



MINUTES
AUDIT AND FINANCE COMMITTEE MEETING
Wednesday, October 24, 2007

AF: A-M. Roll Call and Approval of Minutes for the August 28, 2007 BOT Audit and Finance Conference Call.

Dr. William Bryant, Vice Chair of the Audit and Finance Committee, convened this meeting at 9:15 a.m. Roll call commenced with the following Committee members participating:

Dr. William Bryant, Mr. David Feder, Dr. Rajendra Gupta, Mr. Tony Teixeira, Mr. Bob Stilley (via teleconference), Mr. Normal Tripp and Dr. Roy Levow.

The following Board of Trustees members participated:

Mr. Scott Adams, Mr. Armand Grossman, Mrs. Sherry Plymale and Dr. Eric Shaw.

The following University officials participated:

Mr. Frank T. Brogan, President; Dr. Kenneth A. Jessell, Vice President for Financial Affairs; Dr. John Pritchett, Provost and Chief Academic Officer; Mr. Morley Barnett, Inspector General, and Mr. David Kian, General Counsel.

Trustee Bryant then called for comment or corrections to the minutes of the August 28, 2007 conference call. With none forthcoming, a motion was made and seconded to approve the minutes without change. **The motion passed unanimously.**

AF: A-1. Recommendation to Approve Amendment to Regulation 8.001 to Implement Legislative and Board of Governors' Established Increases in Student Fees Effective Spring Semester 2008 of Academic Year 2007-2008.

Dr. Jessell advised members that in accordance with Board of Governors' and the Florida Legislature's directives, this request will amend FAU Regulation 8.001 effective January 1, 2008 to reflect the five percent increase in undergraduate in-state tuition that each of those governing bodies approved. The increase totals \$3.68 per credit hour and to maintain consistency between in-state and out-of-state matriculation fees, the regulation reflects an increase in the undergraduate out-of-state matriculation fee of \$3.68 and a decrease in the non-resident fee of \$3.68.

Discussion followed debating the pro's and con's of the affects of this increase. It was noted that this additional funding will help offset recent budget reductions and is less than the national average tuition increase of 6.6 percent. Additionally, it was noted that large tuition increases are detrimental to students financially and may limit access to higher education. While Florida remains the most affordable in tuition, ranking approximately 49-50th, the question arose on its ranking in legislative or state funding support for higher education. Dr. Jessell noted that exact information wasn't immediately available but that in recent reports even combining state appropriations to tuition, Florida is in the bottom half in the country. When expanding funding to including community college funding, Florida is in the bottom quartile nationwide. Florida is a low appropriation-low tuition state. Additionally, it was noted that state appropriations are declining nationwide. Management agreed to research this question and provide data in the near future.

A brief conversation was held on why the cost of education is outpacing inflation and questions on institutional efficiencies. Dr. Jessell explained the differences between the commonly used Consumer Price Index which is used to measure family purchasing power and includes food, clothing, appliances, etc. and the Higher Education Price Index which is geared to specific higher education services. With imports and other competitive strategies, the basket of goods/services incorporated within the CPI doesn't increase to the same extent that higher education salaries, benefits, supplies and library resources do. It was requested to delay further discussion until Agenda Item AF: I-8.

The Chair then called for a motion to recommend approval of the five percent tuition increase to the Board of Trustees. A motion was made and seconded. The motion passed unanimously.

AF: A-2. Recommendation to Approve the BOT Audit and Finance Committee (AFC) Charter.

Dr. Jessell addressed this issue reminding members that the BOG Audit Committee, recognizing the critical oversight functions of the Committee, recommended the creation of a formal charter to document statutory, fiduciary and oversight responsibilities.

This initiative was first presented to members at the February 2007 AFC meeting. Since then, with member participation coordinated by Trustee Stilley and Morley Barnett, minor revisions have been incorporated to more fully include best practices and existing BOT Operating Procedures. Dr. Jessell then reviewed the revisions outlined in the materials distributed to members.

Commentary followed on the checks, balances and clarification of the expected roles of the Inspector General, Administration and the Board provided in this document.

The Chair then called for a motion to recommend approval of the BOT Audit and Finance Committee Charter to the Board of Trustees. A motion was made and seconded. The motion passed unanimously.

AF: A-3. Recommendation to Approve the Proposed Amendments to Regulation 1.005, Public Information and Inspection of Records, and 1.007, Agency Clerk.

Addressing this item, Dr. Jessell informed members these regulation amendments are requested to conform to Board of Governors' and Legislative directives and guidelines. Regulation 1.005 clarifies access to public records; it designates the President as the custodian of all University records. It further

specifies that those records designated by law as limited-access records are designated as such at Florida Atlantic University. It authorizes the President to designate access responsibilities of limited-access records to specific offices. Additionally it removes references to student records as this is covered by another regulation. Regulation 1.007 designates the Agency Clerk, responsible for receiving information requests, to the General Counsel's Office rather than the President's Office.

After receiving Presidential confirmation approving these revisions, the Chair called for a motion to recommend approval of the amendments to Regulation 1.005 and 1.007 to the Board of Trustees. A motion was made and seconded. The motion passed unanimously.

AF: I-1. Review Report on the Status on Diversity, June 2007.

President Brogan took the floor noting this report as a permanent part of the Strategic Plan providing measurable and accountable data to assist in reaching diversity goals and objectives. A review of diversity highlights commenced, stating the importance of the Plan's goals, and enumerating various functions, events and educational training opportunities provided to reach the objectives of establishing hiring practices to ensure equal opportunity; developing employee programs to improve inclusiveness, awareness and sensitivity on diversity issues; and, enhancing the cultural awareness of students and improvements to student life.

Continued review noted data on service area comparisons, gains in hiring of faculty, adjunct, staff and administrators, as well as a student enrollment update. It was noted that FAU's student body continues to be more diverse than our service region and the state of Florida. Also, FAU's diversity numbers are improving with slight increases in both African-American and Hispanic professional staff and faculty members.

President Brogan advised that while many strategies and programs have been initiated or are in progress, much work is still needed to fulfill the plan's goals and the University is committed to these efforts.

President Brogan concluded his presentation.

AF: I-2. Review of the Office of Inspector General Report of Annual Activities for Fiscal Year Ended June 30, 2007.

AF: I-3. Review of the Office of Inspector General Fiscal Year 2007-2008 Work Plan.

Mr. Barnett addressed these items noting that both reports are provided to the Committee annually. The Annual Activities report summarizes the audits, investigations and consulting services completed during the 2006-2007 fiscal year.

He then reviewed the 2007-2008 Work Plan and noted the changes in the risk assessment process implemented this year at the request of the Committee. Mr. Barnett advised that the feedback expected to be generated from this new process was limited. Chairman Tripp requested that next year consultation meetings be scheduled with each Committee member and that members make themselves available to ensure participation in this process. Mr. Barnett concurred.

AF: I-4A. Review of Report No. FAU 06/07-4, Audit of Payroll, October 1 through December 31, 2006.

The objective of this audit was to evaluate payroll processing accuracy and propriety of accounting for a sample of faculty, administrative, and non-student temporary employees; accuracy and timeliness of federal payroll tax payments and filing of related information returns, and proper handling of 2006 year-end tax reporting; and adequacy of management controls used to monitor the payroll function. Mr. Barnett advised that there were no reportable recommendations on this audit and that the system is working well with appropriate oversight.

AF: I-4B. Review of Report No. FAU 06/07-5, Audit of Student Employment for the Fall 2006 Semester.

This audit's objective was to evaluate the adequacy and effectiveness of internal controls over the hiring and termination processes, and maintenance of required student employment records. Mr. Barnett noted the four recommendations that were made that addressed procedural and documentation issues which management plans to implement by January 2008.

Mr. Barnett informed members of the reorganization to be implemented effective January 2008 that will transfer the accountability of the Student Employment Office from the Student Financial Aid Department/Student Affairs Division to the Human Resources Department under the auspices of the Financial Affairs Division.

AF: I-4C. Review of Report No. FAU 06/07-6, Audit of Housing and Residential Life for the Fall 2006 Semester.

Mr. Barnett advised that objectives of this audit were to ensure that revenues were properly supported and accurately recorded and security issues affecting housing residents and facilities were documented, with appropriate intervention by responsible employees.

He noted that five of the six recommendations made were related to procedural documentation issues. Management will implement corrective action by March 2008.

AF: I-4D. Review of Report No. FAU 07/08-1, Audit of Northern Campuses Cashier's Offices.

Members were advised that the audit's objectives were to determine whether money collections were properly accounted for, reconciled, accurately recorded in the University's accounting records, and timely deposited; customer refunds were valid, properly supported and authorized, and accurately processed; and, physical security measures for the safeguarding of personnel and monetary assets of the cashier's office were adequate. Further noted was the similarity of this audit to those performed during cashiering audits for the Boca Raton and Broward campuses and the conviction that utilizing information provided in those audits contributed to the nominal recommendations found in this audit.

Mr. Barnett reviewed the six recommendations that were made to address transaction accountability, segregation of duties, and asset security issues. He noted corrective action to be completed by December 2007.

AF: I-4E. Review of Summary of Follow-up Audit Recommendations Scheduled to be Implemented During the Period October 1, 2006 through June 30, 2007.

Mr. Barnett addressed this audit, which follows up on the status of implementing prior audit recommendations. He noted that 24 recommendations were implemented, 16 were partially implemented and 5 had not been implemented.

Discussion ensued on the seeming continuous lag in implementation of Athletics department audit recommendations. Confirmation was provided to this situation and Members were advised of the many recommendations already completed and the relatively insignificant nature of those remaining. Additionally noted was staffing turnover, particularly in the ticketing office, that has hindered completion of remaining Athletics items.

Further discussions followed regarding the authority of the Office of Inspector General to aggressively pursue completion of recommendation implementation; to ensure auditee awareness of the necessity of implementing recommendations; and to provide clear justification for compliance failure/delay.

AF: I-4F. Review of Report No. 2007-146, State of Florida, Compliance and Internal Controls Over Financial Reporting and Federal Awards for Fiscal Year Ended June 30, 2006.

Dr. Jessell addressed this agenda item noting that this audit encompasses the entire State of Florida and that the materials provided to members reflect only those portions of the audit relating to Florida Atlantic University. In reviewing the Executive Summary you'll note many findings for state agencies under *Internal Control Over Financial Reporting*; FAU was not listed among them.

The four findings applicable to FAU, none of which is significant, were noted under *Additional Matters* and *Schedule of Findings and Questioned Costs*. Dr. Jessell reviewed each item and noted the responses provided to document the corrective actions implemented.

Discussion followed on the viability of some audit recommendations. For future reference, Members were advised that although audit recommendations are always meant to improve processes, practical application can be counterproductive to an institution. Situations can arise where implementation could cost more than the loss of funds. Cases such as a recommendation to hire an employee to eliminate an insignificant cash handling/processing issue could cost more in salary and benefits than the issue detailed in the audit finding; requiring the initiation of roll call to document student attendance every day in each and every class could significantly reduce instruction time. All recommendations are carefully considered before implementation agreement is provided to auditors.

AF: I-4G. Review of Report No. 2007-199, A. D. Henderson University School, Florida Education Finance Program (FEFP), Full-Time Equivalent (FTE) Students for the Fiscal Year Ended June 30, 2006.

Dr. Jessell noted this audit as a review of the number of existing full-time equivalent students on which funding for the school is based. This was a very clean audit with no material findings and one non-material finding with no monetary impact. The non-material finding was a failure on the instructor's part to sign one Individual Educational Plan for an exceptional student which resulted in the student being classified as a regular grade 4-8 student rather than an ESE grade 4-8 student. Management is increasing oversight responsibilities to eliminate this failing.

Upon query, management agreed to research and provides data (static/declining, etc.) of ADHUS enrollment in comparison to Palm Beach County Schools.

AF: I-4H. Review of Report No. 2008-006, Florida Bright Futures Scholarship Program Operational Audit for Fiscal Year Ended June 30, 2006.

Addressing this item, Dr. Jessell advised that this audit determines the extent to which public institutions implement administrative procedures required of the Florida Bright Futures Scholarship Program. With no findings, FAU was in total compliance with program requirements.

AF: I-5. Review of the FAU Athletics Department Agreed-Upon Procedures for Fiscal Year Ended June 30, 2006.

Dr. Jessell advised this audit as a review of all revenues and expenditures as required under National Collegiate Athletic Association (NCAA) Bylaws and Board of Governors' guidelines. This report is very clean with minor and insignificant funding variations associated with timing issues.

AF: I-6. Review of the FAU Research Corporation Financial Statements, June 30, 2006 and 2005.

Dr. Jessell reminded Members that the Research Corporation is a component unit of FAU. This independent audit is provided to the State General Auditor for inclusion within Florida Atlantic University's annual Financial Statement Audit. Revenues are approximately \$2.9 million with the bulk of these funds received from a NASA grant. No significant findings or adjustments were noted.

AF: I-7. Presentation of the First Quarter Status of Florida Atlantic University's 2007-2008 Operating Budget, July 1 – September 30, 2007, Including the 2006-2007 Fourth Quarter.

Beginning the presentation, Dr. Jessell noted the Board of Trustees' June 2007 approval of the FAU 2007-2008 Operating Budget of \$530,833,902. Review of each component of the first quarter report commenced.

Educational and General. This budget is comprised of General Revenue, Student Fees and Lottery. Dr. Jessell reminded Members that as approved by the Board in August, revenue and expenditure projections were revised downward and are reflected in this report as per the legislatively mandated budget reductions. He reviewed each section noting the estimated budgeted revenues and

expenditures to actual general revenues and student fees of \$81.3 million and expenditures of \$57.7 million. This budget is projected to be fully achieved and is on target for the year.

Close monitoring of general revenue estimates and collections will continue and updated information based on October estimates will be discussed upon completion of this presentation.

Student Financial Aid. This budget includes financial aid from all sources including federal and state awards, and scholarships, as well as the student fees required by the legislature. It is only a pass-through account where the monies are received and distributed to students. Revenues for this period are at approximately \$48.9 million with expenditures at \$47.8 million. This budget is on track to projections.

Additionally, commitment has been made to provide extra need-based financial aid to students negatively affected by the January 2007 five percent tuition increase. Budgets will be revised to reflect these changes at that time.

Grants and Contracts-Sponsored Research. This budget includes funding from federal, state and local agencies, as well as foundations and other private sources. It also includes the grant funding for the A.D. Henderson University school and payroll and clearinghouse functions for the FAU Foundation, Inc. Members were advised that HBOI research activity is not included in the report. Upon full integration of this entity to FAU, budgets will be modified.

Expenditures are slightly higher than revenues, \$12.5 million versus \$11.7 million. Members were reminded that revenues are not earned evenly during the year with cash balances covering financial need until the offsetting revenues are received. This budget is reasonable and continuing analysis and adjustments will occur as needed.

Auxiliary Enterprises. These are the business services functions of the university that are required to operate on a self-sustaining basis, i.e., food services, housing, bookstore, telecommunications, traffic and parking, etc.

Dr. Jessell spoke to the exceptional facilities improvements recently completed. It was noted that increased revenues will be directed to the renovation expenses incurred.

Revenues of \$18.2 million are greater than expenditures of \$8.6 million but this only reflects timing issues associated with receipt of monies at the beginning of a semester. Second quarter revenue growth will be insignificant while expenditures will increase. This budget is on track to projections.

Athletics Local. This budget consists of many revenue sources including student fees, ticket sales, games guarantees, sponsorships, etc. and was approved by the Board to mirror the budget developed during annual Athletics Workshop. Revenues are greater than expenditures, \$4.1 million versus \$3.9 million, and the budget exhibits the same cash flow timing issues as those discussed for auxiliary enterprises.

The Athletics Department has hired a new budget director and continues to work on development issues including sponsorships which are currently below expectations. It is believed that current

prospective contracts will address this issue. Close monitoring of this budget continues but is expected to be on target.

Student Government/Student Activities. This budget is funded by student fees and Dr. Jessell commented that, as always, this budget is in great shape with the Student Government administration remaining excellent fiscal managers.

This budget is projected to have higher expenditures than revenues this year in anticipation of the completion of current construction projects. Management has proactively budgeted the past few years to accommodate these projects.

Concessions. This small budget is supported by vending and soft drink machines revenues. Expenditures are higher than revenues as was projected during budget construction. Cash balances are available to address this issue. This budget is on target to year end.

A brief review of the current year budget in comparison to prior year followed including revenues, expenditures and cash balances. Dr. Jessell noted that Florida Atlantic University is in good shape financially.

Fourth Quarter Status of Florida Atlantic University's 2006-2007 Operating Budget, July 1, 2006 – June 30, 2007. This presentation is provided as no committee meeting is held immediately after the fiscal year end. The revenues and expenditures ended up in line with projections. Educational and General revenues of \$242.7 million were just over projections and expenditures of \$232.8 million just under, signifying good planning. Financial Aid was a close match with funding received and distributed. Contracts and Grants revenues and expenditures were below expectation primarily cause by increased research competition. The Auxiliary Enterprise budget was on target and remains healthy. The higher project construction expenditures anticipated by Student Government did not occur, explaining the higher expenditures projected this fiscal year. Concessions expenditures were higher than projected but were covered with available cash balances.

Upon completion of a summary review of fiscal year 2006-07 results to fiscal year 2005-06, Dr. Jessell concluded the presentation.

Discussion interspersed the presentation on issues including:

- The status of lottery funding which remains static with little future growth anticipated.
- The clarification of the definition(s) of 'budget authority' and 'reserve' in connection to the disparity in budgeted and final Educational and General student fees figures.
- Confirmation that surplus funding invested in Florida State Treasury Special Purpose Investment Accounts is providing a higher yield due to the size of the portfolio of these accounts.

Update: Revised Appropriations of the Special Legislative Session – October 11, 2007.

Dr. Jessell produced this new item to ensure Committee knowledge of the status in fiscal year funding. He advised that at the conclusion of the October 11, 2007 Special Legislative Session some recurring

and non-recurring funding relating to student financial assistance and the five percent tuition increase was restored. A review of a handout detailing the changes followed which resulted in Florida Atlantic University's budget reduction being revised from \$6,960,314 to \$6,252,978.

Dr. Jessell advised Members that although this Session revised Florida Atlantic University's reduction for the better, it was management's suggestion to maintain the original reduction of \$6.9 million that the Board approved in August 2007. Based on on-going revenue estimates, further reductions are anticipated and it behooves the University to retain the balance difference and the non-recurring funding being received in a reserve pending further reductions or to meet critical unmet needs within the University, i.e., technology, student access-spring/summer classes, etc. These would be non-permanent adjustments. Permanent adjustments to the budget would be accomplished upon future analysis of the proposed 2008-2009 Legislative Budget Request.

Observing that historically in times on economic slowdown, community college enrollments tend to increase, the question arose if the same holds true for universities. Dr. Jessell advised that yes, this does occur. Generally as the economy slides and unemployment increases, enrollments increase to enhance individuals' employment skills. Unknown is the time-line in which this could happen.

AF: I-8. Overview and Analysis of Historical Funding and Budget Reductions.

Dr. Jessell addressed this item noting that the documentation provided remains unchanged from what was briefly reviewed during the August 2007 BOT Audit and Finance Committee conference call and does not reflect the revised budget reductions just discussed.

The purpose of this information is to highlight the budget reductions implemented at Florida Atlantic University since 1991-1992, which total approximately \$37 million. Additionally, the BOG prepared system-wide data back to 1998-99 noting the reduction of FTE funding that, when adjusted for inflation, was \$14,000 in 1998-99 and is now only \$10,500. At issue are the actual cuts, which are considerable, and the continuing decrease in new FTE funding by the Legislature. Student enrollments and costs increase but funding is not being adequately provided.

A review of the Consumer Price Index (CPI) versus Higher Education Price Index (HEPI) followed noting the cost increases in specific components, i.e. salary, benefits, supplies and library resources, incurred by colleges and universities that the HEPI considers but are not included within the CPI. The HEPI is specifically designed to measure goods and services associated with higher education. It is a much better indicator than the CPI, which is used to measure family purchasing power.

The presentation continued on data analyzing a nine year history of funding by credit hour. A formula was developed taking into consideration funding variations between the numbers of undergraduate and graduate credit hours and subtracting non-credit producing operations such as maintenance, library/learning resources and special projects such as the FAU/UM Medical Program. Funding per adjusted credit hours was then adjusted for inflation. The results clearly indicate that funding, whether utilizing the CPI or HEPI, has dropped considerably over this period. Taking into account the CPI and the HEPI over the nine year period and their effect on funding at Florida Atlantic University, to restore the budgets to the level of student credit hour funding in 1999, FAU would require \$28 million and \$51.8 million respectively, in additional funding.

Operational efficiencies and economies, doing more with less, are certainly demonstrated in these analyses. Additional information can be provided showing the true impact of this reduced funding on Florida Atlantic University.

Discussion followed on the following topics:

- Legislative acceptance and use of CPI / HEPI.
- Institutional and system-wide efficiencies and productivities.
- Funding needs to meet Strategic Planning goals.

A brief discussion took place on a presentation made to the Board of Governors by the SUS Chancellor and the Provost of FSU entitled, *National and Florida Trends in Higher Education*, which spoke to workforce degrees world-wide, the economic benefits of college degrees, and enrollment growth funding.

Dr. Jessell concluded his presentation.

Trustee Bryant requested any additional questions or comments from the Committee. With none forthcoming, a motion was made and seconded to adjourn the meeting. The motion passed unanimously. The meeting was adjourned at 11:39 a. m.