchasing card manual, which requires purchasing card approvers (i.e., individuals responsible for approving the cardholder's charges) to forward transactions to the payer within 6 working days after the charge is incurred.
- The above-noted 20 instances included 4 instances in which the purchasing card provider (bank) was paid between 50 to 65 days after the transaction date. This is contrary to the purchasing card manual, which states that payments must be authorized (i.e., processed for payment) within 10 days of the charge appearing in the Purchasing Card system.
- University personnel did not, of record, compare each cardholder's usage to credit limits to ensure that the limits were reasonably set. Our comparison of usage to credit limits for the ten cardholders disclosed one card that was not used since 2005 and was subsequently cancelled upon audit inquiry. In addition, we noted one cardholder had an \$80,000 limit per the bank, but transactions over the three months we reviewed only totaled \$1,272. Upon audit inquiry, the Purchasing Director indicated that the limit was in error at the bank and immediately made the correction to

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\$10,000. Excessive limits increase the risk of misuse, and the risk that purchases may exceed budget constraints.

- Although the University kept records on individual cardholders, they were unable to produce lists from those records of cards issued, lost or stolen, or cancelled during the audit period. Without such reports, University personnel cannot adequately monitor the purchasing card program to ensure that the University's records agree with the bank's records regarding authorized cards outstanding, and to ensure the timeliness of cancellations of purchasing card accounts.

Recommendation: The University should enhance controls over monitoring the purchasing card program to ensure compliance with the University's purchasing card manual, including timely approval and payment of charges, and monitoring of credit limits. The University should also maintain records of cards issued, lost or stolen, and cancelled, and use such records to ensure accountability for purchasing cards.

Finding No. 8: Competitive Selection

Pursuant to Section 1001.74, Florida Statutes, each university board of trustees may adopt rules to exercise its powers, duties, and authority as granted by law. However, such rules must be consistent with State Board of Education Rules adopted by the Board of Governors¹ (referred to as the Board of Governors Regulations).

Florida Atlantic University Rule 6C5-6.008, Florida Administrative Code, requires competitive solicitation of all contracts for the purchase of commodities and services exceeding \$50,000. However, during the 2006-07 fiscal year, this Rule was in conflict with Board of Governor's (BOG) Regulation 6C-18.045,

¹ Pursuant to Section 1000.01(5)(a)2., Florida Statutes, all rules of the former Board of Regents became State Board of Education rules. Such rules were adopted by the Board of Governors by resolution on January 7, 2003.

which provided for a competitive solicitation threshold of \$25,000.

According to BOG staff, they are in the process of developing proposed regulations setting the competitive solicitation bid threshold at no lower than \$50,000, and plan to present them for BOG approval.

Recommendation: The University should ensure that its procurement policies are consistent with BOG Regulations.

Finding No. 9: Energy Performance - Based Agreement

Section 1013.23(4), Florida Statutes, requires that energy performance-based agreements include a guarantee by the contractor that annual energy cost savings would meet or exceed the amortized cost of the energy conservation measures, and a requirement that the contractor provide the University an annual reconciliation of actual to guaranteed energy cost savings. Pursuant to Section 1013.23(4)(d), Florida Statutes, the contractor is liable for any annual energy cost savings shortfall.

On November 19, 2003, the University entered into an eight-year energy performance-based agreement with a contractor to acquire energy conservation equipment, and have certain energy conservation measures undertaken, at a total cost of \$1,168,074. The agreement stated that "each building will have installed a device capable of measuring the energy used by a sampling of new/retrofit fixtures installed. Should the annual measurement of these sample fixtures indicate an increase in energy consumption greater than 5 percent, the Contractor shall pay the University the calculated amount of this deficit from the escrow account established by the Contractor."

Upon our request for documentation evidencing the actual energy savings achieved during the first three years of the contract, University personnel indicated that at the two-year anniversary date of the contract, the contractor temporarily installed measurement

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devices to verify the reduction in wattage by taking random samples throughout the buildings that were retrofitted, and that the random samples indicated that the University was using less power than anticipated. Although we were provided a report dated March 29, 2006, indicating that the results of the samples showed that the total wattage consumption was below the total expected wattage, the report did not indicate how the expected wattage was determined. In the absence of an adequately documented annual comparison of actual to guaranteed energy cost savings, the University cannot demonstrate compliance with the requirements of Section 1013.23(4), Florida Statutes.

The agreement also required that the contractor establish an escrow account for \$100,000, and provided that upon each of the first three anniversaries of the escrow deposit date, the escrow agent was to release \$33,333 to the contractor, together with any interest accrued, unless the University certified in writing that there was an annual savings deficit that the contractor failed to pay. In such an event, the University was to be paid the deficit and any remaining funds from the \$33,333 would be released to the contractor. In response to our inquiry, University personnel indicated that an escrow account had been established, and that “the University’s only responsibility was to request payment from the escrow fund if there was an energy savings deficit. Since we realized the savings guaranteed, we did not request any payments.” However, although requested, we were not provided evidence that the escrow account was established.

Recommendation: The University should ensure compliance with the energy performance-based contract provisions of Section 1013.23(4), Florida Statutes, and the escrow account provisions established in the agreement.

Finding No. 10: Cellular Telephones

During the 2006-07 fiscal year, the University provided certain employees cellular telephones (cell

phones) to assist them in carrying out their official duties. Expenses for cell phone usage totaled approximately \$317,000.

The Information Resource Management Department was responsible for issuing the cell phones and has issued several procedural memorandums and e-mails to the various departments relating to monitoring cell phone usage. However, the University had not established formal comprehensive written policies and procedures addressing cell phone usage, including matters such as monitoring the continued need for employees to be assigned cell phones and communicating to employees that cell phones are not intended for personal use.

Pursuant to United States Treasury Regulations, Section 1.274-5T(e), an employee may not exclude from gross income any amount of the value of property listed in Section 280F(d)(4) of the Internal Revenue Code (IRC), unless the employee substantiates the amount of the exclusion in accordance with the requirements of Section 274(d) IRC, and United States Treasury Regulations, Section 1.274-5T. Because cell phones are listed as property, their use is subject to the substantiation requirements of the United States Treasury Regulations, Section 1.274-5T(b)(6), which require employees to submit records to the University to establish the amount, date, place, and business purpose for each business call. A notated copy of the employee’s cell phone bill is an example of such record.

University procedures required departments to be provided with detailed bills, and for the department head to complete a form to document that the bill had been reviewed and all charges related to personal calls had been identified and the University reimbursed for such charges. However, the forms and supporting documentation are maintained in the individual departments, employees are not required to state the specific purpose of each call, and there is no independent review of cell phone bills to ascertain any personal calls made, and reimbursement thereof. As such, the University should have reported to the

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Internal Revenue Service (IRS) the value of cell phone services provided each employee assigned a cell phone. Our review disclosed that the University had not included the value of these services in the income reported on these employees' W-2 forms for the 2006 calendar year.

We selected 15 cell phones, and reviewed a bill for one month for each cell phone to determine the propriety of the charges and compliance with University procedures for documenting and obtaining reimbursement for personal calls. We noted one cell phone bill for the month of November 2006, included 8 roaming calls, totaling \$49, to a non-University phone number. Upon audit inquiry for detailed supporting documentation of the business purpose of each of these calls, we were informed that the calls were to the department head's spouse who also worked for the University. The department head indicated that the calls were partially business and partially personal. The department head subsequently reimbursed the University for the cost of the calls.

We also noted that a cell phone assigned to an employee who terminated employment on March 10, 2007, was still on hand in the department and active through the end of the audit period; however, it had not been reassigned to another employee or the department head, and there was no call activity on this phone after the employee's termination date. As of June 30, 2007, the University had incurred monthly fees totaling approximately \$160 for the months the phone remained active after the employee's termination date.

In addition, we noted that, although the University is exempt from certain State taxes and wireless E911 service fees² on telephone services, it was billed for such taxes and fees on cell phone billings for the 2006-07 fiscal year. Upon audit inquiry, University

² Pursuant to Section 365.172(8)(a), Florida Statutes, each home service provider must collect a monthly wireless E911 fee from each customer at the rate of 50 cents per month for each service number. However, this law further provides that for purposes of this Section, State and local governments are not considered customers.

personnel advised us that the University is disputing the payment of the State sales tax and is in the process of obtaining a credit from the service provider.

Recommendation: The University should establish formal comprehensive written policies and procedures relating to cell phone assignment and usage that require employees to state the business purpose of calls and independent review of cell phone bills to determine personal calls made and any needed reimbursements. In the absence of such procedures, the University should report appropriate amounts in income to the IRS in accordance with Federal requirements. The University should also ensure the timely cancellation or reassignment of cell phones upon the assigned employee's termination. In addition, the University should request that cellular telephone service providers remove exempt taxes and fees from the University's bills, continue its effort to seek credit for exempt State sales taxes previously paid, and also seek credit for exempt wireless E911 fees previously paid.

Finding No. 11: Travel Expenses

Section 112.061, Florida Statutes, governs travel expenses of public agencies, including universities. Among the requirements of Section 112.061, Florida Statutes, are specific documentation requirements for the payment or reimbursement of travel expenses incurred by employees or other persons in connection with official business. For universities, other authorized persons may include students traveling in connection with athletic events. All University travel expenses must be within the limitations prescribed by this law.

Our test of 15 travel expenditures, disclosed the following:

- One expenditure involved a \$2,100 travel advance made to a cheerleading coach for the team's hotel and rental transportation expenses in connection with a national competition in Orlando, Florida, for which we noted the following:

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- The travel advance request related to this expenditure was not accurately prepared. The travel advance request dated January 11, 2007, indicated that the advance was needed to cover hotel and registration fee expenses; however, the hotel charges and registration fees, which totaled \$5,988, had already been paid on December 6, 2006. The travel advance request also indicated that \$625 of “transportation” expenses would be incurred; however, according to the travel reimbursement form for this trip, only about \$160 of transportation costs for gas and tolls was incurred. When travel advance requests are not accurately prepared, there is an increased risk that the traveler may receive an incorrect travel advance amount.
- The travel reimbursement form included \$2,077 of total actual expenses relating to food, tolls, and gas expenses for the trip. The reimbursement form and supporting documentation did not indicate the number of team members who traveled for the competition or the time of departure and time of return needed to enable a determination of authorized meal allowances. As such, University records did not demonstrate that the coach and team members were paid the appropriate amounts for meals as prescribed by Section 112.061(6), Florida Statutes.
- One expenditure was a payment to a local hotel to accommodate an accreditation team site visit to the University’s School of Social Work. The University paid the \$2,666 hotel invoice, which included \$253 in taxes although the University was exempt from such taxes pursuant to Section 212.08(7)(o), Florida Statutes.

Recommendation: The University should ensure that travel expenses are adequately supported to demonstrate compliance with Section 112.061, Florida Statutes, and that travel advance requests are accurately prepared. The University should also ensure that payments made directly to vendors do not include sales tax.

Risk Management

Finding No. 12: Insurance Coverage

The University obtains insurance coverage for buildings and other property through the Florida Department of Financial Services, Division of Risk Management (Division). Universities are responsible for periodically providing the Division an updated certificate of coverage, and premiums are primarily based on the total insurable value of all university buildings and other property shown on the insurance certificate.

The Division has developed a valuation method that includes a matrix of cost factors used to arrive at the actual cash value (ACV) of the building. A university may use the Division’s valuation method, or an alternative method, to determine the insurable value. If a university elects to show on the insurance certificate an insurable value that is lower than the ACV, in the event of a loss, the university would be covered up to that amount, rather than the ACV. However, according to Division personnel, the ACV is the maximum coverage provided by the Division. Therefore, a university’s insurable value, as shown on the insurance certificate, should not exceed the ACV because to do so would result in the university paying additional premiums without receiving coverage beyond the ACV. Universities may opt to purchase additional commercial insurance coverage in excess of the ACV.

Our review of the University’s procedures for insuring buildings and other property disclosed the following:

- The University did not have written policies and procedures addressing the level of

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insurance coverage to be maintained or the method to be used to determine insurable values.

- The University submitted an updated insurance certificate to the Division in May 2007. The University did not use the Division's valuation method to calculate insurable values shown on the insurance certificate, opting instead to use the Market method. University personnel did not, at that time, calculate the ACV to determine whether the insurable values on the insurance certificate were higher or lower than the ACV. As such, there is an increased risk that the University may have, for some buildings, included insurable values on the insurance certificate that exceeded the ACV, resulting in the payment of excess premiums.
- Our review of insurable values shown on the May 2007 insurance certificate for ten University buildings disclosed that the base cost values used to calculate the insurable values were not in agreement with the cost values recorded in the University's property records. Although requested, we were not provided documentation supporting the base costs used to calculate the insurable value for four of the ten buildings reviewed. Although we were provided documentation supporting the base costs used for six of the buildings, such documentation consisted of the property master file dated October 2001 and Insurance Coverage Request forms dated from 2002 through 2004. In these instances, outdated cost information was used to calculate the insurable values. The use of unsupported or outdated cost information to calculate insurable values increases the risk that the University may be left with a substantial uninsured loss should significant damage occur to a building.

Recommendation: The University should develop written policies and procedures addressing the level of insurance coverage to be maintained for the University's buildings and other property, and clarifying whether the Division's method, or an alternative method, is to be used to determine insurable values. The University should also implement procedures to ensure that insurable values included on the certificate of coverage do not exceed the ACV. In addition, the University should ensure that current cost data is used to calculate insurance values, and that adequate documentation is retained to support such cost data.

Record Systems and Reports

Finding No. 13: Statement of Financial Interests

Pursuant to Section 112.3145(2), Florida Statutes, each state officer must file a statement of financial interests no later than July 1 of each year with the Florida Commission on Ethics. Section 112.3145, Florida Statutes, does not make specific mention of university boards of trustees; however, according to the Commission on Ethics publication *Florida Commission on Ethics 2006 Guide to the Sunshine Amendment and Code of Ethics for Public Officers and Employees*, members of university boards of trustees are considered State officers subject to the requirements of Section 112.3145, Florida Statutes.

Our audit disclosed the following instances in which statements of financial interest were not filed, or not timely filed, with the Commission on Ethics:

- Seven members of the University's Board of Trustees did not file their 2006 calendar year statements by the July 1, 2007, due date. Subsequent to our inquiry, five of the seven members filed the 2006 calendar year statement with the Commission on Ethics; however, as of August 31, 2007, the other two members had not.
- Five members of the University's Board of Trustees did not timely file their 2005

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calendar year statements (the statements were filed from 10 to 51 days after the July 1, 2006, due date).

Recommendation: The University should ensure that Board of Trustee members are advised of the statement of financial interests filing requirements, and ensure that they timely file the statements with the Commission on Ethics.

Finding No. 14: Institutes and Centers Reporting

Institutes and centers are established to coordinate intra- and inter-institutional research, service, or educational and training activities that supplement and extend existing instruction, research, and services at the universities. The Board of Governors (BOG) has established Policy guidelines for approving, classifying, operating, reviewing and disbanding institutes and centers in the State University System. These guidelines require all institutes and centers to annually report the number of positions by funding source and type of position, and actual expenditure by funding source, for the previous and current fiscal year. The information is normally required to be reported via an online reporting system by September 30 each year; however, for the 2005-06 fiscal year, the BOG extended the deadline to January 31, 2007, due to technical difficulties with the reporting system.

As of June 30, 2006, the University had a total of 48 active institutes and centers. Information for the 2005-06 fiscal year was submitted for the 48 institutes and centers by the January 31, 2007, due date. However, our review of information reported for the 2005-06 fiscal year for 1 institute and 3 centers disclosed the following:

- Actual expenditures were not accurately reported for the three centers, as follows:
 - One center underreported expenditures by \$1,782 because the amount reported as

expenditures was actually the amount of the center's recorded revenues.

- A second center underreported expenditures by \$4,090 because of an error in compiling expenditure information to be recorded into the online reporting system.
- A third center underreported expenditures by \$2,474 because it incorrectly excluded overhead expenditures.

➤ For the institute and two centers, the number of positions reported as of June 30, 2006, was not in agreement with the University's payroll records, as follows:

- One center did not report any positions, although \$531,927 of salary expenditures were reported.
- One center reported a total of 3.75 FTE positions (2.5 FTE positions as being funded by appropriations and 1.25 FTE positions as being funded by contracts and grants). However, payroll distribution records indicated that 4.9 FTE positions were actually paid by the center.
- The institute reported 1.1 FTE positions; however, payroll distribution records indicated that 1.41 FTE positions were actually paid by the institute.

Our review of estimated information reported for the 2006-07 fiscal year for the 1 institute and 3 centers disclosed that a consistent method was not used for determining estimated expenditures to be reported. For example, one center added 3 percent to the 2005-06 fiscal year expenditures, while another center added \$2,000 to actual expenditures as of December 31, 2006. The institute estimated expenditures based on positions and projected salaries and then added an estimate for other expenditures.

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Use of a consistent and reasonable method for all institutes and centers for determining estimated expenditures, and accurate reporting of expenditures and positions, would help ensure that the BOG makes effective and efficient decisions relating to the future funding of institute and center activities.

Recommendation: The University should ensure that expenditure and position information reported for each of its institutes and centers is accurate and complete, and ensure that corrected information for the institute and centers we reviewed is submitted to the BOG. The University should also develop a consistent method for determining estimated expenditures for all institutes and centers.

Pharmaceutical Operations

Finding No. 15: Pharmaceutical Inventory

During the 2005-06 fiscal year, the University opened a Pharmacy on campus as part of the Student Health Services Department. The Pharmacy carries prescription and over-the-counter medications, health and beauty products, and other sundries. The Pharmacy is open Monday through Friday and provides services to students and employees. Pharmaceutical prescription inventory as of June 7, 2007, was valued at \$80,113.

Our review disclosed that records and control procedures relating to pharmaceutical inventory needed improvement, as follows:

- The University had not established formal written policies and procedures over the Pharmacy operations. Written policies and procedures are necessary for employees to perform their responsibilities in a competent, consistent, and efficient manner; to ensure appropriate training of new employees; and to maintain an adequate separation of duties.
- All Pharmacy employees had access to pharmaceutical inventory, could update the

inventory records, processed collections, and performed the physical inventory count. This inadequate separation of duties was not mitigated by a compensating control, such as a review of the pharmaceutical inventory and collection records for reasonableness by an employee independent of the Pharmacy operations. Without an adequate separation of duties, or a compensating control, there is an increased risk that inventory may be misappropriated without timely detection.

- During the 2005-06 and 2006-07 fiscal years, the Pharmacy did not maintain an inventory record for nonprescription inventory items. Subsequent to audit inquiry, Pharmacy employees performed a physical count of nonprescription inventory as part of the 2006-07 fiscal year-end physical inventory count procedures to establish a record of those items. Absent adequate records of all inventory items, there is an increased risk of loss without timely detection and assets may be over- or under-reported on the financial statements.
- Our test count of 15 prescription pharmaceuticals on hand at June 7, 2007, disclosed the following:
 - For 6 of the 15 items, the physical count of the items on hand did not agree with the amount recorded on the perpetual inventory records. Differences ranged from 1 to 160, as shown in Table 1 below:

Table 1			
Item No.	Quantity per Records	Quantity per Physical Count	Overage (Shortage)
2	180	120	(60)
3	84	112	28
4	12	2	(10)
9	95	96	1
12	293	133	(160)
15	154	152	(2)

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- For 8 items, the proper unit cost, based on vendor invoices, was not recorded on the perpetual inventory records. Differences ranged from \$.06 per item to \$14.22 per item. Pharmacy employees relied on the computerized perpetual inventory records to be automatically updated as to unit costs based on downloads of the most recent unit price from the vendor's database; however, the unit cost basis per the database was not always compatible with the unit cost basis included on the vendor invoices.
- For 11 of the 15 items, our comparison of the inventory on hand per the perpetual inventory records to the amounts that should have been on hand based on the quantity of inventory reported at June 30, 2006, plus purchases and less items sold/disposed of during the 2006-07 fiscal year, disclosed differences ranging from 6 to 756 units, as shown in Table 2 below:

Table 2			
Item No.	Calculated Quantity	Quantity per Records	Overage (Shortage)
1	775	745	(30)
2	410	180	(230)
3	840	84	(756)
4	(1)	12	13
5	173	96	(77)
7	138	123	(15)
10	504	532	28
12	299	293	(6)
13	151	181	30
14	160	240	80
15	184	154	(30)

Note: For items 2, 3, 4, 12, and 15, we also noted differences between our physical count and the perpetual records as shown in Table 1.

Recommendation: The University should implement formal written policies and procedures relating to pharmacy operations, ensure that incompatible duties are properly separated, and ensure that perpetual inventory records are complete and accurate.

Tangible Personal Property

Finding No. 16: Property Inventory and Accountability

To ensure proper accountability and safeguarding of tangible personal property, the University should maintain an adequate record of each property item and make a complete physical inventory of property annually. The physical inventory should be compared with the University's property records, and all discrepancies verified and reconciled.

The University reported tangible personal property of approximately \$37.5 million (net of depreciation) at June 30, 2007. Our review of the University's controls over tangible personal property, and our test of 31 property items, disclosed the following:

- In our report No. 2006-044, we noted that the University did not perform an annual physical inventory of tangible personal property items. We were advised that during the 2006-07 fiscal year, University personnel conducted a physical inventory of tangible personal property items in four phases consisting of: (1) scanning items located in the building; (2) searching the building for items not scanned, but recorded as being located in the building; (3) sending a listing of items not located to applicable departments; and (4) following up by verifying the disposition of the items after departments return the listing. We selected one building for the purpose of verifying that the University had completed all four phases of the inventory process for property items listed in the property records as being located in the building (546 items with a total

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recorded value of \$3,537,027). According to University records, phase (1) was completed in August 2006, and phase (2) was completed in March 2007. As of August 30, 2007, a total of 39 items (including a lawn mower, edger, golf cart, projectors, and computers), with a total recorded cost of \$115,358, had not been located after completion of the first and second phases. Although requested, we were not provided documentation evidencing that the third and fourth phases had been completed for these items or that these missing items had been reported to the appropriate law enforcement agency.

- We selected 31 property items from the property records and attempted to physically locate the items. We determined that 2 of the 31 items, laptop computers purchased on May 24, 2006, with a total cost of \$6,000, were tagged and still maintained in boxes in the Police Department as of June 30, 2007, 402 days after the purchase date. In response to our inquiry, University personnel indicated that the items were stored as backups to be used in the police cars in case any of the laptops regularly used became inoperative. However, University records did not document that these computers had been purchased for this purpose, and that such purpose had been approved by appropriate University management. Further, it was not apparent, of record, why the University did not put the new computers in use and store the older laptops for backup purposes.
- When property is taken off-campus, University procedures required the completion of a Request to Remove Property From Campus form. The form indicates the property to be taken off campus and documents the approval process. The procedures also required an annual off-campus recertification for property that is

used off-campus for a year or more and not on campus during the annual physical inventory process. Our test of ten property items assigned for use at off-campus locations disclosed two items, with a total cost of \$5,578, for which annual off-campus recertification forms for the 2006-07 fiscal year were not properly completed and signed by the appropriate employee.

Recommendation: The University should maintain documentation evidencing that all phases of the inventory process have been completed timely for all property items, including investigation of items not initially located and referral of items still missing after investigation to the appropriate law enforcement agency. The University should also ensure that property is placed in service in a timely manner after being purchased, and that off-campus property accountability forms are properly and timely completed and signed by appropriate employees.

Finding No. 17: Property Deletions

The University established a Property Survey Board (Survey Board) to ensure that tangible personal property disposals are handled in a proper manner. According to University records, approximately \$9.5 million of property was deleted from the property records during the 2006-07 fiscal year. As similarly noted in our report Nos. 2006-044 and 2004-013, our review disclosed that the University's controls over property deletions needed improvement. Specifically, we noted the following:

- University policies and procedures allowed the Property Manager to remove surplus property items from the property records, and dispose of such items, without Survey Board approval. However, no employee independent of the inventory and disposal process verified the propriety of property record deletions made without Survey Board approval.

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- No employee independent of the property disposal process witnessed the disposal of property items.
- Our test of 30 deleted property items disclosed 7 items that were removed from the property records between 331 to 1,491 days after a police report was filed and the items were reported stolen. University personnel indicated that the delay was due to applicable departments untimely submission of documentation supporting the deletion to the Property Manager.

Without adequate controls over property item deletions, there is an increased risk of unauthorized deletions.

Recommendation: The University should require an independent verification of the propriety of property record deletions made without Survey Board approval, require and document that an employee independent of the disposal process witnesses the disposal of property, and ensure that all property dispositions are promptly recorded in the property records.

Finding No. 18: Property Trade-Ins

Our test of 30 deleted property items included 3 items, with a total cost of \$10,937, that were used to obtain a trade-in allowance applied to the purchase of new property items. The property items purchased through these trade-in arrangements were recorded in the property records at a cost net of the trade-in allowance. This is contrary to generally accepted accounting principles, and resulted in these assets being undervalued by a total of \$3,000. A similar finding was noted in our report No. 2006-044.

Recommendation: The University should further enhance procedures to ensure that property trade-ins are properly recorded at the correct value.

Information Technology

Finding No. 19: Contractual Services

Effective information technology management practices dictate that when an entity depends upon another for significant technology resources, a formal service agreement that defines the responsibilities of both parties should be in place. Information technology service level agreements typically address such aspects as the services provided, availability, reliability, performance, capacity for growth, levels of support provided to users, continuity planning, security, service charges, billing and payment procedures, monitoring capabilities, and procedures for resolving disputes.

During the 2006-07 fiscal year, the University obtained information technology services from the Northwest Regional Data Center (NWRDC). Payments to NWRDC for the 2006-07 fiscal year for these services totaled \$1,664,344. These payments were made without the benefit of a written service level agreement between the University and NWRDC.

Subsequently, in August 2007, the University entered into a three-year written agreement with NWRDC specifying, among other things, the University's responsibilities, services NWRDC was to provide, continuity planning, services charges, and billing and payment procedures.

Recommendation: The University should continue its efforts to ensure that services obtained from NWRDC are documented by a written agreement.

Finding No. 20: Disaster Recovery

Disaster recovery planning is an element of information technology controls established to manage the availability of valuable data and computer resources in the event of a processing disruption. Its main objective is to provide the organization a plan for continuing critical information technology-

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dependent operations. Effective disaster recovery planning considers, in part, the extent to which the entity's business processes depend on information technology. The success and effectiveness of a disaster recovery plan requires detailed development of back-up and recovery procedures, including identification of facilities, personnel, hardware, software, communications, and support services, as well as a commitment from management.

The University maintained a written disaster recovery plan, which it updated in June 2006. Our review of the plan disclosed the following:

- The University had not tested its disaster recovery plan since December 2005. Timely testing of the plan is necessary to provide increased assurance of a timely and orderly resumption of information technology operations in the event of an interruption in service. A similar finding was noted in our report No. 2006-018.
- The disaster recovery plan indicated that another university would be utilized as an off-site processing site in the event of a service interruption. However, documentation of this arrangement was dated April 2003. There was no documentation to support that this arrangement was still in effect during the 2006-07 fiscal year. In response to our inquiry, University personnel informed us that the University was no longer relying on the other university for off-site processing, but instead was storing and maintaining equipment at NWRDC to be utilized for disaster recovery efforts. Back-ups of data files were made to this equipment on a daily basis; however, the disaster recovery plan was not updated timely to reflect this change in procedure.
- As discussed in finding No. 19, there was no written agreement with NWRDC regarding information technology services provided to the University, which included disaster

recovery services as discussed above. In addition, as also noted in our report No. 2007-129, finding No. 5, the NWRDC's disaster recovery plan was not sufficiently comprehensive, which may jeopardize NWRDC's efforts to efficiently and effectively continue operations with minimal loss and processing disruption for its customers should an event occur that interrupts information technology services.

Recommendation: The University should timely update the formal disaster recovery plan to reflect changes in procedures, and should annually test the plan. The University should also work with the NWRDC to ensure that the NWRDC's disaster recovery plan is sufficiently comprehensive.

Finding No. 21: Physical Controls

Physical and logical controls are established to protect data files, applications programs, and hardware. In a networked environment, it is important to identify and protect all the entry points and paths to sensitive files. As similarly noted in our report No. 2006-018, the University needed to improve its data center's physical controls over the computer room, as follows:

- The room housing the routers and uninterruptible power supply did not have a raised floor, leaving the equipment susceptible to water damage.
- The data center had a "dry" pipe fire suppression system in place. We noted pipes directly over the computer servers and, if the system was activated during a fire, the servers would be damaged by water.

Without adequate environmental controls, the risk is increased that the University cannot prevent or minimize the damage to automated operations that may occur from unexpected events. University personnel indicated that renovations to the University

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Computer Center, which should resolve these deficiencies, are scheduled to start in December 2007.

Recommendation: The University should continue its efforts to address the above-noted physical control deficiencies as part of the Computer Center renovations.

Finding No. 22: Security Control Structure

Enterprise information resources and systems are shared resources requiring security and management strategies to be coordinated across the enterprise. An entitywide program for security planning and management is the foundation of an entity's security control structure and reflects senior management's commitment to addressing security risks. Also, fundamental to an effective security control structure is assigning responsibility for securing information assets to a designated information security officer, who has the responsibility for and authority to develop and implement security policies and procedures and promote compliance entitywide.

In our report No. 2006-018, we noted that the University had not formally designated an overall information technology security manager. In response to our inquiry during our current review, University personnel indicated that the Associate Director of Networking Services within Information Resource Management was functioning as a security manager, but the position did not have the authority to make or enforce policy decisions at the Universitywide level. Also, as similarly noted in our report No. 2006-018, the University did not have written policies and procedures in place regarding the periodic review of Banner user access accounts or the monitoring of Banner application and database security events. University management indicated that as of September 7, 2007, a Banner security best practices document had been implemented, the purpose of which was to establish policies, procedures, and guidelines for accessing and using the Banner system.

Without an information security officer with Universitywide authority, security oversight may be limited and security policies and procedures may not be timely developed or consistently applied. Without adequate written security policies and procedures, personnel may not have sufficient guidelines for meeting management's expectations. As a result, the effectiveness of information security could be limited.

We also identified improvements that could be made in the University's security controls. Specific details of these improvements are not disclosed in this report to avoid the possibility of compromising University data and information technology resources. However, appropriate University personnel have been notified of the needed improvements.

Recommendation: The University should strengthen the security control structure by allowing an information security officer to have Universitywide authority to develop and implement security policies and procedures and promote compliance therewith. Also, written policies and procedures should be developed for the above-mentioned areas. In addition, the University should implement the necessary control features to enhance the security of University data and information technology resources.

PRIOR AUDIT FINDINGS

As part of our current audit, we determined the University had taken corrective actions for findings included in our report No. 2006-044, except as noted in finding Nos. 2, 3, 7, 16, 17, and 18.

PRELIMINARY AND TENTATIVE FINDINGS

APPENDIX – A FLORIDA ATLANTIC UNIVERSITY’S BOARD OF TRUSTEES

Members of the University’s Board of Trustees who served during the 2006-07 fiscal year are listed below:

Board Member

Norman D. Tripp, Chair from 1-17-07,
Vice Chair to 1-16-07
Nancy Wood Blosser, Vice-Chair from 1-17-07
Sheridan Plymale, Chair to 1-16-07
Scott Adams
Dr. William Bryant
David Feder
Armand Grossman
Dr. Rajendra P. Gupta
Lalita M. Janke
Dr. Roy Levow to 5-15-07 (1)
Austin Shaw to 5-15-07 (2)
Dr. Eric H. Shaw from 5-16-07 (1)
Robert J. Stilley
Tony Teixeira from 5-16-07 (2)
Dr. George Zoley

Notes: (1) Faculty senate chair.
(2) Student body president.

END OF PRELIMINARY AND TENTATIVE FINDINGS