REPORT NO. 2009-107
FEBRUARY 2009

FLORIDA GULF COAST UNIVERSITY

Operational Audit

For the Fiscal Year Ended
June 30, 2008

STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

The audit team leader was Jaime N. Hoelscher, CPA, and the audit was supervised by Deirdre F. Waigand, CPA. Please address inquiries regarding this report to James R. Stultz, CPA, Audit Manager, by e-mail at jimstultz@aud.state.fl.us or by telephone at (850) 922-2263.

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) 487-9024; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

FLORIDA GULF COAST UNIVERSITY

SUMMARY

Our operational audit for the fiscal year ended June 30, 2008, disclosed the following:

Finding No. 1: **Certain information in the University's annual reporting of information for institutes and centers to the Board of Governors was incorrect.**

Finding No. 2: **Contrary to University policies, the validity of drivers' licenses for all authorized drivers of University-owned vehicles had not been verified.**

Finding No. 3: **The University had not established policies and procedures prescribing minimum liability insurance coverage for design professionals.**

Finding No. 4: **The University, for construction projects administered by a construction manager (CM), did not take advantage of sales tax exemptions by making direct purchases of construction goods, or document that greater savings were realized by the CM making the purchases.**

Finding No. 5: **The University had not developed procedures for determining and documenting the reasonableness of energy cost savings reported by the contractor in connection with an energy performance-based contract.**

Finding No. 6: **The University did not have adequate policies and procedures for determining and documenting insurable values for buildings and other property.**

Finding No. 7: **The University did not properly monitor the activities of its athletic camps and did not provide for supervisory review of financial reporting for the camps.**

BACKGROUND

The 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. The University is directly governed by a Board of Trustees (Trustees) consisting of 13 members. The Governor appoints 6 citizen members and the Board of Governors appoints 5 citizen members. These members are confirmed by the Florida Senate and serve staggered terms of five years. The faculty senate chair and student body president also are members.

The Board of Governors establishes the powers and duties of the Trustees. The Trustees are responsible for setting University policies, which provides governance in accordance with State law and Board of Governors' Regulations. The Board of Governors, or the Trustees if designated by the Board of Governors, selects the University President. The University President serves as the executive officer and the corporate secretary of the Trustees and is responsible for administering the policies prescribed by the Trustees for the University.

The results of our financial audit of the University for the fiscal year ended June 30, 2008, 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, 2008, will be presented in a separate report.

FINDINGS AND RECOMMENDATIONS

Finding No. 1: Institutes and Centers Reporting

Universities establish institutes and centers to coordinate intra- and inter-institutional research, service, or educational and training activities that supplement and extend existing instruction, research, and services. The Board of Governors (BOG) has established Policy guidelines for approving, classifying, operating, reviewing, and disbanding university institutes and centers. These guidelines require each university to annually report, via an on-line reporting system, the number of positions by funding source and type of position, actual expenses by funding source for the previous year, and estimated expenses for the current fiscal year for all institutes and centers at the University. For the 2007-08 fiscal year, the information for the 2006-07 fiscal year was required to be reported, by December 21, 2007.

The University was required to report 2006-07 fiscal year information to the BOG for 8 institutes and centers. Our review of information included in the University's report for one institute and one center disclosed the following:

- Actual expenses were not accurately reported for the institute and center, as follows:
  - The institute underreported expenses by $66,137.64, because it incorrectly excluded overhead and travel expenses. In addition, the institute reported actual expenses totaling $28,071.72, relating to a position funded with general funds, not institute funds.
  - The center underreported expenses by $16,933.17, because scholarship expenses were incorrectly excluded due to an error in compiling expenses into the on-line reporting system. In addition, the center reported actual expenses totaling $103,890, relating to a position funded with general funds, not center funds.
- For the institute and the center, the number of positions reported as of June 30, 2008, for the 2006-07 fiscal year, was not in agreement with the University's payroll records, as follows:
  - The institute reported a total of 27.25 FTE positions. However payroll distribution records indicated that 30.08 FTE positions were actually paid by the institute.
  - The center reported a total of 3.65 FTE positions. However payroll distribution records indicated that 2.25 FTE positions were actually paid by the center.

Our review of the estimated information for the one institute and one center reported to the BOG for the 2007-08 fiscal year disclosed the following:

- One institute overreported estimated expenses of $28,302, related to 0.25 FTE position that was funded with general funds, not institute funds.
- One center overreported estimated expenses of $106,300, related to 0.9 FTE position that was funded with general funds, not institute funds.

Accurate reporting of actual and estimated expenses and positions would help ensure that the BOG makes effective and efficient decisions relating to future funding of institute and center activities.

Recommendation: The University should ensure that expense and position information reported for each of its institutes and centers is accurate and complete.

Finding No. 2: Driver's License Verification

According to University records, there were 29 University-owned vehicles as of June 30, 2008. Section 10 of the University's Finance and Accounting Department Policy manual states, in part, that each department that possesses a University vehicle is responsible for having a copy of a valid license for each driver of the vehicle on file. Section 10 further provides that at least once each fiscal year, the department must have the validity of all driver's licenses of those in the department who operate University vehicles verified by the University's Police and Safety Department.

Our test of drivers that used University vehicles and vehicle usage logs disclosed the following:

- A copy of a valid Florida driver's license was not on file for 3 of 19 drivers tested.
- For the 2007-08 fiscal year, drivers' licenses were not verified by the University's Police and Safety Department prior to operation of a University-owned vehicle as shown in the vehicle's usage log, for 15 of 28 drivers tested. A similar finding was noted in our report No. 2007-044.

Driver's license verifications decrease the risk that employees, or other authorized drivers, with possible restrictions, or without valid driver's licenses, may operate University-owned vehicles.

Recommendation: The University should comply with its policies to ensure that employees that use University vehicles possess a valid driver's license.

Finding No. 3: Architect Liability Insurance

Although the University requires design professional contracts to include an insurance requirement to maintain professional liability coverage with insurance coverage at a designated amount and provide a copy of the insurance certificate at the signing of the contract, the Board has not adopted a policy establishing minimum insurance requirements for design professionals, such as architects and engineers.

During the 2007-08 fiscal year, the University entered into agreements with design professionals for three buildings, the Central Energy Plant, Naples Botanical Garden, and Academic 7, with approximate construction costs of $2 million, $3.9 million, and $16.6 million, respectively. The architects' professional liability insurance coverage in effect for these projects were $1 million, $2 million, and $1 million per claim, respectively, and in aggregate were $1 million, $4 million, and $2 million, respectively.

It is unclear as to whether the level of coverage for each project was consistent with the University's insurance philosophy as there were no written policies and procedures prescribing minimum liability insurance requirements for design professionals. Adopting such policies and procedures would help protect the University in the event that deficiencies exist in the work performed by these professionals.

Recommendation: The University should establish written policies and procedures prescribing minimum liability insurance coverage requirements for design professionals.

Finding No. 4: Construction Projects

Section 1013.45(1), Florida Statutes, authorizes the University to contract for the construction or renovation of facilities with a construction manager (CM) to be responsible for scheduling and coordinating both the design and construction phases, and generally responsible for the successful, timely, and economical completion of the construction project. The Statute further provides that the CM may be required to offer a guaranteed maximum price (GMP). During the 2007-08 fiscal year, construction began under contracts totaling approximately $40.9 million, for Lutgert Hall (College of Business), Holmes-Whitaker Hall (School of Engineering), and Sugden Hall (Resort and Hospitality) buildings.

The University is exempt from paying sales tax on direct purchases as provided by Section 212.08(7)(o), Florida Statutes, and can take advantage of this exemption by directly purchasing certain goods (e.g., materials, equipment, and or fixtures) for construction projects. However, the University did not, for these building projects, require the CMs to quantify and document in their proposals the sales tax savings associated with the direct purchase of goods; nor did the University, of record, attempt to make any such direct purchases to realize sales tax savings. The construction contracts included items totaling approximately $22 million with an estimated corresponding sales tax savings of $1.3 million, which the University could have realized had they been direct material purchases.

In response to our inquiry, University personnel advised us that the University does direct purchases on major pieces of equipment and that the management and administration of small direct material purchases is not cost effective, since the salaries to administer such a program would offset any tax savings. Although requested, we were not provided documentation evidencing this assertion by University personnel. A similar finding was noted in our report No. 2007-044.

Recommendation: The University, for future construction contracts, should take advantage of sales tax exemptions by making direct purchases of construction goods, or document how the University obtained greater savings by the CM making the purchases.

Finding No. 5: Energy Performance-Based Contract

The University entered into an energy performance-based contract in July 2003, with an energy performance contractor to acquire energy conservation equipment, and to have energy conservation measures undertaken related to the main chiller equipment plant and the delivery of chilled water to the campus buildings. Total costs of the contract were $2,099,405. The energy cost savings guaranteed by the contractor, over a 15-year period, was $2,214,494.

Section 1013.23(4)(d), Florida Statutes, requires that the contractor provide to the University an annual reconciliation of the guaranteed energy cost savings, and provides that the contractor shall be liable for any annual energy cost savings shortfall.

Although the University received an annual reconciliation of the energy cost savings and the Director of Physical Plant performed an annual analysis to verify the reasonableness of the energy cost savings, the University did not have procedures in place to determine which amounts should be compared and which variances, if any, should be investigated. Absent a method to determine the amounts to be compared and the variances to be investigated, the University could not be assured that the contractor's reported energy savings, as specified in the contract, are being realized or, if such savings are not being realized, alert the University to seek reimbursement from the contractor for the amount of unrealized savings. A similar finding was noted in our report Nos. 2007-044 and 2004-207.

Recommendation: The University should continue their efforts to develop and implement procedures for determining the reasonableness of energy cost savings reported by the contractor.

Finding No. 6: Insurance Coverage

The University obtains insurance coverage for buildings and inventoried equipment through the Florida Department of Financial Services, Division of Risk Management (Division). The Division annually provides universities with certificates of coverage, and the universities are responsible for notifying the Division of needed changes to insurable values shown on the certificates of coverage. Premiums are primarily based on total insurable value of all university buildings and other property shown on the insurance certificate.

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

As of June 30, 2008, the University owned 75 buildings costing approximately $213.6 million. Our analysis of insurance coverage obtained for the 2007-08 fiscal year, disclosed the following:

- The University did not have written policies and procedures addressing the level of insurance coverage to be maintained or the method to be used to determine insurable values.
- The University did not use the Division's valuation method to calculate insurable values for buildings and contents shown on the insurance certificate, totaling $210.4 million, opting instead to use an alternative method. University personnel did not calculate the ACV to determine whether the insurable values on the insurance certificate were higher or lower than the ACV. As such, there is an increased risk that the University may have, for some buildings, included insurable values on the insurance certificate that exceeded the ACV, resulting in the payment of excess premiums without the benefit of additional insurance coverage. There is also an increased risk that the University may have, for some buildings, included insurable values on the insurance certificate that were less than the ACV and, in the event of a loss, would only be covered for up to that amount , rather than the AVC.
- Our review of insurable values for buildings, totaling $160.2 million on the May 2007 insurance certificate, disclosed that the base cost values used to calculate the insurable values were not in agreement with the cost values recorded in the University's property records. We were not provided documentation supporting the base costs used to calculate the insurable value for 3 of the 75 buildings. Although we were provided documentation supporting the base costs used for the balance of the 75 buildings, for 5 of these buildings, the documentation consisted of emails and costs analysis dated from 2001 through 2004 and not the values recorded in the University's property records.
- Our review of insurable content values, totaling $39.2 million disclosed that these values were not in agreement with the cost values recorded in the University's property records, totaling $23.6 million. We were not provided documentation supporting the content costs used to calculate the insurable content value for 17 of the 75 buildings reviewed. Although we were provided documentation supporting the content costs used for the remaining 58 buildings, none of the documentation agreed to the amounts reported on the certificate of insurance.

- We were not provided documentation supporting the rental income, totaling $11 million used to calculate the insurable rental values for 28 dormitories as reported in the certificate of insurance. We were provided documentation from the University's Student Housing Office for estimated rental revenue for the 2007-08 fiscal year; however, these values were not in agreement with the amounts reported on the certificate of insurance.

In the areas noted above, unsupported or outdated cost information used to calculate insurable values, insurable content values, and insurable rental values increases the risk that the University may be left with a substantial uninsured loss should significant damage occur to a building.

University personnel advised us that the University's Department of Environmental Health and Safety was in the process of evaluating all buildings on the campus to collect up-to-date information for use in establishing appropriate insurable values for buildings, contents, and rental values.

Recommendation: The University should document the risk management policies and procedures used to address the level of insurance coverage to be maintained for buildings and other property and the methods to be used in determining insurable values.

Finding No. 7: Athletic Camps

The University's athletic department provides student athletic camps to accommodate the needs and interests of student athletes in their quest for excellence in highly competitive sports. These camps, including soccer, basketball, baseball, and swimming activities for children ranging from elementary school to high school, are developed and managed by the University's coaches who establish the cost, the number of participants, purchase insurance and other supplies, and recruit additional supervisory personnel as needed. The camps are advertised on the athletic department webpage with instructions for interested parties on how to register their child or team. Payments for camps are normally by check; however, some camps have online payment capability with a service manager who remits payment by check to the athletic department. Checks are received at the athletic department, recorded on a check log, and then processed by the central cashier's office. The camp profit, participant revenues less salary and nonsalary expenditures, is split among the primary camp coaches as payment for services rendered. University personnel who participate in these camps are required to submit annual leave slips for the time spent on camp activities that conflict with their regular position.

Although the athletic department has established policies and procedures for monitoring the camps, our review of 10 athletic camps indicated that improvements could be made, as follows:

- For 8 of the 10 athletic camps tested, the financial reports for the camps did not evidence supervisory review to ensure that the financial reports were properly prepared. For the other two athletic camps, the financial reports were not finalized. Camp financial reports should be reviewed by supervisory personnel to ensure they are accurate, timely prepared, and that the profits from these camps are appropriately split among the primary camp coaches for payment of services rendered.

- For one camp, revenues totaling $5,040 could not be verified because the number of sessions each participant attended was not recorded. Although participants were eligible for up to four sessions at a discounted rate, we were unable to determine which participants were eligible for the discounted rate because the number of sessions they attended was not documented.

- Our test of 10 University employees, who were paid for camp activities, disclosed that 3 of these employees did not submit annual leave slips for the time they participated in athletic camp activities. Annual leave not taken ranged from 1 to 5 days for these employees. As a result, these 3 employees received their regular University pay of $1,358.56, in addition to the athletic camp pay of $3,000, for the same time period.

Recommendation: The University should ensure that financial reports of athletic camp activities are reviewed by supervisory personnel to ensure that such reports are properly and timely prepared. In addition, the University should revise procedures to improve the record keeping for the athletic camps' activity. Further, the University should adjust the annual leave records for the three employees noted-above and, for future athletic camps, ensure that personnel who participate in these camps are on annual leave from their regular position prior to engaging in camp activities.

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, the University had taken corrective actions for findings included in our report No. 2007-044.

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 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: (1) obtain an understanding and make overall judgments as to whether University internal controls promoted and encouraged compliance with applicable laws, rules, regulations, contracts, and grant agreements; the economic and efficient operation of the University; the reliability of records and reports; and the safeguarding of assets; (2) evaluate management's performance in these areas; and (3) determine whether the University had taken corrective actions for findings included in our report No. 2007-044. Also, pursuant to Section 11.45(7)(h), Florida Statutes, our audit may identify statutory and fiscal changes to be recommended to the Legislature.

The scope of this operational audit is described in Exhibit A. Our audit included examinations of various records and transactions (as well as events and conditions) occurring during the 2007-08 fiscal year.

Our audit methodology included obtaining an understanding of the internal controls by interviewing University personnel and, as appropriate, performing a walk-through of relevant internal controls through observation and examination of supporting documentation and records. Additional audit procedures applied to determine that internal controls were working as designed, and to determine the University's compliance with the above-noted audit objectives, are described in Exhibit A. Specific information describing the work conducted to address the audit objectives is also included in the individual findings.

AUTHORITY

Section 11.45, Florida Statutes, requires that the Auditor General conduct an operational audit of each university on a biennial 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.

David W. Martin, CPA
Auditor General

MANAGEMENT'S RESPONSE

Management's response is included as Exhibit B.

EXHIBIT A
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Security awareness and training program regarding the confidentiality of information.	Examined supporting documentation relating to the information technology (IT) security awareness and training program.
Procedures to timely prohibit terminated employees' access to electronic data files.	Sampled employees who terminated during the audit period and examined supporting documentation evidencing when the University terminated access privileges.
Fraud policy and related procedures.	Examined written policies and procedures, and examined supporting documentation relating to the University's fraud policy and related procedures.
Reporting of institutes and centers information as required by the Board of Governors (BOG).	Selected a sample of institutes and centers and examined supporting documentation to determine whether the University had provided accurate and complete information for its institutes and centers to the BOG.
Graduate and professional tuition rates and out-of-state fees were approved by the Board of Governors and did not exceed amount authorized.	Compared tuition fees charged for graduate and professional courses, to amounts authorized, to ensure fees did not exceed 10 percent of previous year fees.
Procedures for student activity fees, service fees, health fees, and athletic fees assessed.	Determined that the University retained the fees in a separate fund and the University did not transfer the fees to a service organization.
Procedures for multi-purpose cards.	Selected a sample of transactions and determined that supporting documentation was properly reconciled.
Procedures for purchasing card controls.	Applied analytical procedures, selected a sample of purchasing card disbursements, and examined supporting documentation evidencing proper authority.
Social security number requirements of Section 119.071(5)(a), Florida Statutes.	Examined supporting documentation to determine whether the University had provided individuals with a written statement as to the purpose of collecting social security numbers, certified compliance pursuant to Section 119.071(5)(a)4.b., Florida Statutes, and filed the required report specified by Section 119.071(5)(a)9.a., Florida Statutes, no later than January 31, 2008.
Travel expenses.	Examined the University travel policies and procedures. Selected a sample of employee travel vouchers and examined supporting documentation to determine whether reimbursement rates were properly applied and that travel was not to a terrorist country.
Fingerprinting and background checks for personnel in positions of special trust.	Selected a sample of University personnel who worked in an area of special trust to determine whether the University had obtained fingerprint and background checks for the individuals included in our sample.
Procedures for direct material purchases.	Applied analytical procedures. Selected a sample of construction projects and requested supporting documentation evidencing whether the University considered direct material purchases.

EXHIBIT A (Continued)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Procedures for insuring architects and engineers.	Selected a sample of significant or representative major construction projects in progress during the audit period to determine whether architects and engineers engaged during the audit period were properly selected and, where applicable, had evidence of required insurance.
Procedures for valuing university property for insuring buildings.	Examined supporting documentation to determine whether the insured values were properly calculated and insurance was updated for major asset acquisitions and/or disposals occurring in the audit period.
Procedures for monitoring cell phone usage and compliance with related Internal Revenue Service (IRS) reporting requirements.	Determined whether the University either provided for compliance with IRS substantiation requirements for cellular telephone usage or, for the most recent calendar year, reported the value of cell phone services provided to employees as income for those employees.
Terminal pay policies and procedures.	Reviewed the University's policies and procedures for terminal pay to ensure policies and procedures were consistent with Florida law. Selected one former employee to determine whether the University properly calculated terminal pay in accordance with University policies and procedures.
Procedures for payroll transactions.	Selected a sample and reviewed supporting documentation evidencing proper authority for payments.
Procedures for grade changes.	Selected a sample of students with grade changes and reviewed supporting documentation evidencing proper authority for grade changes.
Procedures for athletic department's athletic camps.	Selected a sample of athletic camps and reviewed supporting documentation for cash collections and employee compensation.
Procedures for auxiliary contracts.	Reviewed the food service contract and supporting documentation evidencing the effectiveness of the University's monitoring of auxiliary contracts.
Procedures for payroll certifications.	Selected a sample of payroll transactions to determine whether the University is performing payroll certifications.
Procedures for energy performance-based contract.	Determined whether the University performed monitoring of the energy performance-based contract and that procedures were in place to evaluate cost savings.
Procedures for drivers license verifications.	Selected a sample of employees using University vehicles to determine if the University verified that the employee had a valid drivers license in accordance with University policies.

EXHIBIT B
MANAGEMENT'S RESPONSE

FLORIDA GULF COAST UNIVERSITY — Office of the President

January 29, 2009

Mr. David W. Martin, CPA
Auditor General, State of Florida
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450

Re: FGCU Management Response & Corrective Action Plan for Audit Findings from Operational Audit of Florida Gulf Coast University for the Fiscal Year Ended 6-30-08

Dear Mr. Martin:

Enclosed are the management responses from Florida Gulf Coast University (FGCU) for the seven audit findings from the Auditor General's operational audit of FGCU for the period July 1, 2007 through June 30, 2008. Within each management response is a statement of explanation including FGCU's actual or proposed corrective action.

In addition to overnight mail, this letter and the enclosed management responses were electronically mailed to your office on February 2, 2009.

If you have any questions or need additional information, please contact Carol Slade, Director, Internal Audit. She may be reached by telephone at (239) 590-1117 or e-mail at cslade@fgcu.edu.

Sincerely,

Wilson G. Bradshaw, Ph.D.
President

Enclosure

Copy: Dr. Joseph Shepard, Vice-President, Administration & Finance
Vee Leonard, General Counsel
Linda Bacheler, Assistant Vice-President & Controller
Carol Slade, Director, Internal Audit
Deidre Waigand, Audit Supervisor

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FLORIDA GULF COAST UNIVERSITY
RESPONSES TO OPERATIONAL AUDIT RECOMMENDATIONS
For the Period July 1, 2007 Through June 30, 2008

1. *Institutes and Centers Reporting*

RECOMMENDATION:

The University should ensure that expense and position information reported for each of its institutes and centers is accurate and complete.

RESPONSE:

The Office of Research and Sponsored Programs (ORSP) concurs with the recommendation. ORSP will advise Center/Institute Directors and the appropriate academic areas that separate organization codes should be utilized to ensure all expenditures are reported correctly including proper classification of position and FTEs to reflect current Center/Institute assignments in the University Payroll System.

IMPLEMENTATION DATE: July 2009

AUDITEE: Dr. Thomas J. Roberts, Associate VP of Research

2. *Driver's License Verification*

RECOMMENDATION:

The University should comply with its policies to ensure that employees that use University vehicles possess a valid driver's license.

RESPONSE:

The University concurs with the recommendation. The University will strengthen its procedures to ensure all departments verify the validity of driver licenses for authorized drivers of University vehicles. Internal Audit will continue to perform periodic compliance reviews.

IMPLEMENTATION DATE: July 2009

AUDITEE: Carol Slade, Director of Internal Audit

3. *Architect Liability Insurance*

RECOMMENDATION:

The University should establish written policies and procedures prescribing minimum liability insurance coverage requirements for design professionals.

RESPONSE:

Facilities Planning concurs with the recommendation. Facilities Planning currently employs the practice of obtaining appropriate minimum liability insurance coverage for design professionals as part of the contract execution; however, Facilities Planning will develop written policies and procedures to document the process.

IMPLEMENTATION DATE: July 2009

AUDITEE: Dr. Joseph Shepard, VP, Administrative Services & Finance

4. *Construction Projects*

RECOMMENDATION:

The University, for future construction contracts, should take advantage of sales tax exemptions by making direct purchases of construction goods, or document how the University obtained greater savings by the CM making the purchases.

RESPONSE:

University Management recognizes the value of the tax savings mechanism and has implemented direct purchasing for the major equipment acquisitions related to new construction. However for many of our projects, the full implementation of direct material purchasing would create greater costs in the delivery, insurance and timing of the goods and materials, making it more difficult to complete the project on time and within budget. Any major effort to coordinate such tax savings often delays the purchase of material goods resulting in costs greater than the recognized savings.

Additionally, given the small size of the University's staff in the Facilities Planning, Procurement Services, and Finance and Accounting departments, coordination would require additional staffing in order to issue purchase orders, approve small incremental payments, and monitor such purchases. Such costs would further reduce or eliminate tax exempt cost savings.

Given these conditions, the University will continue to attempt maximizing cost savings. The University will perform a cost benefit study on a recent project to determine and document the tax savings versus the cost to implement a direct materials purchasing program. The results of the study will be used to facilitate Management's consideration of its use in planning decisions.

IMPLEMENTATION DATE: July 2009

AUDITEE: Dr. Joseph Shepard, VP, Administrative Services & Finance

5. *Energy Performance-Based Contract*

RECOMMENDATION:

The University should continue their efforts to develop and implement procedures for determining the reasonableness of energy cost savings reported by the contractor.

RESPONSE:

Physical Plant concurs with the recommendation. Physical Plant currently compares the monthly energy usage and cost to the annual report from Johnson Controls; however, Physical Plant will develop written policies and procedures to document the process.

IMPLEMENTATION DATE: July 2009

AUDITEE: Dr. Joseph Shepard, VP, Administrative Services & Finance

6. *Insurance Coverage*

RECOMMENDATION:

The University should document the risk management policies and procedures used to address the level of insurance coverage to be maintained for buildings and other property and the methods to be used in determining insurable values.

RESPONSE:

Environmental Health and Safety (EHS) concurs with this recommendation and will develop written policies and procedures addressing the level of insurance coverage to be maintained for buildings and other property and the methods to be used to determine insurable values. The policy will address (1) whether the University will use the DFS Division of Risk Management (Division) valuation method of actual cash value (ACV) as the level of insurance coverage to be maintained or will use an alternate, (2) the process required to obtain building, content, and rental values to be shown on the annual insurance certificates submitted to the Division, and (3) the process required to reconcile to the University's property records.

IMPLEMENTATION DATE: July 2009

AUDITEE: Duncan McBride, AVP, Administrative Services & Finance

7. *Athletic Camps*

RECOMMENDATION:

University should ensure that financial reports of athletic camp activities are reviewed by supervisory personnel to ensure that such reports are properly and timely prepared. In addition, the University should revise procedures to improve the record keeping for the athletic camps' activity. Further, the University should adjust the annual leave records for the three employees noted-above and, for future athletic camps, ensure that personnel who participate in these camps are on annual leave from their regular position prior to engaging in camp activities.

RESPONSE:

The Athletic Department concurs with the recommendation. The Athletic department will strengthen financial reporting policies and procedures including the expansion of the athletic coach's manual, specifically the camp section, which will address the need for supervisory personnel to review all camp reports. The Athletic Department will submit adjusted leave forms for the three employees noted; however, the Athletic Department is investigating the current practice and how the regulation regarding the use of annual leave for camps should be applied to coaches conducting sports camps.

IMPLEMENTATION DATE: July 2009

AUDITEE: Dr. Jo-Ann Nester, Interim Athletic Director