



Item: AF: I-2

AUDIT AND FINANCE COMMITTEE

Tuesday, May 17, 2016

SUBJECT: REVIEW OF AUDIT REPORT NO. 2016-134, FAU OPERATIONAL AUDIT FOR THE FISCAL YEAR ENDED JUNE 30, 2015.

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. In March 2016, the Operational Audit for the fiscal year ending June 30, 2015 was provided to the University by the Auditor General. The Operational Audit includes 4 audit findings, recommendations and management's responses to the recommendations.

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: FAU Operational Audit Report No. 2016-134.

Presented by: Ms. Dorothy Russell, VP for Financial Affairs and CFO

Phone: 561-297-3267

STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

Report No. 2016-134
March 2016

FLORIDA ATLANTIC UNIVERSITY



Sherrill F. Norman, CPA
Auditor General

Board of Trustees and President

During the 2014-15 fiscal year, Dr. John W. Kelly served as President and the following individuals served as Members of the Board of Trustees:

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Kathryn Edmunds ^b from 5-9-15	Paul C. Tanner
David Feder to 3-18-15	Dr. Julius J. Teske

Notes: ^a Faculty Senate President.
^b Student Government President.

The team leader was Ilene R. Gayle, CPA, and the audit was supervised by Diana G. Garza, CPA.

For the information technology portion of this audit, the team leader was Stephanie J. Hogg, CISA, and the audit was supervised by Heidi G. Burns, CPA, CISA.

Please address inquiries regarding this report to Jaime Hoelscher, CPA, Audit Supervisor, by e-mail at jaimehoelscher@aud.state.fl.us or by telephone at (850) 412-2868.

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FLORIDA ATLANTIC UNIVERSITY

SUMMARY

This operational audit of Florida Atlantic University (University) focused on selected University processes and administrative activities and included a follow-up on findings noted in our report No. 2014-045. Our operational audit disclosed the following:

Finding 1: University textbook affordability procedures continue to need improvement.

Finding 2: The University needs to enhance procedures for classifying students as Florida residents for tuition purposes in accordance with State law.

Finding 3: The University needs to enhance procedures over its purchasing card program.

Finding 4: Certain University security controls related to user authentication continue to need improvement.

BACKGROUND

The Florida Atlantic University (University) is part of the State university system of public universities, which is under the general direction and control of the Florida Board of Governors (BOG). The University is directly governed by a Board of Trustees (Trustees) consisting of 13 members. The Governor appoints 6 citizen members and the BOG appoints 5 citizen members. These members are confirmed by the Florida Senate and serve staggered terms of 5 years. The faculty senate president and student body president also are members.

The BOG establishes the powers and duties of the Trustees. The Trustees are responsible for setting University policies, which provide governance in accordance with State law and BOG Regulations. The University President is selected by the Trustees and confirmed by the BOG. The University President serves as the executive officer and the corporate secretary of the Trustees and is responsible for administering the University policies prescribed by the Trustees.

This operational audit focused on selected University processes and administrative activities and included a follow-up on findings noted in our report No. 2014-045. The results of our financial audit of the University for the fiscal year ended June 30, 2015, will be presented in a separate report. In addition, the Federal awards administered by the University are included within the scope of our Statewide audit of Federal awards administered by the State of Florida and the results of that audit, for the fiscal year ended June 30, 2015, will be presented in a separate report.

FINDINGS AND RECOMMENDATIONS

Finding 1: Textbook Affordability

State law¹ requires universities to post on their Web sites, as early as feasible, but not less than 30 days prior to the first day of class for each term, a list of textbooks required for each course offered at the institution during the upcoming term. Additionally, Board of Governors' (BOG) regulations² require universities to adopt a regulation that establishes textbook adoption procedures to minimize the cost of textbooks for students while maintaining the quality of education and academic freedom. The regulation should establish procedures to document the intent of the course instructors to use all items ordered; determine the extent to which a new textbook edition differs significantly and substantively from earlier versions and the value of changing to a new edition; and post, no later than 30 days prior to the first day of classes on the University's Web site, a list of each required textbook for each course offering for the upcoming term. The posted list must include the International Standard Book Number (ISBN) for each required textbook or other identifying information, which must include, at a minimum, the title, all authors listed, publishers, edition number, copyright date, published date, and other relevant information necessary to identify the specific textbooks required for each course.

The University adopted 4,614 textbooks for the Fall 2014 term, 4,539 textbooks for the Spring 2015 term, and the related ISBN or other identifying information associated with the textbooks. Although University procedures provide that a list of textbooks be posted on the University Web site, our review of those procedures, the posted textbook lists, and University records supporting the textbook information for the courses offered during the Fall 2014 and Spring 2015 terms disclosed that:

- The University had not established monitoring procedures to ensure that textbook information is posted on the University's Web site at least 30 days prior to the first day of classes. The University contracted with a vendor to manage and operate the University Bookstore, as well as to compile and post lists of adopted textbooks on the University's Web site. As part of our audit, we reviewed the dates the vendor posted required textbook information, including the ISBN or other identifying information, to the University's Web site for all textbooks adopted for the Fall 2014 and Spring 2015 terms. We found that textbook information for 507 textbooks (11 percent) for the Fall 2014 term and 524 textbooks (12 percent) for the Spring 2015 term had not been posted on the University's Bookstore Web site at least 30 days prior to the first day of class for each term. The number of days the postings were late ranged from 5 to 103 for the Fall 2014 term and from 5 to 96 for the Spring 2015 term. Further, many of the textbooks posted late to the University's Web site were posted after the first day of classes. Specifically, 186 textbooks (28 percent) for the Fall 2014 term and 189 textbooks (29 percent) for the Spring 2015 term were posted to the University's Web site after the first day of classes. The number of days the postings were late for these textbooks ranged from 1 to 72 for the Fall 2014 term and from 1 to 65 for the Spring 2015 term.

In response to our inquiry, University personnel indicated that the delayed postings occurred because professors submitted textbook information late to the Bookstore Manager. Without timely posted textbook information, students may misunderstand course textbook requirements and not have sufficient time to consider textbook purchase options and limit their textbook costs.

¹ Section 1004.085(3), Florida Statutes.

² BOG Regulation 8.003, *Textbook Adoption*.

- University procedures allowed faculty members to independently select course textbooks, resulting in different textbooks being used for the same course. Our review of the textbook prices for 15 courses during the 2014-15 academic year disclosed that new or used textbook prices for the same course varied by as much as \$230 for new and \$173 for used textbooks. Table 1 provides examples of the price differences that exceeded \$80 for textbooks used in the same course.

Table 1
Textbook Prices
For the 2014-15 Fiscal Year

Course	Cost of New			Cost of Used		
	High	Low	Difference	High	Low	Difference
MAC 1147	\$ 349	\$ 119	\$ 230	\$ 262	\$ 89	\$ 173
PSY 3234	281	71	210	211	53	158
MAC 2311	286	125	161	215	94	121
MAC 2312	286	136	150	215	102	113
PSY 3213	360	222	138	270	166	104
MAR 4156	372	259	113	279	194	85
ECO 4223	250	139	111	188	104	84
ECO 2013	270	161	109	203	121	82

Source: University records.

In response to our inquiry, University personnel indicated that faculty members who teach the same courses are not required to use the same materials or materials of equal cost and faculty members have freedom to choose materials for their respective classes. However, when different textbooks are used for the same course, instructional costs paid by students may not be fair and equitable.

Similar findings were noted in our report Nos. 2012-095 and 2014-045.

Recommendation: The University should enhance textbook affordability policies and procedures to ensure textbooks are available to students at the lowest and best prices within acceptable quality. The University should also ensure that textbook information is timely posted on its Web site.

Follow-up to Management's Response

The University's response indicates that "students have the ability to compare costs for different sections of the same class and have several options for access to adopted materials. The university bookstore offers both new and used formats, new and used rental and digital formats, which are less expensive. According to the statute there is no requirement for the student to purchase their materials from the university bookstore. The student has the ability to purchase off-campus or online." Notwithstanding this response, we continue to recommend that the University timely post textbooks on its Web site to ensure that students have sufficient time to compare prices of the various textbook format and purchase options and that textbooks are available to students at the lowest and best prices within acceptable quality.

Finding 2: Florida Residency

State law³ provides that, for tuition assessment purposes, universities classify students as Florida residents or nonresidents. State law⁴ also requires universities to classify as Florida residents students who are from Latin American and Caribbean countries and receive scholarships from the Federal or State Government.

During the 2014-15 fiscal year, the University collected \$197 million in tuition and fees. Selected tuition and fees rates for residents and nonresidents are shown in Table 2.

Table 2
Tuition and Fees for Residents and Nonresidents
For the 2014-15 Fiscal Year

Tuition and Fees Category	Rate for Residents	Rate for Nonresidents
Undergraduate	\$201 semester hour	\$720 semester hour
Graduate	\$370 semester hour	\$1,025 semester hour

Source: University records.

During the 2014-15 fiscal year, the University classified 34 students from Latin American countries or with foreign citizenship as Florida residents for tuition purposes. As part of our audit, we examined University records documenting the residency status for each of these students. We found that, although 27 of these students were each awarded a \$250 academic scholarship from University State-appropriated educational and general funds; the students had not received a scholarship from the Federal or State Government to qualify them for a Florida resident tuition rate.

In response to our inquiry, University personnel indicated that, since universities are part of the State Government, funds paid from State-appropriated education and general funds should be considered State scholarships. However, as addressed in State law, State scholarships appear to be scholarships provided by the State of Florida, such as those set forth in Part III of Chapter 1009, Florida Statutes, and not scholarships paid from University funds, regardless of the funds' source. The classification of these 27 students as Florida residents for tuition purposes resulted in the University collecting \$171,064 less student fee revenue than it would have if the students had been classified as nonresidents for tuition purposes.

Recommendation: If it is the University's intent to continue classifying students who are from a Latin American or Caribbean country as Florida residents for tuition purposes when such students are not awarded State scholarships but are awarded scholarships from University funds, the University should seek guidance from the BOG as to whether this practice is allowable under State law.

Follow-up to Management's Response

The University's response indicates that "the statutory authority, specifically Florida Statute 1009.21(10)(e), supports its current practice." The legislative history of Section 1009.21(10)(e), Florida

³ Section 1009.21, Florida Statutes.

⁴ Section 1009.21(10)(e), Florida Statutes.

Statutes, however, makes clear that the State scholarships referenced therein were awarded under a scholarship program that was repealed by Chapter 2002-387, Laws of Florida, and no longer exists. Since the scholarships in question are not specifically authorized in statute, and University records did not evidence the documented basis for classifying the students receiving the scholarships as Florida residents for tuition purposes, we continue to recommend that the University seek guidance from the BOG.

Finding 3: Purchasing Cards

The University administers a purchasing card (P-card) program, which gives employees the convenience of purchasing items without using the standard purchase order process and expedites low dollar purchases of goods and services. P-cards are subject to the same rules and regulations that apply to regular University purchases.

The University designated a P-card administrator and developed a comprehensive P-card Manual to establish procedures for P-card use and the process for canceling P-cards when employees separate from University employment. The P-card Manual requires cardholders who separate from University employment to promptly return their P-cards to the P-card administrator for cancellation. The agreement between the University and the bank that administers the P-card program allows the University 60 days to dispute fraudulent charges.

As of May 26, 2015, the University had assigned a total of 660 P-cards to employees and, for the period July 1, 2014, through May 31, 2015, had P-card charges totaling \$9 million. To determine the timeliness of P-card cancellations for the 42 individuals assigned P-cards who separated from University employment during the period July 1, 2014, through May 31, 2015, we examined University records and found that the University did not timely cancel P-cards assigned to 7 of the 42 former employees. The P-cards for these 7 former employees were canceled from 17 to 70 days after the employees' separation dates and the P-cards for 3 of the 7 former employees were not canceled until after our inquiry in June 2015.

Our review of P-card transactions disclosed that, subsequent to the 7 former employees' separation dates, 2 of the former employees' cards had a total of three transactions totaling \$326 that were recorded 5 and 11 days after the employees' separation dates. Our further inquiry with University personnel and review of University records disclosed that the transactions were for University shipping and Web site management fees, which University personnel approved as appropriate uses of University funds.

While our tests of P-card transactions did not disclose any inappropriate charges or fraud, untimely cancellation of P-card privileges increases the risk that such privileges could be misused by former employees or others and may limit the University's ability to satisfactorily resolve disputed charges.

Recommendation: The University should strengthen procedures to ensure that P-card privileges are timely canceled upon a cardholder's separation from University employment.

Finding 4: Information Technology Security Controls – User Authentication

Security controls are intended to protect the confidentiality, integrity, and availability of data and information technology (IT) resources. Our audit disclosed that certain University security controls related

to user authentication needed improvement. We are not disclosing specific details of the issues in this report to avoid the possibility of compromising University data and IT resources. However, we have notified appropriate University management of the specific issues. Without adequate security controls related to user authentication, the risk is increased that the confidentiality, integrity, and availability of University data and IT resources may be compromised. Similar findings were noted in our audit report Nos. 2012-095 and 2014-045.

Recommendation: The University should improve its security controls related to user authentication to ensure the continued confidentiality, integrity, and availability of University data and IT resources.

PRIOR AUDIT FOLLOW-UP

The University had taken corrective actions for findings included in our previous audit reports, except as noted in Findings 1 and 4 and shown in Table 3.

**Table 3
Findings Also Noted in Previous Audit Reports**

Finding	Operational Audit Report No. 2014-045, Finding	Operational Audit Report No. 2012-095, Finding
1	1	3
4	4	12

OBJECTIVES, SCOPE, AND METHODOLOGY

The Auditor General conducts operational audits of governmental entities to provide the Legislature, Florida’s citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

We conducted this operational audit from May 2015 to November 2015 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of this operational audit were to:

- Evaluate management’s performance in establishing and maintaining internal controls, including controls designed to prevent and detect fraud, waste, and abuse, and in administering assigned responsibilities in accordance with applicable laws, rules, regulations, contracts, grant agreements, and other guidelines.
- Examine internal controls designed and placed in operation to promote and encourage the achievement of management’s control objectives in the categories of compliance, economic and efficient operations, reliability of records and reports, and safeguarding of assets, and identify weaknesses in those controls.
- Determine whether management had taken corrective actions for findings included in our report No. 2014-045.

- To identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

This audit was designed to identify, for those programs, activities, or functions included within the scope of the audit, weaknesses in management's internal controls; instances of noncompliance with applicable laws, rules, regulations, contracts, grant agreements, and other guidelines; and instances of inefficient or ineffective operational policies, procedures, or practices. The focus of this audit was to identify problems so that they may be corrected in such a way as to improve government accountability and efficiency and the stewardship of management. Professional judgment has been used in determining significance and audit risk and in selecting the particular transactions, legal compliance matters, records, and controls considered.

As described in more detail below, for those programs, activities, and functions included within the scope of our audit, our audit work included, but was not limited to, communicating to management and those charged with governance the scope, objectives, timing, overall methodology, and reporting of our audit; obtaining an understanding of the program, activity, or function; exercising professional judgment in considering significance and audit risk in the design and execution of the research, interviews, tests, analyses, and other procedures included in the audit methodology; obtaining reasonable assurance of the overall sufficiency and appropriateness of the evidence gathered in support of our audit findings and conclusions; and reporting on the results of the audit as required by governing laws and auditing standards.

Our audit included the selection and examination of records and transactions. Unless otherwise indicated in this report, these records and transactions were not selected with the intent of statistically projecting the results, although we have presented for perspective, where practicable, information concerning relevant population value or size and quantifications relative to the items selected for examination.

An audit by its nature does not include a review of all records and actions of management, staff, and vendors, and as a consequence, cannot be relied upon to identify all instances of noncompliance, fraud, waste, abuse, or inefficiency.

In conducting our audit we:

- Reviewed the University's written information technology (IT) policies and procedures for the 2014-15 fiscal year to determine whether they addressed certain important IT control functions, such as security, systems development and maintenance, and disaster recovery.
- Reviewed procedures for maintaining and reviewing access to IT resources for the 2014-15 fiscal year to determine the appropriateness and necessity of access based on employees' job duties and user account functions and whether the access prevented the performance of incompatible duties. In addition, we examined access privileges granted for the database and finance and human resources (HR) applications to determine the appropriateness and necessity of the access based on employees' job duties and user account functions and whether the access prevented the performance of incompatible duties. We also examined administrator accounts for the network, operating system, database, and finance and HR applications to determine whether these accounts had been appropriately assigned and managed. Specifically, to determine whether inappropriate or unnecessary finance and HR access privileges existed, we compared the access privileges granted to the 43 employees with HR application access to their job duties, and the access privileges granted to the 87 employees with finance application access to their job duties.

- Reviewed procedures designed to prohibit former employees' access to IT files. From the population of 362 employees who separated from University employment during the 2014-15 fiscal year, we examined the access privileges for 30 selected former employees to determine whether their privileges had been timely deactivated.
- Evaluated the adequacy of the University's written security policies and procedures for the 2014-15 fiscal year governing the classification, management, and protection of sensitive and confidential information.
- Evaluated the appropriateness of the University's comprehensive IT disaster recovery plan for the 2014-15 fiscal year to determine whether it was in place and had been recently tested.
- Reviewed operating system, database, network, and application security settings for the 2014 - 15 fiscal year to determine whether authentication controls were configured and enforced in accordance with IT best practices.
- Determined whether a written, comprehensive IT risk assessment had been developed for the 2014-15 fiscal year to document the University's risk management and assessment processes and security controls intended to protect the confidentiality, integrity, and availability of data and IT resources.
- Determined whether an adequate comprehensive IT security awareness and training program was in place for the 2014-15 fiscal year.
- Reviewed Board and committee meeting minutes to determine whether Board approval was obtained for policies and procedures in effect during the 2014-15 fiscal year and for evidence of compliance with Sunshine Law requirements (i.e., proper notice of meetings, ready access to the public, and maintenance of minutes).
- Determined whether the University informed students and employees at orientation during the 2014-15 academic year and on its Web site of the existence of the Florida Department of Law Enforcement sexual predator and sexual offender registry Web site and the toll-free telephone number that gives access to sexual predator and sexual offender public information, as required by Section 1006.695, Florida Statutes.
- Evaluated the internal audit function for the 2014-15 fiscal year to determine whether the University followed professional requirements and provided for peer review of reports issued. For internal audits, we determined whether audit reports were completed and submitted to the Board.
- Determined whether the University had developed an anti-fraud policy and procedures for the 2014-15 fiscal year to provide guidance to employees for communicating known or suspected fraud to appropriate individuals. Also, we determined whether the University had implemented appropriate and sufficient procedures to comply with its anti-fraud policies.
- Analyzed whether the unencumbered available balance in the education and general fund of the approved operating budget was below 5 percent of the total available fund balance at June 30, 2015. We also performed analytical procedures to determine whether financial transactions in other funds may require resources from other unrestricted funds that would cause a significant reduction in the available unencumbered balance in the education and general fund.
- From the population of 86 total payments and transfers totaling \$24.6 million from the University to its direct-support organizations made during the 2014-15 fiscal year, examined University records supporting 24 payments totaling \$308,970 and 25 transfers totaling \$24,183,926 to determine whether the payments and transfers were authorized by Section 1004.28(1)(a)2. and (2), Florida Statutes.

- Examined University accounting records and documentation to determine whether student receivables were properly authorized, adequately documented, properly recorded, and complied with Section 1010.03, Florida Statutes, and Board Regulation No. 6.001. Specifically, we examined:
 - From the population of 45,665 student receivables totaling \$19.1 million as of June 30, 2015, documentation relating to 15 student receivables totaling \$182,151 to determine whether University collection efforts were adequate and whether restrictions on student records and holds on transcripts and diplomas were appropriate and enforced.
 - Documentation for the 9 delinquent student receivables uncollectible accounts written-off during the 2014-15 fiscal year and totaling \$7,105 to determine whether the uncollectible accounts written-off were properly approved.
- Evaluated whether the University had adequate procedures during the 2014-15 fiscal year to document Florida residency in compliance with Sections 1009.21, 1009.24, and 1009.286(2), Florida Statutes, and Board of Governors Regulation BOG 7.005.
- Reviewed payments from tuition differential fee revenue during the 2014-15 fiscal year to determine whether the University assessed and used the fee revenue in compliance with Section 1009.24(16)(a), Florida Statutes.
- From the population of 15,769 students who enrolled in distance learning courses with fee revenue totaling \$2.9 million during the 2014-15 fiscal year, examined, for 30 selected students, University records supporting the assessed distance learning fees totaling \$4,726 to determine whether the fees were properly assessed and collected and were separately accounted for and retained by the University as provided by Section 1009.24(17), Florida Statutes.
- Reviewed University policies and procedures related to the dual enrollment program. We also determined, on a test basis, whether revenues collected during the 2014-15 fiscal year for dual enrolled students were consistent with the applicable dual enrollment agreement and Section 1007.271, Florida Statutes.
- From the population of 13 auxiliary operation contracts, which generated revenue totaling \$55.7 million for the 2014-15 fiscal year, selected and examined 3 contracts, which generated revenue totaling \$9.9 million, to determine whether the University properly monitored compliance with the contract fee, insurance, and other provisions. Also, we performed analytical procedures to determine whether the University's auxiliary services were self-supporting.
- Evaluated University policies and procedures regarding textbook affordability for compliance with Section 1004.085, Florida Statutes. Also, for the population of 9,153 textbooks adopted and recorded by the University Bookstore during the 2014-15 fiscal year, we applied analytical procedures to determine whether the University's policies and procedures regarding textbook affordability were in accordance with Section 1004.085, Florida Statutes.
- Selected 30 new hires from the population of 2,195 new hires during the 2014-15 fiscal year and examined University records to determine whether the employees had the necessary qualifications, degrees, and experience for the position based on the written position description.
- Reviewed the University's policies and procedures for obtaining background screenings for University employees during the 2014-15 fiscal year. We also examined University records to determine whether employees in sensitive positions, such as positions in direct contact with minors, had undergone the appropriate background screenings.
- Reviewed the University's policies and procedures for payments of accumulated annual and sick leave (terminal leave pay) to determine whether the policies and procedures promoted

compliance with State law and Board policies. From the population of 234 former employees who were paid \$1,596,431 for terminal leave pay during the 2014-15 fiscal year, we selected terminal leave payments totaling \$816,926 made to 27 former employees and examined the supporting records to evaluate the payments for compliance with Section 110.122, Florida Statutes, and University Policy 7.5.

- From the population of seven employment contracts for the 2014-15 fiscal year, selected two contracts and reviewed the severance pay provisions to determine whether the provisions were in compliance with Section 215.425(4), Florida Statutes.
- From the population of 30 administrative employees (including the President) who received compensation payments totaling \$6,296,687 during the 2014-15 fiscal year, examined University records for 13 selected employees (including the President) who received compensation totaling \$3,489,972 to determine whether the amounts paid did not exceed the limits provided in Sections 1012.975(3) and 1012.976(2), Florida Statutes.
- Reviewed the University's policies and procedures for supervisory approval of time worked and leave used by noninstructional and administrative employees during the 2014-15 fiscal year to evaluate whether compensation payments were appropriate and leave balances were accurate.
- Examined University expenditure documentation for contractual services to determine whether contractual services were reasonable, correctly recorded, adequately documented, for a valid University purpose, properly authorized and approved, and in compliance with applicable State laws, rules, contract terms, and Board regulations. From the population of expenditures for contractual services totaling \$23.6 million during the 2014-15 fiscal year, we selected 30 payments totaling \$2.9 million and examined documentation supporting the 30 payments, including the applicable contractual services agreements.
- From the population of 37,184 purchasing card (P-card) transactions totaling \$9 million during the period July 1, 2014, through May 31, 2015, selected 30 P-card transactions totaling \$51,489 and examined related documentation to determine whether the P-card program was administered in accordance with University policies and procedures and the transactions tested were not of a personal nature.
- From the population of 42 employees who separated employment from the University during the period July 1, 2014, through May 31, 2015, examined University records for 20 selected former employees to determine whether their P-cards were timely canceled upon separation of employment.
- Selected 30 payments totaling \$57,595 from the population of 1,407 payments totaling \$386,576 made to employees for other than travel and compensation during the period July 1 2014, through March 31, 2015, and examined documentation to determine whether such payments were reasonable, adequately supported, and for valid University purposes or related to employees doing business with the University, contrary to Section 112.313, Florida Statutes.
- Reviewed University policies and procedures related to identifying potential conflicts of interest during the 2014-15 fiscal year. For selected University officials, we reviewed Department of State, Division of Corporation, records; statements of financial interests; and University records to identify any potential relationships that represent a conflict of interest with vendors used by the University.
- From the population of 3 major construction projects and 92 minor construction projects totaling \$20.7 million that were in progress during the period July 1, 2014, through March 31, 2015, selected 30 payments totaling \$4.1 million related to 18 projects with contract amounts totaling \$5.8 million and examined University records to determine whether the payments were made in accordance with contract terms and conditions, University policies and procedures, and provisions of applicable State laws and rules.

- Reviewed documentation related to two construction projects with total construction costs of \$6.2 million during the 2014-15 fiscal year to determine whether the University adequately monitored the selection process of design professionals, construction managers, and subcontractors; the Board had adopted a policy establishing minimum insurance coverage requirements for design professionals; and design professionals provided evidence of required insurance.
- Determined whether the University evaluated, prior to purchase, the effectiveness and suitability of the ERP software applications costing \$7.5 million during the 2014-15 fiscal year and whether the University used competitive vendor selection processes. Also, we examined University documentation supporting the related payments to determine whether the deliverables met the terms and conditions of the contract.
- Communicated on an interim basis with applicable officials to ensure the timely resolution of issues involving controls and noncompliance.
- Performed various other auditing procedures, including analytical procedures, as necessary, to accomplish the objectives of the audit.
- Prepared and submitted for management response the findings and recommendations that are included in this report and which describe the matters requiring corrective actions. Management's response is included in this report under the heading **MANAGEMENT'S RESPONSE**.

AUTHORITY

Section 11.45, Florida Statutes, requires that the Auditor General conduct an operational audit of each University on a periodic basis. Pursuant to the provisions of Section 11.45, Florida Statutes, I have directed that this report be prepared to present the results of our operational audit.



Sherrill F. Norman, CPA
Auditor General

MANAGEMENT'S RESPONSE



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March 10, 2016

Ms. Sherrill Norman, CPA
Auditor General
State of Florida
111 West Madison Street
Claude Pepper Building, Suite G-74
Tallahassee, Florida 32399-1450

Dear Ms. Norman:

As required by Section 11.45(4)(d) of the Florida Statutes, I am submitting Florida Atlantic University's responses to the preliminary and tentative audit findings and recommendations in connection with the Florida Atlantic University Operational Audit for the fiscal year ended June 20, 2015.

Should you have any questions or need additional information, please do not hesitate to call me at 561-297-3134.

Sincerely,

A handwritten signature in black ink that reads 'Dorothy K. Russell'.

Dorothy K. Russell
Vice President for Financial Affairs and Chief Financial Officer
Florida Atlantic University

DKR/ss

Cc: John Kelly, President

Enclosure

**Florida Atlantic University
Operational Audit
For the Fiscal Year Ended June 30, 2015**

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

Finding 1: Textbook Affordability: The University textbook affordability procedures continue to need improvement.

Recommendation: The University should enhance textbook affordability policies and procedures to ensure textbooks are available to students at the lowest and best prices within acceptable quality. The University should also ensure that textbook information is timely posted on its Web site.

Response: Over the past five years, the university has made significant improvements with the textbook adoption rate, which increased from 59% in Fall 2010 to 85% in Fall 2014. Procedurally, the Office of the Provost plays an active role in improving the number of textbooks adopted on a timely basis. Each semester, the vice provost receives the university bookstore's lists of courses without books assigned as it approaches the 30 day deadline and directs appropriate personnel throughout the colleges to rectify the issue. As of July 9, 2015, FAU's textbook affordability committee was established and identified administrative staff members in the colleges who are working to ensure future improvements in timely adoption throughout the units. The university takes this responsibility seriously and will continue to alert the faculty about the need for timely adoption as we strive for 100% compliance.

Florida Statute 1004.085 - Textbook affordability, requires universities to post on their websites a list of textbooks for each course and the related costs of these textbooks. Textbooks and materials vary according to instructor's preference. Faculty members have the academic freedom to independently select textbooks that they determine best meets the pedagogical needs for the intended outcomes of their instruction. Students have the ability to compare costs for different sections of the same class and have several options for access to adopted materials. The university bookstore offers both new and used formats, new and used rental and digital formats, which are less expensive

According to the statute there is no requirement for the student to purchase their materials from the university bookstore. The student has the ability to purchase off-campus or online. An added benefit of Statute 1004.085 is that outside competition helps with the affordability of textbooks as evidenced by the university bookstore's launch of a recent campaign to price match online competitors.

**Florida Atlantic University
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Implementation Date: September 1, 2016

Finding 2: Florida Residency: The University needs to enhance procedures for classifying students as Florida residents for tuition purposes in accordance with State law.

Recommendation: If it is the University's intent to continue classifying students who are from a Latin America or Caribbean country as Florida residents for tuition purposes when such students are not awarded State Scholarships but are awarded scholarships from University funds, the University should seek guidance from the BOG as to whether this practice is allowable under State law.

Response: The University maintains that the statutory authority, specifically Florida Statute 1009.21(10)(e), supports its current practice of classifying students who are from a Latin American or Caribbean country and receive scholarships issued by the University as Florida residents for tuition purposes.

Finding 3: Purchasing Cards: The University needs to enhance procedures over its purchasing card program.

Recommendation: The University should strengthen procedures to ensure that P-card privileges are timely canceled upon a cardholder's separation from University employment.

Response: As of July 1, 2015, FAU implemented Workday, a cloud based finance and HR Enterprise Resource Planning (ERP) software, which has significantly increased functionality over the previous Banner software for notifications to be sent to security officers regarding pending employee terminations. The current process depends upon an external (manual) termination clearance form to be initiated and tracked. The new ERP also integrates with Works (the Bank of America's stand-alone card issuance system) which facilitates a more comprehensive and expeditious reconciliation process. As of February 2016, Pcards are cancelled preemptively on or around the employee's termination date as indicated in Workday, without the requirement for a card to be physically

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recovered. A three-way reconciliation takes place bi-monthly and cards are tracked in Workday on each employee's record. Department representatives are informed at least monthly to follow established guidelines for the timely notification of terminating employees.

Implementation Date: February 1, 2016

Finding 4: Information Technology Security Controls – User Authentication: Certain University security controls related to user authentication continue to need improvement

Recommendation: The University should improve its security controls related to user authentication to ensure the continued confidentiality, integrity, and availability of University data and IT resources.

Response: The University has taken appropriate measures to ensure the confidentiality, integrity and availability of University IT resources. As of July 1, 2015, the University implemented additional measures above and beyond industry security standards. In addition, FAU employs the standards that are above and beyond recommendations from state auditors for improving authentication controls at the University. These new improvements were implemented and in-place while this audit was underway.

Implementation Date: July 1, 2015