



Item: AF I-3 A

BOT AUDIT AND FINANCE COMMITTEE

Tuesday, October 17, 2006

SUBJECT: FAU 05/06-4, AUDIT OF REVENUE GENERATING CONTRACTS FOR THE PERIOD JULY 1 - DECEMBER 31, 2005.

PROPOSED BOARD ACTION

Information Only.

BACKGROUND INFORMATION

Audit objectives were to determine whether revenue-generating contracts managed by the Financial Affairs Division were being effectively monitored for compliance with key contract provisions, and if controls were in place to ensure that revenue recognition and commission calculations were proper.

Two recommendations were made to improve monitoring the propriety of commissions received and the receipt of key reports and documents required under terms of the contracts.

IMPLEMENTATION PLAN/DATE

Management has agreed to implement the audit recommendations during the period July 1 through September 1, 2006.

FISCAL IMPLICATIONS

Not Applicable.

Supporting Documentation: Audit Report FAU 05/06-4

Presented by: Mr. Morley Barnett, Inspector General

Phone: 561-297-3682

Report No. FAU 05/06-4
Report Issue Date: June 26, 2006

FLORIDA ATLANTIC
UNIVERSITY™

Office of Inspector General

Audit Report: Revenue-Generating Contracts
For the Period of July 1 through December 31, 2005

Use of Report

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

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**REPORT ON THE AUDIT OF
REVENUE-GENERATING CONTRACTS**

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OFFICE OF INSPECTOR GENERAL
Florida Atlantic University

MEMORANDUM

TO: Frank T. Brogan
President

FROM: Morley Barnett 
Inspector General

DATE: June 26, 2006

SUBJ: AUDIT OF REVENUE-GENERATING CONTRACTS

In accordance with the University's Internal Audit Plan for fiscal year 2005-06, we have conducted an audit of the revenue-generating contract monitoring function at Florida Atlantic University. The report contained herein presents our scope and objectives and provides comments and conclusions resulting from procedures performed.

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

Please call me if you have any questions.

cc: University Provost
Executive Vice President
Vice Presidents
Associate Vice President for Financial Affairs
Director, Business Services
Director, Operations Management
FAU BOT Audit and Finance Committee
Chancellor, State University System of Florida
Florida Auditor General

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EXECUTIVE SUMMARY

In accordance with the University's Internal Audit Plan for fiscal year 2005-06, we have conducted an audit of the revenue-generating contract monitoring function at Florida Atlantic University for the period July 1 through December 31, 2005. This audit did not cover revenue-generating contracts administered by University Center management which were covered in a recent special review by the Office of Inspector General.

Our audit objectives were to determine whether:

- Revenue-generating contracts were being effectively monitored for compliance with key contract terms and provisions; and,
- Internal controls over revenue-generating contracts, including determining the propriety of revenue recognition and commission calculations, were adequate and effective.

Audit procedures included, but were not limited to, the evaluation of internal controls as those controls relate to the accomplishment of the foregoing audit objectives, as well as the performance of compliance testing on a sample of major revenue-generating contracts managed by two departments of the Financial Affairs Division - Business Services and Operations Management - in order to determine whether control procedures were operating effectively.

Based on our observations and tests performed, we are of the opinion that the University's revenue generating contract monitoring process was adequate to ensure general compliance with key contract terms and provisions, including the proper calculation and recording of revenues. However, we did identify opportunities for improvement related to:

- The receipt of all required reports to effectively monitor and support key contract provisions and terms; and,
- Monitoring the propriety of commissions received.

The details of our findings, as well as suggestions for corrective action, can be found in the Comments and Recommendations section of this report.



OFFICE OF INSPECTOR GENERAL
Florida Atlantic University

June 26, 2006

Frank T. Brogan
President
Florida Atlantic University
Boca Raton, Florida

Dear President Brogan:

SCOPE AND OBJECTIVES

In accordance with the University's Internal Audit Plan for fiscal year 2005-06, we have conducted an audit of the revenue-generating contract monitoring function at Florida Atlantic University for the period July 1 through December 31, 2005. This audit did not cover revenue-generating contracts administered by University Center management which were covered in a recent special review by the Office of Inspector General.

Our audit objectives were to determine whether:

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Audit procedures included, but were not limited to, the evaluation of internal controls as those controls relate to the accomplishment of the foregoing audit objectives, as well as the performance of compliance testing on a sample of major revenue-generating contracts managed by two departments of the Financial Affairs Division - Business Services and Operations Management - in order to determine whether control procedures were operating effectively.

We obtained an understanding of the revenue-generating contract monitoring function by reviewing written policies and procedures, interviewing key personnel, performing detailed and analytical reviews of revenues and commissions, observing actual practices, and analyzing key internal controls.

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Our assessment of compliance with key contract provisions, and established policies and procedures was based on reviews of pertinent supporting documentation for a sample of major revenue-generating contracts. Populations, sample sizes, and selection methods were determined based on our evaluation of internal controls, our assessment of audit risk, the availability of pertinent University records, and other factors including auditor judgment.

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

BACKGROUND

Two auxiliary departments of the Financial Affairs Division are responsible for management of the University's major revenue-generating contracts. Operations Management is responsible for oversight of the food services, and vending contracts for soft drinks and snacks, while Business Services manages the bookstore, banking, and copy services contracts. Each department is responsible for monitoring the receipt, control, recalculation, and recording of all periodic commissions and any miscellaneous payments received under the terms and conditions of the contracts which they monitor. Additional departmental responsibilities include ensuring that contractors/vendors are in compliance with all terms and conditions of the agreements, such as providing audited financial statements, certificates of insurance, and performance bonds.

For the 2004 and 2005 calendar years, commissions of \$1,457,048 and \$1,369,225 respectively were collected and recorded from revenue-generating contracts. Total contractor revenues for those calendar years were \$12,164,318 and \$13,229,444 respectively. The table below lists commissions earned by the University based on revenues generated by contract for the past two calendar years:

| Vendor | 2005 | | 2004 | |
|--|---------------------|--------------------|---------------------|--------------------|
| | Revenues | Commissions | Revenues | Commissions |
| Chartwells (Food Services) | \$3,300,987 | \$219,401 | \$2,434,418 | \$167,845 |
| DiLoreto & Sons - Pepsi (Soft Drinks) | \$499,208 | \$242,922 | \$560,519 | \$274,156 |
| DiLoreto & Sons (Snacks) | \$295,183 | \$71,516 | \$299,815 | \$80,972 |
| Milner (Copying) | \$467,335 | \$162,615 | \$526,892 | \$181,134 |
| Barnes & Noble (Bookstores) | \$8,175,077 | \$631,514 | \$7,829,062 | \$712,180 |
| Wackadoos (Retail Food) | \$491,654 | \$38,257 | \$513,612 | \$40,761 |
| Totals | \$13,229,444 | \$1,366,225 | \$12,164,318 | \$1,457,048 |

Note: The above table excludes fee revenues earned from Bank Atlantic based on \$.50 per net new checking account opened during each quarter plus fixed annual contributions of \$15,000 payable to the FAU Foundation for scholarships and quarterly payments of \$18,750 deposited to the University concession fund.

COMMENTS AND RECOMMENDATIONS

Current Findings and Recommendations

Tracking Required Contractual Documents

In reviewing the food services and vending contracts for key contract provisions, we noted that Operations Management had not been routinely receiving all required reports. Specifically, the 2005 annual audited financial statements for the vending contracts were not received and the monthly detailed operating statements for the food services contract had not been received for our audit period. Moreover, up-to-date required documents for the following contracts were initially not on file, but were subsequently obtained and provided to us for our review:

- Certificates of insurance coverage - Soft drinks, Snacks, and Retail food;
- Value of annual non-cash support contributions - Soft drinks;
- Vendor annual scholarship/donation contributions - Retail food; and,
- Surety (performance) bond - Snacks.

Management explained that in monitoring revenues and commissions, not all reports required under the original contracts are currently considered useful.

Recommendation No. 1

Given the increasing importance, volume, and complexity of vendor relationships, we recommend that Operations Management consider review and revision of contractual requirements for relevance of currently required reports and documents. We also recommend that management develop a checklist of required financial reports, non-financial documents, critical due dates, etc. to help ensure compliance with key provisions of revenue-generating contracts.

Management's Response

Action Plan:

We concur with the recommendation. New contracts will consider the relevance and necessity of all reports. In addition, a checklist has been developed and implemented that lists the critical path actions, due dates and required financial reports. We have also extended this concept to all revenue generating contracts in Business Services.

Implementation Date: July 1, 2006

Responsible Auditee: Stacy Volnick

Monitoring Commission Revenue

Based on our limited, but detailed testing of commissions earned from major revenue-generating contracts, and a related two-year analytical review of sales and commissions, we noted no material differences in calculations of commissions that were received and recorded by the University as compared with contractual terms. However, we did note that procedures used by Operations Management to monitor propriety of commissions could be improved. For example, extensive spreadsheets used to track sales and commissions for food services, as provided by the vendor and validated by Operations Management personnel, evidence how the actual commission rates compare to the rates stated in the contract but the validation and reconciliation process is neither automated nor efficient.

Recommendation No. 2

We recommend that Operations Management re-evaluate the current contract administration practices by exploring the possibility of automating the process of validating the accuracy of commission payments received. The revenue/sales and commission data needs to be analyzed for unusual trends and significant variances such as material commission rate and revenue fluctuations from one quarter to the next. As is the case with current monitoring practices, it is important to document variances for possible audit inquiries and other business purposes.

Management's Response

Action Plan:

We concur with the recommendation. We are investigating the possibility of new software reports being developed by the vendor that will assist in streamlining the reconciliation process. We currently analyze reports quarterly to see if unusual trends or significant variations have occurred that require further attention.

Implementation Date: September 1, 2006

Responsible Auditee: Stacy Volnick

Prior Audit Recommendations

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

Within the past three years, our office has not conducted any audits related to revenue-generating contracts managed by the Financial Affairs Division. Accordingly, a follow-up on prior audit findings is not applicable.

CONCLUSION

Based on the results of the audit tests performed, it is our opinion that the evaluated revenue-generating contract monitoring process was generally adequate to ensure compliance with key contract terms and provisions, as well as University policies, and procedures. We believe that recommendations made to improve the contract monitoring process will strengthen the overall control environment and are cost-effective to implement.

We wish to thank the management and the staff of the Operations Management and Business Services departments for their kind cooperation and assistance which contributed to the successful completion of this audit.



Morley Barnett, CPA, CFE
Inspector General

Audit Performed by: Ben Robbins, CPA