



Item: AF: I-1c

AUDIT AND FINANCE COMMITTEE

Wednesday, April 20, 2011

SUBJECT: REVIEW OF AUDITS: REPORT NO. 2011-167, STATE OF FLORIDA COMPLIANCE AND INTERNAL CONTROLS OVER FINANCIAL REPORTING AND FEDERAL AWARDS IN ACCORDANCE WITH OMB CIRCULAR A-133 FOR FISCAL YEAR ENDED JUNE 30, 2010.

PROPOSED COMMITTEE ACTION

Information Only. The complete audit can be accessed on the Auditor General's website located at: <http://www.myflorida.com/audgen/pages/summaries/2011-167.pdf>.

BACKGROUND INFORMATION

As a condition of receiving Federal funds, the U.S. Office of Management and Budget (OMB) requires an audit of the State's financial statements and major Federal awards programs as described in OMB Circular A-133. The audit of the State's financial statements, performed in accordance with auditing standards generally accepted in the United States and *Government Auditing Standards*, culminates in an *Independent Auditor's Report* and a *Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards*.

Florida Atlantic University has one audit finding:

Finding 1. FA 10-107: As reported during the 2008-09 fiscal year, CAS exemptions totaling \$8,346.88 (\$6,408.92 office supplies; \$780 membership dues; \$280.35 postage; \$877.61 local phone usage) for four grants tested were charged. During the 1009-10 fiscal year, CAS exemptions totaling approximately \$37,000 were charged to various grants. CAS exemptions are used to charge indirect costs as direct costs and are to be applied for "unlike circumstances". It is not clear whether the CAS exemptions used by the institution met the criteria for "unlike circumstances" as contemplated by the U.S. Department of Health and Human Services (USDHHS), the cognizant agency.

Condition: In response to our prior audit finding, agency personnel stated that the institution's policies and procedures require that all CAS exemptions be evaluated on a project-by-project basis. Each valuation includes a review of the request with justification, and the project budget, and the

Research Accounting Office assesses whether the requested items are unlike and unusual. As recommended in our prior audit finding the institution, in August 2009, requested that USDHHS review its policy and provide feedback on whether it is in compliance with OMB Circular A-21.

FAU Response: Florida Atlantic University has put into effect policies and procedures to evaluate all CAS-502 requests. FAU requested in August 2009 that USDHHS provided feedback and review of the procedures put into place to determine if the expenditures are in compliance with OMB Circular A-21. No feedback has been received to date. Each request is reviewed on a case-by-case basis. If an assessment of the justification, budget narrative, and project scope suggest that the requested items are considered unlike and unusual, the CAS 502 request is approved. FAU's policies and procedures are strictly enforced. The Division of Sponsored Research feels that the questioned expenditures are appropriate and therefore were approved

Implementation Date: October 31, 2010

NOTE: On March 28, 2011, FAU received a letter from the National Science Foundation (NSF) providing approval of the University's corrective policies and procedures as respects CAS exemptions. The NSF has determined that these costs were reasonable and allowable and no further action is required.

IMPLEMENTATION PLAN/DATE

June 30, 2011.

FISCAL IMPLICATIONS

Not Applicable.

Supporting Documentation: Report No. 2011-167 and the NSF Letter.

Presented by: Mr. Dennis J. Crudele, Senior Vice President-Financial Affairs **Phone:** 561-297-3266

STATE OF FLORIDA
COMPLIANCE AND INTERNAL CONTROLS OVER
FINANCIAL REPORTING AND FEDERAL AWARDS

In Accordance With OMB Circular A-133

For the Fiscal Year Ended
June 30, 2010



The Auditor General conducts 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.

Inquiries regarding financial statement-related findings should be addressed directly to Kathryn Walker, CPA, Audit Manager, by e-mail at kathrynwalker@aud.state.fl.us or by telephone at (850) 487-9085. Inquiries regarding Federal awards findings for State universities or colleges should be addressed directly to James R. Stultz, CPA, Audit Manager, by e-mail at jimstultz@aud.state.fl.us, or by telephone at (850) 922-2263. Please address all other inquiries regarding this report to Lisa A. Norman, CPA, Audit Manager, by e-mail at lisanorman@aud.state.fl.us or by telephone at (850) 487-9143.

This report and other audit reports prepared by the Auditor General can be obtained on our Web site at www.myflorida.com/audgen; by telephone at (850) 487-9175; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

STATE OF FLORIDA
 COMPLIANCE AND INTERNAL CONTROLS OVER
 FINANCIAL REPORTING AND FEDERAL AWARDS

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EXECUTIVE SUMMARY

SUMMARY OF INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

The State of Florida's basic financial statements, as of and for the fiscal year ended June 30, 2010, were fairly presented in all material respects, in accordance with accounting principles generally accepted in the United States. Our report is included in the Florida Comprehensive Annual Financial Report for fiscal year ended June 30, 2010, issued by the Chief Financial Officer.

SUMMARY OF INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Internal Control Over Financial Reporting

We noted the following matters involving the internal control over financial reporting and its operation to be significant deficiencies:

- The **Agency for Health Care Administration** did not record a receivable and deferred revenue to represent its claim on Federal financial resources related to incurred but not reported (IBNR) Medicaid claims liabilities. (Finding No. FS 10-001)
- For receivable and related financial statement accounts, we found that the **Agency for Health Care Administration** did not properly accrue revenues in accordance with generally accepted accounting principles. (Finding No. FS 10-002)
- The **Department of Financial Services** made an error in estimating the portion of escheat collections received that is expected to be reclaimed and paid. This error lead to overstated assets and deductions in the Unclaimed Property Trust Fund and understated liabilities and revenues in the Public Education fund. (Finding No. FS 10-003)
- For accounts payable and related accounts, the **Agency for Health Care Administration** did not follow established fiscal year-end procedures to accrue expenditure amounts in accordance with generally accepted accounting principles. (Finding No. FS 10-004)
- For accounts payable and accrued liability accounts, the **Agency for Workforce Innovation** did not correctly record amounts due related to benefit payments. Additionally, the **Agency for Workforce Innovation** did not properly record a receivable to represent its claim on Federal financial resources for the payment of the Federally-funded portion of unemployment benefit payments. (Finding No. FS 10-005)
- The **Department of Financial Services**, Statewide Financial Reporting Section did not record all financial statement transactions for the State Treasury External Investment Trust Fund. (Finding No. FS 10-006)

We consider the significant deficiencies described above relating to finding Nos. FS 10-001 through FS 10-006 to be material weaknesses.

We noted additional matters that were reported to management but that we did not consider to be significant deficiencies or material weaknesses.

- For accounts payable and accrued liabilities, the **Department of Environmental Protection** did not accrue expenditures in accordance with generally accepted accounting principles. (Finding No. FS 10-007)
- The **Departments of Management Services and Corrections** did not properly record the assets and liabilities resulting from the issuance of certificates of participation. Although responsible for the resulting debt, the **Department of Management Services** did not record any entries in its records related to the issuance of the certificates of participation. (Finding No. FS 10-008)

- The **Department of Financial Services** did not have sufficient procedures or did not completely follow established procedures to ensure that adjustments made to the financial statements had the intended results and that a reserve account was properly established. (Finding No. FS 10-009)
- The **Department of Financial Services** did not adequately review the data presented on the Schedule of Expenditures of Federal Awards (SEFA) and Notes to the SEFA to ensure accuracy and completeness. (Finding No. FS 10-010)
- The **Department of Children and Family Services** did not follow written procedures related to the steps required to complete the Schedule of Expenditures of Federal Awards. (Finding No. FS 10-011)

Compliance

The results of our audit of the State's basic financial statements disclosed no instances of noncompliance that are required to be reported by *Government Auditing Standards*.

SUMMARY OF INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

State agencies, universities, colleges, and community colleges administered approximately 650 Federal awards programs or program clusters during the 2009-10 fiscal year. Expenditures for the 38 major programs totaled \$39.4 billion, or approximately 98 percent of the total expenditures of \$40.4 billion, as reported on the supplementary Schedule of Expenditures of Federal Awards.

Compliance requirements for major programs are identified pursuant to the OMB *Circular A-133 Compliance Supplement*. Types of compliance requirements include: Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Cash Management; Davis-Bacon Act; Eligibility; Equipment and Real Property Management; Matching, Level of Effort, Earmarking; Period of Availability of Federal Awards; Procurement and Suspension and Debarment; Program Income; Real Property Acquisition/Relocation Assistance; Reporting; Subrecipient Monitoring; and Special Tests and Provisions.

Compliance

The State of Florida complied, in all material respects, with the compliance requirements applicable to each of its major Federal awards programs, except as described in the following instances, which resulted in opinion qualifications:

- The **Department of Environmental Protection** did not provide for and submit an annual audit required by grant agreements for the Capitalization Grants for Drinking Water State Revolving Funds. (Finding No. FA 10-015)
- The **Department of Education** did not meet maintenance of effort requirements for the Special Education Cluster or the State Fiscal Stabilization Fund - Education State Grants, Recovery Act. (Finding Nos. FA 10-026 and FA 10-034)
- The **Department of Education** was continuing to negotiate an agreement on its time distribution system and, as a result, the **Department** did not maintain appropriate records to support salaries and benefits charged to the Vocational Rehabilitation Cluster. (Finding No. FA 10-029)
- The **Department of Children and Family Services** did not timely impose child support sanctions on clients who were receiving benefits under the TANF (Temporary Assistance for Needy Families) Cluster. (Finding No. FA 10-042)
- The **Department of Revenue** did not timely establish support obligations or commence proceedings to establish support obligations and, if necessary, paternity. Additionally, for interstate cases, the **Department of Revenue** did not provide required child support services within specified time frames. (Finding Nos. FA 10-044 and FA 10-045)

- The **Department of Children and Family Services** did not document, in a significant number of instances, the eligibility of clients to receive benefits under the Medicaid Cluster. Additionally, data exchange processes were not timely performed. (Finding No. FA 10-064)
- **Agency for Health Care Administration** procedures did not reasonably ensure that current provider agreements were in effect for Medicaid providers receiving payments. (Finding No. FA 10-067)
- The **Department of Children and Family Services** did not meet maintenance of effort requirements for the Block Grants for Community Mental Health Services and the Block Grants for the Prevention and Treatment of Substance Abuse Programs. (Finding Nos. FA 10-071 and FA 10-072)
- The **Division of Emergency Management's** final inspections and project closeout procedures did not provide an adequate and timely accounting of eligible costs for completed large projects. Additionally, **Division of Emergency Management** records were inaccurate and incomplete. (Finding No. FA 10-079)

The results of our audit also disclosed other instances of noncompliance pertaining to programs administered by **various State agencies, universities, colleges, and community colleges** as described in the SCHEDULE OF FINDINGS AND QUESTIONED COSTS. Some of the instances of noncompliance resulted in questioned costs subject to disallowance by the grantor agency.

Internal Control Over Compliance

We noted numerous matters at **various State agencies, universities, colleges, and community colleges** involving internal control over compliance and its operation that we considered to be significant deficiencies. Significant deficiencies are described in the SCHEDULE OF FINDINGS AND QUESTIONED COSTS and pertained to several compliance requirements. The following significant deficiencies were considered material weaknesses:

- The **Department of Health** did not always maintain records to support salaries and benefits charged to the Public Health Emergency Preparedness Program. Additionally, various methodologies used by county health departments to allocate salaries resulted in overcharges to the Program. (Finding No. FA 10-039)
- The instances described in the previous paragraphs on compliance for Vocational Rehabilitation Cluster (Finding No. FA 10-029); Child Support Enforcement (Finding Nos. FA 10-044 and FA 10-045); Medicaid Cluster (Finding Nos. 10-064 and FA 10-067); Block Grants for Community Mental Health Services (Finding No. FA 10-071); Block Grants for the Prevention and Treatment of Substance Abuse (Finding No. FA 10-072); and Disaster Grants - Public Assistance (Presidentially Declared Disasters) (Finding No. FA 10-079) also involved material weaknesses in internal control.

SUMMARY OF INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

The State's supplementary Schedule of Expenditures of Federal Awards (SEFA) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the State's basic financial statements. The State's SEFA does not include the State's blended component units, Workforce Florida, Inc., and Scripps Florida Funding Corporation; discretely presented component units of the State's universities, colleges, and community colleges; or discretely presented component units other than the State's universities, colleges, and community colleges. Information on the SEFA is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009 (ARRA)

During the 2009-10 fiscal year, the State of Florida received and expended over \$8.2 billion in Federal funding provided pursuant to the ARRA. The United States Congress mandated additional reporting and transparency requirements to be met by recipients of ARRA funds, and the Federal Single Audit has been identified as one of the tools that will be used to measure the degree of stewardship and accountability provided by the states for moneys provided under ARRA. Expenditures of ARRA funds are separately identified on the supplementary Schedule of Expenditures of Federal Awards. Programs that included

ARRA funds, and for which findings are disclosed in the SCHEDULE OF FINDINGS AND QUESTIONED COSTS, are distinctively identified in the INDEX OF FINDINGS BY FEDERAL AGENCY AND COMPLIANCE REQUIREMENT.

SCOPE

As a condition of receiving Federal funds, the U.S. Office of Management and Budget (OMB) requires, as described in OMB Circular A-133, an audit of the State's financial statements and major Federal awards programs. Pursuant to Section 11.45, Florida Statutes, we conducted an audit of the basic financial statements of the State of Florida as of and for the fiscal year ended June 30, 2010. We also subjected supplementary information contained in the State's Comprehensive Annual Financial Report and the State's Schedule of Expenditures of Federal Awards to auditing procedures applied in our audit of the basic financial statements. Additionally, we audited the State's compliance with governing requirements for the Federal awards programs or program clusters that we identified as major programs for the fiscal year ended June 30, 2010.

OBJECTIVES

The objectives of our audit were:

- The expression of opinions concerning whether the State's basic financial statements were presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States.
- The expression of an opinion concerning whether the State's Schedule of Expenditures of Federal Awards is presented fairly, in all material respects, in relation to the State's basic financial statements taken as a whole.
- To obtain an understanding of the internal control over compliance for each major Federal program, assess the control risk, and perform tests of controls, unless the controls were deemed to be ineffective.
- The expression of opinions concerning whether the State complied, in all material respects, with laws, regulations, and the provisions of contracts or grant agreements that may have a direct and material effect applicable to each of the major Federal programs.

METHODOLOGY

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, applicable standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and OMB Circular A-133.

AUDITOR GENERAL STATE OF FLORIDA

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111 West Madison Street
Tallahassee, Florida 32399-1450

DAVID W. MARTIN, CPA
AUDITOR GENERAL

The President of the Senate, the Speaker of the
House of Representatives, and the
Legislative Auditing Committee

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Florida as of and for the fiscal year ended June 30, 2010, which collectively comprise the State of Florida's basic financial statements and have issued our report thereon dated February 28, 2011. Our report includes a reference to other auditors, the State's reporting of certain bond issues previously reported by universities, the reporting of an additional external investment pool, and disclosure of issues with respect to the measurement of the Retiree Health Insurance Subsidy Program's actuarial accrued liability and unfunded actuarial accrued liability. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Prepaid College Program, Florida Turnpike Fund, Hurricane Catastrophe Fund, College Savings Plan, and the trust funds maintained by the State Board of Administration to account for the investments of the Florida Retirement System and the Public Employee Optional Retirement Program, certain discretely presented component units, and the Legislature, as described in our report on the State of Florida's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Florida's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State of Florida's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State of Florida's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Finding Number	FA 10-107
CFDA Number	Various
Program Title	Research and Development Cluster (R&D)
Compliance Requirement	Allowable Costs/Cost Principles – Cost Accounting Standards (CAS) Exemptions
State Educational Entity	Florida Atlantic University (FAU)
Federal Grant/Contract Number and Grant Year	Various
Finding Type	Noncompliance and Significant Deficiency
Prior Year Finding	Report No. 2010-165, Finding No. FA 09-107
Finding	As previously reported, during the 2008-09 fiscal year, CAS exemptions totaling \$25,356 were charged to various grants, of which \$8,346 were questioned costs. During the 2009-10 fiscal year, CAS exemptions totaling approximately \$37,000 were charged to various grants. CAS exemptions are used to charge indirect costs as direct costs and are applied for “unlike circumstances” (i.e., the actual activities charged direct are not the same as the actual activities normally included in the institution’s facilities and administrative cost pools, or if the same, the indirect activity costs are immaterial in amount). It is not clear whether the CAS exemptions used by the institution met the criteria for “unlike circumstances” as contemplated by the U.S. Department of Health and Human Services (USDHHS), the cognizant agency. In August 2009, the institution requested that USDHHS review its policy and provide feedback on this compliance matter and is awaiting a response.
Criteria	OMB Circular A-21, Section F 6.b. <i>Department Administration Expenses and Exhibit C, Examples of “Major Project” Where Direct Charging of Administrative or Clerical Staff Salaries May Be Appropriate.</i>
Condition	In response to our prior audit finding, agency personnel stated that the institution’s policies and procedures require that all CAS exemptions be evaluated on a project-by-project basis. Each evaluation includes a review of the request with justification, and the project budget, and the Research Accounting Office assesses whether the requested items are unlike and unusual. As recommended in our prior audit finding the institution, in August 2009, requested that USDHHS review its policy and provide feedback on whether it is in compliance with OMB Circular A-21.
Cause	Although the institution continues to follow the policies and procedures disclosed in its CAS Board Disclosure Statement (DS-2), clarification from the cognizant agency has not been obtained to define “unlike circumstances.”
Effect	Federal funds may have been overcharged for goods and services that were charged 100 percent as direct costs instead of being charged at the lesser indirect cost rate. If it is determined by USDHHS that any CAS exemptions are disallowed, the institution may be required to return disallowed costs.
Recommendation	We recommend that the institution continue to seek guidance from the cognizant agency (USDHHS) and the USDHHS Division of Cost Allocation as to whether the institution is using CAS exemptions that meet the criteria for “unlike circumstances” as contemplated by the cognizant agency. Until such guidance is obtained, the institution should limit the amount of CAS exemptions approved to reduce the risk that such costs will be disallowed and required to be returned.
FAU Response and Corrective Action Plan	Florida Atlantic University has put into effect policies and procedures to evaluate all CAS-502 requests. FAU requested in August 2009 that USDHHS provided feedback and review of the procedures put into place to determine if the expenditures are in compliance with OMB Circular A-21. No feedback has been received to date. Each request is reviewed on a case-by-case basis. If an assessment of the justification, budget narrative, and project scope suggest that

the requested items are considered unlike and unusual, the CAS 502 request is approved. FAU's policies and procedures are strictly enforced. The Division of Sponsored Research feels that the questioned expenditures are appropriate and therefore were approved

**Estimated Corrective
Action Date**

October 31, 2010

**FAU Contact and
Telephone Number**

Edwin Bommel, Director of Research Accounting
(561) 297-2606

STATE OF FLORIDA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

**SUBMITTED IN ACCORDANCE WITH
OMB CIRCULAR A-133**

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2010**

STATE OF FLORIDA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FISCAL YEAR 2009-10

STATE AGENCIES

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FLORIDA ATLANTIC UNIVERSITY (FAU)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

<u>Paragraph/Finding No(s).(1)</u>	<u>Program/Area</u>	<u>Brief Description</u>	<u>Status of Finding</u>	<u>Comments</u>
FA 09-087	Student Financial Assistance (SFA) Cluster CFDA Nos. Various	Certain access controls protecting the institution's IT resources needed improvement.	Fully Corrected	<p>Florida Atlantic University successfully recruited and hired an Information Security Officer as of January 25, 2010. This individual will be responsible to oversee, review, and recommend new policies and procedures to better safeguard sensitive information.</p> <p>The access control report has been expanded to include Financial Aid. This report is being run on a weekly basis and routed to the Associate Provost for review and determination if any further action is necessary.</p>
FA 09-107 FA 06-104 FA 04-107	Research & Development (R&D) Cluster CFDA Nos. Various	Grants claiming CAS exemptions did not appear to qualify as unlike circumstances.	Partially Corrected	<p>Based upon the March 2010 audit recommendation to seek an opinion and clarification on CAS exemptions, we have attempted on several occasions to contact USDHHS, Division of Cost Allocation with a request to review our Direct Cost policy and to give us feedback as to whether the University is using CAS exemptions that meet the criteria for unlike circumstances as contemplated by the cognizant agency.</p> <p>It is our understanding that USDHHS typically does not respond to similar inquiries unless their office conducts an audit on this issue.</p> <p>We remain unable to seek an opinion and clarification from the cognizant agency. However, FAU's policies and procedures require that all CAS 502 items are evaluated on a project-by-project basis and if an assessment of the justification, budget narrative and project scope suggest that the requested items are considered unlike and unusual, the CAS 502 request is approved. FAU's policies and procedures are strictly enforced.</p>

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FLORIDA ATLANTIC UNIVERSITY (FAU)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

<u>Paragraph/Finding No(s).(1)</u>	<u>Program/Area</u>	<u>Brief Description</u>	<u>Status of Finding</u>	<u>Comments</u>
FA 09-113 FA 08-108 FA 07-099	R&D Cluster CFDA Nos. 15.364, 20.514, and 66.468	The institution did not comply with Time and Effort requirements.	Fully Corrected	<p>Florida Atlantic University has fulfilled compliance with this audit recommendation with the implementation of a web based effort certification system, a part of the University's Enterprise Resource Planning system. This system "went live" on April 2, 2010 and it will ensure that records reflect employees' actual effort and are certified by the employee or individual with direct knowledge of the employees' work in accordance with Federal regulations.</p> <p>FAU also implemented policies on Time and Effort and Institutional Base Salary. The policies as well as the Time and Effort system are all based on the OMB Circular A-21 (Title 2) cost principles. In addition, FAU provided training sessions for all Principal Investigators, students, and other staff who are paid from grants regarding the new policies as well as the actual system.</p>

Note: (1) Paragraph/Finding No(s). refer to audit findings in report No. 2005-158 (FA 04-), report No. 2007-146 (FA 06-), report No. 2008-141 (FA 07-), report No. 2009-144 (FA 08-), or report No. 2010-165 (FA 09-).

Name and Title of Responsible Official: Dennis Crudele, Sr. Vice President for Financial Affairs

NATIONAL SCIENCE FOUNDATION
Division of Institution & Award Support

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Arlington, VA 22230
(703) 292-8244
(703) 292-9171 FAX

March 21, 2011

RECEIVED

MAR 28 2011

Florida Atlantic University
Research Accounting

Mike Rutherford
Financial Administrator
State of Florida
200 East Gaines Street
Tallahassee, FL 32399

RE: Audit Report No. 10-5084

Dear Mr. Rutherford:

The National Science Foundation (NSF) has reviewed the State of Florida's A-133 audit report for the fiscal year ended June 30, 2009. While NSF recognizes the Department of Health and Human Services (HHS) as State of Florida's cognizant federal agency for audit, NSF shares an interest in ensuring that proper internal controls are in place and adhered to by the State. The following findings are of interest to NSF:

- 09-035 Preparation of SEFA (Florida International University)
- 09-036 Preparation of SEFA (University of Florida)
- 09-107 Cost Accounting Standards Exemption (Florida Atlantic University)
- 09-108 Cost Accounting Standards (Florida State University)
- 09-109 Cost Accounting Standards (University of Florida)
- 09-113 Time and Effort (Florida Atlantic University)

NSF has determined that the documentation and responses provided by the institutions have adequately addressed the findings as they relate to NSF awards. NSF takes no exception to the proposed corrective action plans and will continue to monitor future A-133 audit reports for the status of the corrective actions proposed, to determine whether actions to protect NSF's interests are warranted.

Regarding the NSF-related questioned costs in the amount of \$3,710.00 for finding 09-107 Cost Accounting Standards Exemption (Florida Atlantic University), NSF has determined that the costs were reasonable and allowable based on the nature of the award and the full disclosure provided in the approved budget. No further action is required by FAU.

Due to the added accountability and oversight that is required for ARRA funding, the State of Florida institutions are reminded that full compliance with all federal and NSF ARRA requirements is imperative, and that failure to comply with all requirements may result in future disallowances of costs specific to NSF awards, suspension or termination of ARRA awards.

NSF considers the fiscal year 2009 audit report resolved as it relates to NSF awards. Should you have any questions regarding our audit resolution process, please contact me at (703) 292-4827.

Sincerely,



Rochelle D. Ray, Team Lead
Cost Analysis and Audit Resolution Branch
Institution & Award Support Division

CC: Edwin Bommel, Florida Atlantic University
David Coury, Florida State University
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